WSFS FINANCIAL CORP
Form 424B3
March 28, 2014

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MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Dear Stockholder:

On November 24, 2013, First Wyoming Financial Corporation, or First Wyoming, and WSFS Financial Corporation, or WSFS, agreed to a strategic business combination in which First Wyoming will merge with and into WSFS. If the merger is completed, each share of First Wyoming common stock issued and outstanding immediately prior to the merger will be converted, at the election of the stockholder, into the right to receive either (i) cash in an amount equal to $60.00, referred to as the Cash Consideration, or (ii) 0.8484 of a share of WSFS common stock, referred to as the Stock Consideration, and together with the Cash Consideration, the Merger Consideration. Each holder of First Wyoming common stock is entitled to elect the form of the Merger Consideration that he or she would like to receive for his or her shares of First Wyoming common stock, and each First Wyoming stockholder may elect to receive all Cash Consideration, all Stock Consideration or a combination of Cash Consideration and Stock Consideration. All such elections are subject to adjustment on a pro rata basis as described elsewhere in this proxy statement/prospectus. We are sending you this proxy statement/prospectus to notify you of, and invite you to, the special meeting of First Wyoming stockholders being held to consider the Agreement and Plan of Reorganization dated as of November 24, 2013, as amended from time to time, which is referred to as the merger agreement, that First Wyoming has entered into with WSFS, and related matters, and to ask you to vote at the special meeting **FOR** approval of the merger agreement.

The special meeting of First Wyoming stockholders will be held on April 30, 2014, at 10:30 a.m., local time, at the main office of The First National Bank of Wyoming, located at 120 West Camden-Wyoming Avenue, Wyoming, DE 19934.

At the special meeting, you will be asked to approve the merger agreement. In the merger, First Wyoming will merge with and into WSFS, with WSFS continuing as the surviving corporation of the merger. In addition, under the merger agreement, The First National Bank of Wyoming, a national banking association and wholly owned subsidiary of First Wyoming, will be merged with and into Wilmington Savings Fund Society, FSB, or WSFS Bank, a federal savings bank and a wholly owned subsidiary of WSFS, simultaneously with the merger. You will also be asked to approve the adjournment of the special meeting, if necessary, to solicit additional proxies in favor of the approval of the merger agreement.

The market value of the Stock Consideration will fluctuate with the market price of WSFS common stock, however the Cash Consideration will remain a fixed amount regardless of any change in the market value of the Stock Consideration. WSFS is traded on the NASDAQ stock market. The following table presents the closing prices of WSFS common stock on November 22, 2013, the last trading day before public announcement of the merger, and on March 25, 2014, the last practicable trading day before the distribution of this proxy statement/prospectus. The table also presents the implied value of the Stock Consideration proposed for each share of First Wyoming common stock converted into the Stock Consideration on those dates, as determined by multiplying the closing price of WSFS common stock on those dates by the exchange ratio of 0.8484 provided for in the merger agreement. This table also presents the implied value of the Cash Consideration proposed for each share of First Wyoming common stock converted into the Cash Consideration, which will remain a fixed amount regardless of any change in the market value of the Stock Consideration. **We urge you to obtain current market quotations for WSFS.**

	WSFS Common Stock (NASDAQ: WSFS)	Implied Value of One Share of First Wyoming Common Stock	Value of the Cash Consideration for One Share of First Wyoming Common Stock
At November 22, 2013	$ 72.35	$ 61.38	$ 60.00
At March 25, 2014	$ 70.41	$ 59.74	$ 60.00

Your vote is important. We cannot complete the merger unless First Wyoming s stockholders approve the merger agreement. In order for the merger to be approved, the holders of a majority of the shares of First Wyoming common stock outstanding and entitled to vote must vote in favor of approval of the merger agreement. Regardless of whether you plan to attend the special meeting, please take the time to vote your shares in accordance with the instructions contained in this proxy statement/prospectus. Failing to vote will have the same effect as voting against the merger.

First Wyoming s board of directors unanimously recommends that First Wyoming stockholders vote FOR approval of the merger agreement and FOR approval of the adjournment of the special meeting, if necessary, to solicit additional proxies in favor of the approval of the merger agreement.

This proxy statement/prospectus describes the First Wyoming stockholders meeting, the merger, the documents related to the merger and other related matters. Please carefully read this entire document, including Risk Factors beginning on page 19, for a discussion of the risks relating to the proposed merger.

Joseph E. Chippie

President and Chief Executive Officer

First Wyoming Financial Corporation

Neither the Securities and Exchange Commission nor any state securities commission or bank regulatory agency has approved or disapproved the securities to be issued in the merger or determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either WSFS or First Wyoming, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The date of this proxy statement/prospectus is March 28, 2014, and it is first being mailed or otherwise delivered to First Wyoming stockholders on or about March 31, 2014.

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FIRST WYOMING FINANCIAL CORPORATION

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders of First Wyoming:

First Wyoming will hold a special meeting of stockholders at 10:30 a.m., local time, on April 30, 2014, at the main office of The First National Bank of Wyoming, located at 120 West Camden-Wyoming Avenue, Wyoming, DE 19934. The special meeting will be held for the purposes of allowing the stockholders of First Wyoming to consider and vote upon the following matters:

- a proposal to approve the Agreement and Plan of Reorganization dated as of November 24, 2013, by and between WSFS and First Wyoming, as amended from time to time, pursuant to which First Wyoming will merge with and into WSFS, as more fully described in the attached proxy statement/prospectus; and

- a proposal to approve the adjournment of the special meeting, if necessary, to solicit additional proxies in favor of approval of the merger agreement.

We have fixed the close of business on March 28, 2014 as the record date for the special meeting. Only First Wyoming stockholders of record at that time are entitled to notice of, and to vote at, the special meeting, or any adjournment or postponement of the special meeting. In order for the merger to be approved, the holders of a majority of the shares of First Wyoming common stock outstanding and entitled to vote must vote in favor of approval of the merger agreement.

Your vote is very important. We cannot complete the merger unless First Wyoming s stockholders approve the merger agreement. Failure to vote will have the same effect as voting against the merger.

Regardless of whether you plan to attend the special meeting, please vote as soon as possible. If you hold stock in your name as a stockholder of record, please complete, sign, date and return the accompanying proxy card in the enclosed postage-paid return envelope, or call the toll-free telephone number or use the Internet as described in the instructions included with your proxy card or voting instruction card. If you hold your stock in street name through a bank or broker, please follow the instructions on the voting instruction card furnished to you by your bank or broker. Properly executed proxy cards with no instructions indicated on the proxy card will be voted **FOR** the approval of the merger agreement and **FOR** the adjournment of the special meeting, if necessary, to solicit additional proxies. If you hold stock in your name as a stockholder of record or hold a valid proxy from the holder of record and attend the special meeting, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy card. Your prompt attention is greatly appreciated.

The enclosed proxy statement/prospectus provides a detailed description of the merger, the merger agreement and related matters. We urge you to read the proxy statement/prospectus, including any documents incorporated in the proxy statement/prospectus by reference, and its appendices carefully and in their entirety. If you have any questions concerning the merger or the proxy statement/prospectus, would like additional copies of the proxy statement/prospectus or need help voting your shares of First Wyoming common stock, please contact Judy Cook, Vice President of Human Resources, The First National Bank of Wyoming at (302) 697-2666.

First Wyoming s board of directors has approved the merger and the merger agreement and unanimously recommends that First Wyoming stockholders vote FOR approval of the merger agreement and FOR approval of the adjournment of the special meeting, if necessary, to solicit additional proxies in favor of approval of the merger agreement.

BY ORDER OF THE BOARD OF DIRECTORS,

Secretary

Wyoming, Delaware

March 28, 2014

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ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about WSFS from documents filed with or furnished to the Securities and Exchange Commission, which is referred to as the SEC, that are not included in or delivered with this proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by WSFS at no cost from the SEC s website at http://www.sec.gov. You may also request copies of these documents, including documents incorporated by reference by WSFS in this proxy statement/prospectus, at no cost by contacting WSFS or First Wyoming, as the case may be, in writing or by telephone, at the following addresses:

WSFS Financial Corporation	**First Wyoming Financial Corporation**
WSFS Bank Center	120 West Camden-Wyoming Avenue
500 Delaware Avenue	Wyoming, DE 19934
Wilmington, DE 19801	Attention: Judy Cook
Attention: Stephen Fowle	Telephone: 302-697-2666
Telephone: 302-792-6000	

You will not be charged for any of these documents that you request. First Wyoming stockholders requesting documents must do so by April 25, 2014 in order to receive them before the special meeting.

In addition, if you have questions about the merger or the First Wyoming special meeting, need additional copies of this proxy statement/prospectus or need to obtain proxy cards or other information related to the proxy solicitation, you may contact Judy Cook, Vice President of Human Resources, The First National Bank of Wyoming, at the following address and telephone numbers:

First Wyoming Financial Corporation

120 West Camden-Wyoming Avenue

Wyoming, DE 19934

Attention: Judy Cook

Telephone: 302-697-2666

See Where You Can Find More Information beginning on page 86 for more details.

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ABOUT THIS DOCUMENT

This proxy statement/prospectus, which forms part of a registration statement on Form S-4 filed with the SEC by WSFS, constitutes a prospectus of WSFS under Section 5 of the Securities Act of 1933, as amended, which is referred to as the Securities Act, with respect to the shares of WSFS common stock to be issued to the First Wyoming stockholders pursuant to the merger. This proxy statement/prospectus also constitutes a proxy statement for First Wyoming. It also constitutes a notice of meeting with respect to the special meeting of First Wyoming stockholders.

You should rely only on the information contained in or incorporated by reference into this proxy statement/prospectus. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this proxy statement/prospectus. This proxy statement/prospectus is dated March 28, 2014. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than that date. You should not assume that the information incorporated by reference into this proxy statement/prospectus is accurate as of any date other than the date of the incorporated document. Neither our mailing of this proxy statement/prospectus to First Wyoming stockholders nor the issuance by WSFS of shares of WSFS common stock to First Wyoming stockholders in connection with the merger will create any implication to the contrary.

This proxy statement/prospectus shall not constitute an offer to sell or the solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation. Information contained in this proxy statement/prospectus regarding WSFS has been provided by WSFS and information contained in this proxy statement/prospectus regarding First Wyoming has been provided by First Wyoming.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE FIRST WYOMING SPECIAL MEETING

The following are some questions that you may have regarding the merger of First Wyoming into WSFS and the First Wyoming special meeting of stockholders, which is referred to as the First Wyoming special meeting, and brief answers to those questions. We urge you to read carefully the remainder of this proxy statement/prospectus because the information in this section does not provide all of the information that might be important to you with respect to the merger and the First Wyoming special meeting. Additional important information is also contained in the documents incorporated by reference into this proxy statement/prospectus. See Where You Can Find More Information beginning on page 86. Unless the context requires otherwise, references in this proxy statement/prospectus to WSFS refer to WSFS Financial Corporation, a Delaware corporation, and/or its consolidated subsidiaries, references in this proxy statement/prospectus to First Wyoming refer to First Wyoming Financial Corporation, a Nevada corporation, and/or its consolidated subsidiaries, and references in this proxy statement/prospectus to we, our and us refer to WSFS and First Wyoming collectively.

Q: What am I being asked to vote on at the First Wyoming special meeting?

A: WSFS and First Wyoming have entered into an Agreement and Plan of Reorganization dated as of November 24, 2013, as amended from time to time, which is referred to as the merger agreement, pursuant to which WSFS has agreed to acquire First Wyoming. Under the terms of the merger agreement, First Wyoming will merge with and into WSFS, with WSFS continuing as the surviving corporation of the merger, which is referred to as the merger. Also under the terms of the merger agreement, The First National Bank of Wyoming, a national banking association and wholly owned subsidiary of First Wyoming, will be merged with and into WSFS Bank simultaneously with the merger, which is referred to as the bank subsidiary merger. First Wyoming stockholders are being asked to approve the merger agreement and the transactions it contemplates, including the merger.

First Wyoming stockholders are also being asked to approve the adjournment of the First Wyoming special meeting, if necessary, to solicit additional proxies in favor of the approval of the merger agreement, which is referred to as the adjournment proposal.

Q: How does First Wyoming s board of directors recommend I vote at the First Wyoming special meeting?

A: First Wyoming s board of directors unanimously recommends that you vote FOR the proposal to approve the merger agreement and FOR the adjournment proposal.

Q: When and where is the First Wyoming special meeting?

A: The First Wyoming special meeting will be held at the main office of The First National Bank of Wyoming, located at 120 West Camden-Wyoming Avenue, Wyoming, DE 19934, on April 30, 2014, at 10:30 a.m., local time.

Q: What do I need to do now?

A: After you have carefully read this proxy statement/prospectus and have decided how you wish to vote your shares, please vote your shares promptly so that your shares are represented and voted at the First Wyoming special meeting. If you hold stock in your name as a stockholder of record, you must complete, sign, date and mail your proxy card in the enclosed postage-paid return envelope as soon as possible, or call the toll-free telephone number or use the Internet as described in the instructions included with your proxy card or voting instruction card. If you hold your stock in street name through a bank or broker, you must direct your bank or broker to vote your shares, following the instructions your bank or broker provides.

Street name stockholders who wish to vote at the First Wyoming special meeting will need to obtain a proxy form from the institution that holds their shares.

Q: What constitutes a quorum for the First Wyoming special meeting?

A: The presence at the First Wyoming special meeting, in person or by proxy, of the holders of a majority of the First Wyoming common stock issued and outstanding and entitled to vote thereat will constitute a

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quorum for the transaction of business. If a quorum is not present, the First Wyoming special meeting will be postponed until the holders of the number of shares of First Wyoming common stock required to constitute a quorum attend. If you submit a properly executed proxy card, even if you abstain from voting, your shares of First Wyoming common stock will be counted for purposes of determining whether a quorum is present at the First Wyoming special meeting. If additional votes must be solicited to approve the merger agreement and the adjournment proposal is approved, it is expected that the First Wyoming special meeting will be adjourned to solicit additional proxies.

Q: What is the vote required to approve each proposal at the First Wyoming special meeting?

A: Approval of the merger agreement requires the affirmative vote of the holders of a majority of the shares of First Wyoming common stock outstanding and entitled to vote as of the close of business on March 28, 2014, the record date for the First Wyoming special meeting.

The adjournment proposal will be approved if the number of votes cast in favor of the adjournment proposal exceeds the number of votes cast in opposition to the adjournment proposal at the First Wyoming special meeting.

Q: Why is my vote important?

A: If you do not vote, it will be more difficult for First Wyoming to obtain the necessary quorum to hold the First Wyoming special meeting. In addition, your failure to vote or failure to instruct your bank or broker how to vote will have the same effect as a vote against approval of the merger agreement. The merger agreement must be approved by the holders of a majority of the shares of First Wyoming common stock outstanding and entitled to vote at the First Wyoming special meeting. First Wyoming s board of directors unanimously recommends that you vote to approve the merger agreement.

Q: What if I fail to vote, abstain from voting or fail to instruct my bank or broker?

A: If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as present for the purpose of determining the presence of a quorum for the First Wyoming special meeting and all of your shares will be voted **FOR** each of the proposals to be voted on at the First Wyoming special meeting.

If you fail to vote or mark **ABSTAIN** on your proxy or fail to instruct your bank or broker with respect to the proposal to approve the merger agreement, it will have the same effect as a vote **AGAINST** the proposal to approve the merger agreement.

If you fail to vote or mark **ABSTAIN** on your proxy or fail to instruct your bank or broker with respect to the adjournment proposal, it will have no effect on the adjournment proposal.

Q: Can I attend the First Wyoming special meeting and vote my shares in person?

A: Yes. All First Wyoming stockholders, including stockholders of record and stockholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the First Wyoming special meeting. Holders of record of First Wyoming common stock can vote in person at the First Wyoming special meeting. If you are not a stockholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the First Wyoming special meeting. If you plan to attend the First Wyoming special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the First Wyoming special meeting is prohibited without First Wyoming s express written consent.

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Q: Can I change my vote?

A: Yes. You may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to First Wyoming s secretary, (3) voting again by telephone or the Internet or (4) attending the First Wyoming special meeting in person, notifying the secretary and voting by ballot at the First Wyoming special meeting. Attendance at the First Wyoming special meeting will not automatically revoke your proxy. A revocation or later-dated proxy received by First Wyoming after the vote will not affect the vote. The First Wyoming secretary s mailing address is:

First Wyoming Financial Corporation

120 West Camden-Wyoming Avenue

Wyoming, DE 19934

Attention: Judy Cook

If you hold your stock in street name through a bank or broker, you should contact your bank or broker to revoke your proxy.

Q: What will happen in the merger?

A: At the effective time of the merger, First Wyoming will merge with and into WSFS and WSFS will be the surviving entity. In addition, as a result of the merger, First Wyoming will cease to exist, and its businesses will be owned by WSFS, which will continue as a public company. In addition, The First National Bank of Wyoming will merge with and into WSFS Bank simultaneously with the merger, with WSFS Bank as the surviving entity.

Q: What will I receive for my First Wyoming stock?

A: In exchange for each of your shares of First Wyoming common stock, you may make an election to receive either (i) cash in an amount equal to $60.00, referred to as the Cash Consideration, or (ii) 0.8484 of a share of WSFS common stock, referred to as the Stock Consideration, and together with the Cash Consideration, the Merger Consideration. Each holder of First Wyoming common stock is entitled to elect the form of the Merger Consideration that he or she would like to receive for his or her shares of First Wyoming common stock, including electing to receive the Cash Consideration for a portion of his or her shares of First Wyoming common stock and receive the Stock Consideration for the remainder of his or her shares of First Wyoming common stock. All such elections are subject to adjustment on a pro rata basis as described elsewhere in this proxy statement/prospectus, except for elections for Split Election Shares (as defined in this proxy statement/prospectus). For example, if you hold 100 shares of First Wyoming common stock, you may elect to convert 30 shares of your First Wyoming common stock into the Cash Consideration and 70 shares of your First Wyoming common stock into the Stock Consideration (or any other combination), subject to the proration provisions described below.

No guarantee can be made that you will receive the amount of the Cash Consideration or the Stock Consideration you elect. As a result of the proration procedures provided for in the merger agreement, as described in this proxy statement/prospectus, you may receive the Stock Consideration or the Cash Consideration in amounts that are different from the amounts you elect to receive.

Q: How might the Merger Consideration I elect to receive be adjusted on a pro rata basis?

A: Each holder of First Wyoming common stock is entitled to elect the form of consideration that he or she would like to receive for his or her shares of First Wyoming common stock, including electing to receive the Cash Consideration for a portion of his or her shares of First Wyoming common stock and receive the Stock Consideration for the remainder of his or her shares of First Wyoming common stock. A share for which an election to receive the Cash Consideration is made is referred to as a Cash Election Share and a share for which an election to receive the Stock Consideration is made is referred to as a Stock Election Share. Shares of First Wyoming common stock for which no election is made will be deemed to be Non-Election Shares. All such elections are subject to adjustment on a pro rata basis except for elections for Split Election Shares.

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The terms of the merger agreement provide that the aggregate amount of the Cash Consideration that holders of First Wyoming common stock are entitled to receive is $32,020,410, or the Maximum Cash Contribution. As a result, except for elections for Split Election Shares, all elections may be subject to proration depending on the elections made by other holders of First Wyoming common stock if the Maximum Cash Contribution is undersubscribed or oversubscribed. Proration will be applied so that ultimately 50% of the shares of First Wyoming common stock are treated as Cash Election Shares and 50% of the shares of First Wyoming common stock are treated as Stock Election Shares.

For example, if the aggregate of the Cash Consideration payable to holders of Cash Election Shares is in excess of the Maximum Cash Contribution, all of the Non-Election Shares will be treated as Stock Election Shares and a number of Cash Election Shares that are not Split Election Shares will be converted into Stock Election Shares until the Maximum Cash Contribution is no longer oversubscribed. If the aggregate of the Cash Consideration payable to holders of Cash Election Shares is less than the Maximum Cash Contribution, a number of Non-Election Shares will be treated as Cash Election Shares until the Maximum Cash Contribution is no longer undersubscribed and, if necessary, a number of Stock Election Shares that are not Split Election Shares will be converted into Cash Election Shares until the Maximum Cash Contribution is no longer undersubscribed.

Q: Is the value of the per share consideration that I receive for my shares of First Wyoming common stock expected to be substantially equivalent regardless of which election I make?

A: There will be no adjustment to the fixed number of shares of WSFS common stock that will be issued to First Wyoming stockholders who receive the Stock Consideration based upon changes in the market price of WSFS common stock or First Wyoming common stock prior to the closing. The value of the Cash Consideration will not change. As result, the value of the Merger Consideration received by holders of First Wyoming common stock who receive the Cash Consideration may differ from the value of the Merger Consideration received by holders of First Wyoming common stock who receive the Stock Consideration.

The market price of WSFS common stock at the time the merger is completed may vary from the price of WSFS common stock on the date the merger agreement was executed, on the date of this proxy statement/prospectus and on the date of the First Wyoming special meeting as a result of various factors that are beyond the control of WSFS and First Wyoming, including but not limited to general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations. In addition to the approval of the merger agreement by First Wyoming stockholders, consummation of the merger is subject to receipt of required regulatory approvals and satisfaction of other conditions that may not occur until after the First Wyoming special meeting. Therefore, at the time of the First Wyoming special meeting you will not know the precise value of the Stock Consideration, if any, that you will receive at the effective time of the merger. You should obtain current market quotations for shares of WSFS common stock.

Q: How do I make an election for the type of the Merger Consideration that I prefer to receive and when can I expect to receive the Merger Consideration?

A: Each holder of record of First Wyoming common stock as of the close of business on the record date for notice of the First Wyoming special meeting of stockholders will be mailed a form of election/letter of transmittal and other appropriate and customary transmittal materials at least 20 business days prior to the deadline for holders of First Wyoming common stock to elect the form of the Merger Consideration they want to receive. The deadline for holders of First Wyoming common stock to elect the form of the Merger Consideration they want to receive is 30 days after the closing date of the merger and is referred to as the election deadline. Each holder of First Wyoming common stock should specify in the election form (1) the number of shares of First Wyoming common stock which such stockholder elects to have exchanged for the Stock Consideration, (2) the number of shares of First Wyoming common stock such stockholder elects to have exchanged for the Cash Consideration, or (3) if such stockholder wishes to elect to receive the Stock Consideration for half of his or her shares of First Wyoming common stock and to receive the Cash Consideration for the remaining half of his or her shares of First Wyoming common stock (and, if the holder of First Wyoming common stock holds an odd number of shares of First Wyoming common stock, an election to receive either the Stock Consideration or the Cash Consideration for the remaining odd share of First Wyoming common stock), which are referred to as Split Election Shares. All such elections other than elections to receive Split Election Shares are subject to adjustment on a pro rata basis as described elsewhere in this proxy statement/prospectus. Shares of First Wyoming common stock for which an election is not made or that are not submitted by the election deadline are referred to as Non-Electing Shares. All Non-Electing Shares shall be entitled to receive the Stock Consideration, subject to adjustment as set forth in the merger agreement and described in this proxy statement/prospectus. Holders of First Wyoming common stock shall receive their Merger Consideration as promptly as practicable following the election deadline, subject to the holders submitting their properly completed letter of transmittal and other transmittal materials.

Q: What are the U.S. federal income tax consequences of the merger to First Wyoming stockholders?

A: The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, and that First Wyoming and WSFS will each be treated as a party to the reorganization within the meaning of Section 368(b) of the Code. Assuming that the merger so qualifies as a reorganization, which First Wyoming and WSFS anticipate, in general, for U.S. federal income tax purposes:

Holders of First Wyoming common stock who receive solely the Cash Consideration in the merger will generally recognize gain or loss;

Holders of First Wyoming common stock who receive solely the Stock Consideration in the merger generally will not recognize any gain or loss as a result of the exchange (other than for cash received in lieu of any fractional share of First Wyoming common stock); and

Holders of First Wyoming common stock who receive a combination of the Cash Consideration and the Stock Consideration in the merger will not generally recognize any loss but will generally recognize gain, if any, to the extent of any of the Cash Consideration received.

For further information, see Material U.S. Federal Income Tax Consequences of the Merger.

The U.S. federal income tax consequences described above may not apply to all holders of First Wyoming common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.

Q: Do I have dissenters rights in connection with the merger?

A: Yes. Under Chapter 92A of the Nevada Revised Statutes, or the NRS, First Wyoming stockholders will have dissenters rights in connection with the merger. To exercise dissenters rights, First Wyoming stockholders must strictly follow the procedures prescribed by Nevada law. These procedures are summarized under the section entitled The Merger Dissenters Appraisal Rights beginning on page 49, and Sections 92A.300 through 92A.500 of the NRS are attached to this proxy statement/prospectus as Annex II. Holders of shares of First Wyoming common stock are encouraged to read these provisions carefully and in their entirety. Due to the complexity of the procedures for exercising the right to seek appraisals, holders of shares of First Wyoming common stock who are considering exercising such rights are encouraged to seek the advice of legal counsel. Failure to strictly comply with these provisions will result in the loss of dissenters rights. See the section entitled The Merger Dissenters Appraisal Rights beginning on page 49.

Q: If I am a First Wyoming stockholder, should I send in my First Wyoming stock certificates now?

A: No. Please do not send in your First Wyoming stock certificates with your proxy. After the effective time of the merger, an exchange agent designated by WSFS will send you instructions for exchanging First Wyoming stock certificates for the Merger Consideration. See The Merger Agreement Conversion of Shares; Exchange of Certificates beginning on page 54.

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Q: What should I do if I hold my shares of First Wyoming common stock in book-entry form?

A: An exchange agent designated by WSFS, or your broker or bank, will send you instructions for exchanging your shares of First Wyoming common stock for the Merger Consideration.

Q: Who may I contact if I cannot locate my First Wyoming stock certificate(s)?

A: If you are unable to locate your original First Wyoming stock certificate(s), you should contact Judy Cook, Vice President of Human Resources at The First National Bank of Wyoming at 120 West Camden-Wyoming Avenue, Wyoming, Delaware 19934. If you are unable to locate your First Wyoming stock certificate, the exchange agent may require the provision of a lost stock affidavit, a bond, or other documentation as may reasonably be required.

Q: When do you expect to complete the merger?

A: We expect to consummate the merger in the third quarter of 2014. However, we cannot assure you when or if the merger will occur. We must first obtain the approval of First Wyoming s stockholders at the First Wyoming special meeting and the necessary regulatory approvals and the other conditions to closing must be satisfied before the merger is consummated.

Q: Whom should I call with questions?

A: If you have any questions concerning the merger or this proxy statement/prospectus, would like additional copies of this proxy statement/prospectus or need help voting your shares of First Wyoming common stock, please contact: Judy Cook, Vice President of Human Resources at The First National Bank of Wyoming at (302) 697-2666.

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It may not contain all of the information that is important to you. We urge you to carefully read the entire proxy statement/prospectus, including the appendices, and the other documents to which we refer in order to fully understand the merger. See Where You Can Find More Information on page 86. Each item in this summary refers to the page of this proxy statement/prospectus on which that subject is discussed in more detail.

As a result of the merger, First Wyoming Stockholders will have a right to elect to receive either 0.8484 of a share of WSFS common stock, referred to as the Stock Consideration, or $60.00 in cash, referred to as the Cash Consideration, or a combination of Stock Consideration and Cash Consideration (page 35).

We are proposing the merger of First Wyoming with and into WSFS, with WSFS continuing as the surviving corporation of the merger. If the merger is completed, each share of First Wyoming common stock issued and outstanding immediately prior to the merger will be converted, at the election of the stockholder, into the right to receive either (i) cash in an amount equal to $60.00, referred to as the Cash Consideration, or (ii) 0.8484 of a share of WSFS common stock, referred to as the Stock Consideration, and together with the Cash Consideration, the Merger Consideration. Each holder of First Wyoming common stock is entitled to elect the form of the Merger Consideration that he or she would like to receive for his or her shares of First Wyoming common stock, which may be all Stock Consideration, all Cash Consideration or a combination of Stock Consideration and Cash Consideration. All such elections are subject to adjustment on a pro rata basis except for elections by holders of First Wyoming common stock to receive the Stock Consideration for half of their shares and the Cash Consideration for the remaining half of their shares (and, if the holder of First Wyoming common stock holds an odd number of shares, an election to receive either the Stock Consideration or the Cash Consideration for the remaining odd share of First Wyoming common stock), which are referred to as Split Election Shares. Shares of First Wyoming common stock for which an election is not made or that are not submitted by the election deadline are referred to as Non-Electing Shares. All Non-Electing Shares shall be entitled to receive the Stock Consideration, subject to adjustment as set forth in the merger agreement and described in this proxy statement/prospectus. No fractional shares of WSFS common stock will be issued in connection with the merger, and holders of First Wyoming common stock will be entitled to receive cash in lieu thereof.

For example, a First Wyoming stockholder who holds 100 shares of First Wyoming common stock may elect to convert 30 shares of his or her First Wyoming common stock into Cash Election Shares and 70 shares of his or her First Wyoming common stock into Stock Election Shares (or any other combination), subject to the proration provisions described elsewhere in this proxy statement/prospectus.

The merger agreement governs the merger. The merger agreement is included in this proxy statement/prospectus as Annex I. Please read the merger agreement carefully. All descriptions in this summary and elsewhere in this proxy statement/prospectus of the terms and conditions of the merger are qualified by reference to the merger agreement.

First Wyoming s Board of Directors Unanimously Recommends that First Wyoming Stockholders Vote FOR Approval of the Merger Agreement (page 30)

First Wyoming s board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of First Wyoming and its stockholders. All but one of the six members of First Wyoming s board of directors approved and adopted the merger agreement and the transactions contemplated thereby (including the merger). However, the one director voting against the merger and the merger agreement did not do so based on the merits of the transaction, but on his personal desire for First Wyoming to remain an independent corporation. The director voting against the merger and the merger agreement joins the other directors of First Wyoming in recommending the approval of the transaction to the First Wyoming stockholders. Accordingly, First Wyoming s board of directors unanimously recommends that First Wyoming stockholders vote FOR approval of the merger agreement. For the factors considered by First Wyoming s board of directors in reaching its decision to approve the merger agreement, see the section entitled The Merger First Wyoming s Reasons for the Merger beginning on page 37.

Gerrish McCreary Smith Consultants, LLC Has Provided an Opinion to First Wyoming s Board of Directors Regarding the Acquisition of First Wyoming by WSFS (page 40 and Annex III)

On November 21, 2013, Gerrish McCreary Smith Consultants, LLC, which is referred to as GMS, First Wyoming s financial advisor in connection with the merger, rendered its oral opinion to First Wyoming s board of directors, and subsequently confirmed in writing, that as of such date and based upon and subject to the assumptions, procedures, considerations, qualifications and limitations set forth in the written opinion, the acquisition of First Wyoming by WSFS pursuant to the merger agreement is fair, from a financial point of view, to the holders of shares of First Wyoming common stock.

The full text of GMS opinion, dated November 22, 2013, is attached as Annex III to this proxy statement/prospectus. You should read the opinion in its entirety for a discussion of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by GMS in rendering its opinion.

GMS opinion is directed to First Wyoming s board of directors, addresses only the fairness, from a financial point of view, of the acquisition of First Wyoming by WSFS pursuant to the merger agreement, and does not address any other aspect of the merger or constitute a recommendation as to how any stockholder of First Wyoming should vote at any stockholder s meeting held in connection with the merger.

For further information, please see the discussion under the caption The Merger Fairness Opinion of First Wyoming s Financial Advisor, beginning on page 40.

First Wyoming will Hold its Special Meeting on April 30, 2014 (page 30)

The First Wyoming special meeting will be held on April 30, 2014, at 10:30 a.m., local time, at the main office of The First National Bank of Wyoming, located at 120 West Camden-Wyoming Avenue, Wyoming, DE 19934. At the First Wyoming special meeting, First Wyoming stockholders will be asked to:

- approve the merger agreement and the transactions it contemplates; and
- approve the adjournment proposal, if necessary.

Only holders of record at the close of business on March 28, 2014 will be entitled to vote at the First Wyoming special meeting. Each share of First Wyoming common stock is entitled to one vote on each proposal to be considered at the First Wyoming special meeting. As of the record date, there were 1,067,347 shares of First Wyoming common stock entitled to vote at the First Wyoming special meeting. As of the record date, directors and executive officers of First Wyoming and their affiliates owned and were entitled to vote 158,423 shares of First Wyoming common stock, representing approximately 14.84 percent of the shares of First Wyoming common stock outstanding on that date. As of the record date, WSFS beneficially held no shares of First Wyoming common stock, and WSFS directors and executive officers and their affiliates held no shares of First Wyoming common stock.

To approve the merger agreement, holders of a majority of the outstanding shares of First Wyoming common stock entitled to vote at the First Wyoming special meeting must vote in favor of approving the merger agreement. Because approval is based on the affirmative vote of a majority of the shares outstanding, your failure to vote, failure to instruct your bank or broker with respect to the proposal to approve the merger agreement, or abstention will have the same effect as a vote against approval of the merger agreement.

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The adjournment proposal, if necessary, will be approved if the number of votes cast in favor of the adjournment proposal exceeds the number of votes cast in opposition to the adjournment proposal at the First Wyoming special meeting. A failure to vote, failure to instruct your bank or broker with respect to the adjournment proposal, or abstention will have no effect on the adjournment proposal.

First Wyoming s Directors and Certain Officers have entered into Noncompetition and/or Voting Agreements (page 31)

As an inducement to and condition of WSFS willingness to enter in the merger agreement, each of the directors of First Wyoming have entered into voting and non-competition agreements with First Wyoming and WSFS pursuant to which such directors have agreed to vote (or cause to be voted) the shares of First Wyoming common stock beneficially owned by them in favor of approval of the merger agreement and the transactions it contemplates at any First Wyoming stockholders meeting held in connection with the merger. Similarly, certain officers of First Wyoming have entered into voting agreements with First Wyoming and WSFS pursuant to which such officers have agreed to vote (or cause to be voted) the shares of First Wyoming common stock beneficially owned by them in favor or approval of the merger agreement and the transactions it contemplates at any First Wyoming stockholder s meeting held in connection with the merger. In addition, such directors and officers have agreed, by execution of their agreements, to vote their shares of First Wyoming common stock against any other proposal to acquire at least 20% of the outstanding shares or assets of First Wyoming. The number of shares of First Wyoming common stock that are beneficially owned and entitled to vote by directors and officers of First Wyoming that have signed voting and noncompetition agreements is 158,283, or 14.83% of the total shares of First Wyoming common stock outstanding on the record date.

First Wyoming s Directors and Officers May Have Financial Interests in the Merger That Differ From Your Interests (page 48)

First Wyoming stockholders should be aware that some of First Wyoming s directors and executive officers may have interests in the merger and have arrangements that may be different from, or in addition to, those of First Wyoming stockholders generally. Some of these interests include that, pursuant to the terms of the merger agreement, effective as of the consummation of the merger, WSFS and WSFS Bank will combine the existing Kent County and Sussex County advisory boards to form the Southern Delaware Advisory Board, and WSFS Bank s appointee, Joshua M. Twilley, will become its chairperson. Mr. Twilley is currently chairman of the board of directors of First Wyoming. Mr. Twilley also may enter into a consulting arrangement with WSFS pursuant to which he will receive cash consulting fees from WSFS. These interests and arrangements may create potential conflicts of interest. The First Wyoming board of directors was aware of these interests and considered these interests, among other matters, when making its decision to approve the merger agreement and the merger, and in recommending that First Wyoming s stockholders vote in favor of approval of the merger agreement.

For a more complete description of these interests, see The Merger Interests of First Wyoming s Directors and Executive Officers in the Merger beginning on page 48.

First Wyoming s Stockholders May Exercise Dissenters Rights (page 49)

Under Chapter 92A of the NRS, First Wyoming stockholders will have dissenters rights in connection with the merger. To exercise dissenters rights, First Wyoming stockholders must strictly follow the procedures prescribed by Nevada law. These procedures are summarized under the section entitled The Merger Dissenters Appraisal Rights beginning on page 49, and Sections 92A.300 through 92A.500 of the NRS are attached to this proxy statement/prospectus as Annex II.

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Regulatory Approvals Required for the Merger (page 51)

We have agreed to use our reasonable best efforts to obtain all regulatory approvals, non-objections or waivers required to complete the transactions contemplated by the merger agreement. These regulatory determinations include the approval of the Office of the Comptroller of the Currency, which is referred to as the OCC, for the bank merger, and a waiver from the Board of Governors of the Federal Reserve System, which is referred to as the Federal Reserve Board, for the merger, among others. WSFS and First Wyoming have filed, or are in the process of filing, applications, requests, letters and notifications to obtain the required regulatory determinations.

Although we do not know of any reason why these regulatory approvals, non-objections or waivers cannot be obtained in a timely manner, we cannot be certain when or if they will be obtained.

Conditions That Must Be Satisfied or Waived for the Merger to Occur (page 65)

Currently, we expect to consummate the merger in the third quarter of 2014. As more fully described in this proxy statement/prospectus and in the merger agreement, consummation of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. The conditions to each party s obligation to complete the merger include, among others:

- approval of the merger agreement by First Wyoming s stockholders;
- receipt of required regulatory approvals (provided that no such required regulatory approval may impose a burdensome condition on WSFS);
- absence of any law, injunction or other restraint prohibiting, restricting or making illegal consummation of the transactions contemplated by the merger agreement;
- the declaration of effectiveness by the SEC of WSFS registration statement on Form S-4 registering the WSFS common stock issuable to First Wyoming stockholders, with no stop orders suspending the effectiveness thereof having been issued;
- authorization of the shares of WSFS common stock to be issued in the merger for listing on the NASDAQ Global Select Market, which is referred to as NASDAQ;
- accuracy of each party s representations and warranties in the merger agreement, generally subject to specified materiality standards;
- performance in all material respects of each party s obligations under the merger agreement including the continued employment of Joseph Chippie, John Coleman and Robert Faries and the formation by WSFS of the Southern Delaware Advisory Board; and

- receipt by each party of an opinion of counsel, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

We cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

Termination of the Merger Agreement (page 66)

We may mutually agree to terminate the merger agreement before completing the merger, even after receiving First Wyoming stockholder approval.

In addition, either of us may decide to terminate the merger agreement if:

- any regulatory authority which must grant a required regulatory approval has denied approval of the transactions contemplated by the merger agreement, and this denial has become final and nonappealable, or a regulatory authority has issued a final nonappealable law or order prohibiting the consummation of

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the transactions contemplated by the merger agreement, if the party seeking to terminate the merger agreement has used its reasonable best efforts to contest, appeal and change such denial, law or order;

the First Wyoming stockholders fail to approve the merger agreement and the transactions contemplated thereby at the First Wyoming special meeting;

the merger has not been completed on or before November 24, 2014, which is referred to as the outside date, if the failure to consummate the transactions contemplated by the merger agreement by the outside date is not caused by the terminating party s breach of the merger agreement; or

any of the conditions precedent to the obligations of the terminating party to consummate the merger cannot be satisfied or fulfilled by the outside date, if the failure of such condition to be satisfied or fulfilled is not a result of the terminating party s failure to perform, in any material respect, any of its material covenants or agreements in the merger agreement or such party s material breach of any of its material representations or warranties contained in the merger agreement.

In addition, WSFS may terminate the merger agreement if:

First Wyoming s board of directors fails to recommend the merger to, and the approval of the merger agreement by, the First Wyoming stockholders or changes its recommendation to the First Wyoming stockholders in a manner adverse to WSFS;

First Wyoming s board of directors breaches its non-solicitation obligations or obligations with respect to other acquisition proposals set forth in the merger agreement in any respect adverse to WSFS; or

First Wyoming s board of directors breaches its obligations to call, give notice of, convene and/or hold a stockholders meeting or to use reasonable best efforts to obtain the approval of First Wyoming stockholders.

In addition, First Wyoming may terminate the agreement if:

First Wyoming receives a superior proposal and enters into an acquisition agreement with respect to such superior proposal provided that concurrently with such termination, First Wyoming pays to WSFS a termination fee of $2.88 million; or

the price of WSFS common stock declines by more than 15% from $72.35 and underperforms an index of banking companies by more than 15% over a designated measurement period unless WSFS agrees to increase the number of shares of WSFS common stock to be issued to holders of First Wyoming common stock who are to receive Stock Consideration in the merger.

Termination Fee (page 67)

If the merger agreement is terminated under certain circumstances, including circumstances involving a change in recommendation by First Wyoming s board of directors, First Wyoming may be required to pay WSFS a termination fee of $2.88 million. The termination fee could discourage other companies from seeking to acquire or merge with First Wyoming.

Board of Directors and Executive Officers of WSFS and WSFS Bank following the Effective Time of the Merger (page 48)

The directors and officers of WSFS immediately prior to the effective time of the merger will continue as the directors and officers of the surviving corporation of the merger. Pursuant to the terms of the merger agreement, effective as of the consummation of the merger, WSFS and WSFS Bank will combine the existing Kent County and Sussex County advisory boards to form the Southern Delaware Advisory Board, and WSFS Bank s appointee, Joshua M. Twilley, will become its chairperson. Mr. Twilley is currently chairman of the board of directors of First Wyoming.

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The Rights of First Wyoming Stockholders will Change as a Result of the Merger (page 76)

The rights of First Wyoming stockholders will change as a result of the merger due to differences in WSFS and First Wyoming s governing documents. The rights of First Wyoming stockholders are governed by Nevada law and by First Wyoming s amended and restated articles of incorporation and amended and restated bylaws, each as amended to date (which are referred to as First Wyoming s articles of incorporation and bylaws, respectively). Upon the effective time of the merger, the rights of First Wyoming stockholders who receive the Stock Consideration will be governed by Delaware law and WSFS amended and restated certificate of incorporation and amended and restated bylaws (which are referred to as WSFS certificate of incorporation and bylaws, respectively). First Wyoming stockholders who receive solely the Cash Consideration will have their stockholder rights extinguished.

This proxy statement/prospectus contains descriptions of the material differences in stockholder rights under each of First Wyoming s articles of incorporation and bylaws and WSFS certificate of incorporation and bylaws.

The Merger Is Intended to Be Tax-Free to Holders of First Wyoming Common Stock as to the Shares of WSFS Common Stock They Receive (page 69)

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code, and, as a condition to the respective obligations of WSFS and First Wyoming to complete the merger, each of WSFS and First Wyoming shall receive a legal opinion to that effect. Accordingly, the merger generally will be tax-free to a holder of First Wyoming common stock for U.S. federal income tax purposes who receives solely the Stock Consideration for all of his or her shares, except for any gain or loss that may result from the receipt of cash instead of fractional shares of WSFS common stock that such holder of First Wyoming common stock would otherwise be entitled to receive. If the holder of First Wyoming common stock receives solely the Cash Consideration for all of his or her shares, the holder of First Wyoming common stock generally will recognize gain or loss equal to the difference between the amount of cash received and the basis in his or her shares of First Wyoming common stock as set forth below. If the holder of First Wyoming common stock receives a combination of Cash Consideration and Stock Consideration in the merger, the holder will not generally recognize any loss but will generally recognize gain, if any, to the extent of any Cash Consideration received. For further information, see Material U.S. Federal Income Tax Consequences of the Merger beginning on page 69.

The U.S. federal income tax consequences described above may not apply to all holders of First Wyoming common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.

Comparative Market Prices of Securities (page 16)

WSFS common stock is listed on NASDAQ under the symbols WSFS . First Wyoming common stock is not listed on any stock exchange or quoted on any interdealer quotation system.

The market value of the Stock Consideration will fluctuate with the market price of WSFS common stock, however the Cash Consideration will remain a fixed amount regardless of any change in the market value of the Stock Consideration. The following table presents the closing prices of WSFS common stock on November 22, 2013, the last trading day before public announcement of the merger, and on March 25, 2014, the last practicable trading day before the distribution of this proxy statement/prospectus. The table also presents the implied value of the Stock Consideration proposed for each share of First Wyoming common stock converted into the Stock Consideration on those dates, as determined by multiplying the closing price of WSFS common stock on those dates by the exchange ratio of 0.8484 provided for in the merger agreement. This table also presents the value of

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the Cash Consideration proposed for each share of First Wyoming common stock converted into the Cash Consideration, which will remain a fixed amount regardless of any change in the market value of the Stock Consideration. **We urge you to obtain current market quotations for WSFS.**

	WSFS Common Stock (NASDAQ: WSFS)	Implied Value of One Share of First Wyoming Common Stock	Value of the Cash Consideration of One Share of First Wyoming Common Stock
At November 22, 2013	$ 72.35	$ 61.38	$ 60.00
At March 25, 2014	$ 70.41	$ 59.74	$ 60.00

WSFS Financial Corporation

WSFS is a Delaware corporation headquartered in Wilmington, Delaware. WSFS is a unitary savings and loan holding company under the Home Owners Loan Act of 1935, as amended. Its primary subsidiary, WSFS Bank, is the oldest, locally-managed bank and trust company headquartered in Delaware with $4.5 billion in assets on its balance sheet and $8.9 billion in fiduciary assets, including approximately $614 million in assets under management at December 31, 2013. WSFS operates from 52 offices located in Delaware (42), Pennsylvania (8), Virginia (1) and Nevada (1) and provides comprehensive financial services including commercial banking, retail banking and trust and wealth management. Serving the Delaware Valley since 1832, WSFS Bank is the seventh oldest bank in the United States continuously operating under the same name.

WSFS principal executive office is located at WSFS Bank Center 500 Delaware Avenue, Wilmington, Delaware, 19801, and its telephone number is 302-792-6000.

Additional information about WSFS and its subsidiaries is included in documents incorporated by reference in this proxy statement/prospectus. See Where You Can Find More Information on page 86.

First Wyoming Financial Corporation

First Wyoming is a Nevada corporation headquartered in Wyoming, Delaware and was incorporated in on December 6, 2005. First Wyoming is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and its principal subsidiary is The First National Bank of Wyoming.

At December 31, 2013, First Wyoming had total consolidated assets of approximately $302 million, total consolidated deposits of approximately $245 million and total consolidated stockholders equity of approximately $50 million.

First Wyoming s principal executive offices are located at 120 West Camden-Wyoming Avenue Wyoming, Delaware 19934, and its telephone number is 302-697-2666.

Additional information about First Wyoming and its subsidiaries is included under the section Information About First Wyoming on page 28.

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SELECTED CONSOLIDATED FINANCIAL DATA OF WSFS

The following table summarizes financial results achieved by WSFS for the periods and at the dates indicated and should be read in conjunction with WSFS consolidated financial statements and the notes to the consolidated financial statements contained in reports that WSFS has previously filed with the Securities and Exchange Commission, or the SEC. Historical financial information for WSFS can be found in its Annual Report on Form 10-K for the year ended December 31, 2013. See Where You Can Find More Information on page 86 for instructions on how to obtain the information that has been incorporated by reference. You should not assume the results of operations for past periods indicate results for any future period.

WSFS Financial Corporation

(Dollars in Thousands, Except Per Share Data)

	As of December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Total assets	$ 4,515,763	$ 4,375,148	$ 4,289,008	$ 3,953,518	$ 3,748,507
Net loans (1)	2,936,467	2,736,674	2,712,774	2,575,890	2,479,155
Reverse mortgage related assets	37,328	19,229	15,722	11,746	11,653
Investment securities (2)	132,343	50,203	43,215	53,137	46,048
Other investments	36,201	31,796	35,765	37,790	40,395
Mortgage-backed securities (2)	684,773	850,656	812,856	700,926	669,059
Total deposits	3,186,942	3,274,963	3,135,304	2,810,774	2,561,871
Borrowings (3)	759,830	515,255	656,609	680,595	787,798
Trust preferred borrowings	67,011	67,011	67,011	67,011	67,011
Senior Debt	55,000	55,000			
Stockholders equity	383,050	421,054	392,133	367,822	301,800
Number of full-service branches	39	41	40	36	37

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	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
Interest income	$ 146,922	$ 150,287	$ 158,642	$ 162,403	$ 157,730
Interest expense	15,334	23,288	32,605	41,732	53,086
Net interest income	131,588	126,999	126,037	120,671	104,644
Noninterest income	80,151	86,693	63,588	50,115	50,241
Noninterest expenses	132,929	133,345	127,477	109,332	108,504
Provision (benefit) for income taxes	24,756	16,983	11,475	5,454	(2,093)
Net Income	46,882	31,311	22,677	14,117	663
Dividends on preferred stock and accretion of discount	1,633	2,770	2,770	2,770	2,590
Net income (loss) allocable to common stockholders	45,249	28,541	19,907	11,347	(1,927)
Earnings (loss) per share allocable to common stockholders:					
Basic	5.13	3.28	2.31	1.48	(0.30)
Diluted	5.06	3.25	2.28	1.46	(0.30)
Interest rate spread	3.51	3.39%	3.49%	3.47%	3.10%
Net interest margin	3.56	3.46	3.60	3.62	3.30
Efficiency ratio	62.42	62.19	66.85	63.61	69.56
Noninterest income as a percentage of total revenue (4)	37.64	40.43	33.34	29.16	32.21
Return on average assets	1.07	0.73	0.56	0.37	0.02
Return on average equity	11.60	7.66	5.96	4.21	0.24
Return on tangible common equity (5)	13.60	9.15	7.03	4.35	NM
Average equity to average assets	8.62	9.58	9.34	8.84	7.86
Tangible equity to assets	7.69	8.93	8.41	8.52	7.73
Tangible common equity to assets	7.69	7.72	7.18	7.18	6.31
Ratio of nonperforming assets to total assets	1.40	1.43	2.14	2.35	2.19

(1) Includes loans held-for-sale.
(2) Includes securities available-for-sale.
(3) Borrowings consist of FHLB advances, securities sold under agreements to repurchase and other borrowed funds.
(4) Computed on a fully tax-equivalent basis.
(5) Not a meaningful calculation as there was a net loss for 2009.

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MARKET PRICES AND DIVIDENDS

Stock Prices

The table below sets forth, for the calendar quarters indicated, the high and low closing prices per share of WSFS common stock of which trades on NASDAQ under the symbol WSFS and the quarterly cash dividends declared per share, for the calendar quarters indicated.

	WSFS Common Stock		
	High	Low	Cash Dividends Declared
2012			
First Quarter	$ 43.74	$ 36.02	$ 0.12
Second Quarter	$ 41.00	$ 35.98	$ 0.12
Third Quarter	$ 44.00	$ 38.66	$ 0.12
Fourth Quarter	$ 43.99	$ 41.12	$ 0.12
2013			
First Quarter	$ 49.28	$ 43.75	$ 0.12
Second Quarter	$ 52.64	$ 46.81	$ 0.12
Third Quarter	$ 62.78	$ 53.45	$ 0.12
Fourth Quarter	$ 79.11	$ 58.02	$ 0.12
2014			
First Quarter (through March 25, 2014)	$ 77.62	$ 67.57	$ 0.12

On November 22, 2013, the last trading day before public announcement of the merger, the closing sales price per share of WSFS common stock was $72.35 on NASDAQ. On March 25, 2014, the last practicable trading day before the distribution of this proxy statement/prospectus, the closing sales price per share of WSFS common stock was $70.41 on NASDAQ.

First Wyoming stockholders are advised to obtain current market quotations for WSFS common stock. The market price of WSFS common stock will fluctuate between the date of this proxy statement/prospectus and the effective time of the merger. No assurance can be given concerning the market price of WSFS common stock before or after the effective date of the merger. Any change in the market price of WSFS common stock prior to the effective time of the merger will affect the market value of the Merger Consideration that First Wyoming s stockholders who receive the Stock Consideration will receive upon the effective time of the merger. First Wyoming common stock is not listed on any stock exchange or quoted on any interdealer quotation system.

Dividends

After the merger, WSFS currently expects to pay (when, as and if declared by WSFS board of directors) regular quarterly cash dividends of $0.12 per share. While WSFS currently pays dividends on its common stock, there is no assurance that it will continue to pay dividends in the future. Future dividends on WSFS common stock will depend upon its earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, its ability to service any equity or debt obligations senior to the common stock and other factors deemed relevant by the board of directors of WSFS.

As a holding company, WSFS is ultimately dependent upon its subsidiaries to provide funding for its operating expenses, debt service and dividends. Various banking laws applicable to WSFS Bank limit the

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payment of dividends and other distributions by WSFS Bank to WSFS and may therefore limit WSFS ability to pay dividends on its common stock. Regulatory authorities could impose administratively stricter limitations on the ability of WSFS Bank to pay dividends to WSFS, or WSFS to pay dividends to its stockholders, if such limits were deemed appropriate to preserve certain capital adequacy requirements.

First Wyoming currently does not pay dividends on its common stock and does not expect to pay any dividends for the foreseeable future.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus and the documents referred to in this proxy statement/prospectus contain estimates, predictions, opinions, projections and other forward-looking statements as that phrase is defined in the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, references to our financial goals, management s plans and objectives for future operations, financial and business trends, business prospects, and management s outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality or other future financial or business performance, strategies or expectations. Such forward-looking statements are based on various assumptions (some of which may be beyond our control) and are subject to risks and uncertainties (which change over time) and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to, those related to the economic environment, particularly in the market areas in which we operate, including an increase in unemployment levels; our level of nonperforming assets; the volatility of the financial and securities markets, including changes with respect to the market value of financial assets; changes in market interest rates which may increase funding costs and reduce earning asset yields thus reducing margin; increases in benchmark rates would also increase debt service requirements for customers whose terms include a variable interest rate, which may negatively impact the ability of borrowers to pay as contractually obligated; changes in government regulation affecting financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations being issued in accordance with this statute and potential expenses and elevated capital levels associated therewith; possible additional loan losses and impairment of the collectability of loans; possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations, may have an adverse effect on business; possible rules and regulations issued by the Consumer Financial Protection Bureau or other regulators which might adversely impact our business model or products and services; possible stresses in the real estate markets, including possible continued deterioration in property values that affect the collateral value underlying our real estate loans; our ability to expand into new markets, develop competitive new products and services in a timely manner, and to maintain profit margins in the face of competitive pressures; possible changes in consumer and business spending and saving habits could affect our ability to increase assets and to attract deposits; our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk, reputational risk, and regulatory and compliance risk; the effects of increased competition from both banks and non-banks; the effects of geopolitical instability and risks such as terrorist attacks; the effects of weather and natural disasters such as floods, droughts, wind, tornados and hurricanes, and the effects of man-made disasters; possible changes in the speed of loan prepayments by our customers and loan origination or sales volumes; possible acceleration of prepayments of mortgage-backed securities, or MBS, due to low interest rates, and the related acceleration of premium amortization on prepayments on MBS due to low interest rates; and the costs associated with resolving any problem loans, litigation and other risks and uncertainties. Some of these risks and uncertainties are discussed herein, including under the heading Risk Factors, and in WSFS Form 10-K for the year ended December 31, 2013 and other documents filed by us with the SEC from time to time. Forward looking statements are as of the date they are made, and we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of us.

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RISK FACTORS

In addition to general investment risks and the other information contained in or incorporated by reference into this proxy statement/prospectus, including the matters addressed under the heading Cautionary Statement Regarding Forward-Looking Statements on page 18 and the matters discussed under the caption Risk Factors in the Annual Report on Form 10-K filed by WSFS for the year ended December 31, 2013, as updated by subsequently filed Forms 10-Q and other reports filed with the SEC, you should carefully consider the following risk factors in deciding how to vote on approval of the merger agreement.

Risks Relating to the Merger

Because the exchange ratio is fixed, the value of WSFS common stock issued to First Wyoming stockholders who receive the Stock Consideration for some or all of their shares will depend on the market price of WSFS common stock when the merger is completed.

Other than as described in this proxy statement/prospectus, there will be no adjustment to the fixed number of shares of WSFS common stock that will be issued to First Wyoming stockholders who receive the Stock Consideration based upon changes in the market price of WSFS common stock or First Wyoming common stock prior to the closing. The value of the Cash Consideration will not change. In addition, the merger agreement cannot be terminated due to a change in the price of WSFS common stock except if the price of WSFS common stock declines by more than 15% from $72.35 and underperforms an index of banking companies by more than 15% over a designated measurement period, unless WSFS agrees to increase the number of shares of WSFS common stock to be issued to holders of First Wyoming common stock who are to receive the Stock Consideration in the merger. As a result, the value of the Cash Consideration may differ from the value of the Stock Consideration. See The Merger Agreement Termination of the Merger Agreement on page 66.

The market price of WSFS common stock at the time the merger is completed may vary from the price of WSFS common stock on the date the merger agreement was executed, on the date of this proxy statement/prospectus and on the date of the First Wyoming special meeting as a result of various factors that are beyond our control, including but not limited to general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations. On November 22, 2013, the last trading day before the execution date of the merger agreement, WSFS common stock closed at $72.35 per share, as reported on NASDAQ. From November 25, 2013, the day of the announcement of the proposed merger through March 25, 2014, the trading price of WSFS common stock ranged from a closing high of $79.11 per share to a closing low of $67.57 per share. If the market price of WSFS common stock at the completion of the merger is less than $70.73, the value of the Stock Consideration will be lower than $60.00, the value of the Cash Consideration.

First Wyoming and WSFS are working to complete the transaction as quickly as possible and expect to complete the merger in the third quarter of 2014. However, there is no way to predict how long it will take to satisfy the conditions to closing the merger and to complete the transaction. In addition to the approval of the merger agreement by First Wyoming stockholders, consummation of the merger is subject to receipt of required regulatory approvals and satisfaction of other conditions that may not occur until after the First Wyoming special meeting. Because the date when the transaction is completed will be later than the date of the First Wyoming special meeting, First Wyoming stockholders will not know the precise value of the Stock Consideration, if any, that they will receive at the effective time of the merger at the time they vote on the merger proposal. You should obtain current market quotations for shares of WSFS common stock before you vote.

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The elections made by holders of First Wyoming common stock with respect to the types of Merger Consideration they would like to receive are subject to proration and there can be no assurance that a stockholder will receive the type of Merger Consideration he or she elects.

Each holder of First Wyoming common stock will be able to elect the type of consideration that he or she would like to receive for each of his or her shares of First Wyoming common stock, including electing to receive the Cash Consideration for a portion of his or her shares of First Wyoming common stock and receive the Stock Consideration for the remainder of his or her shares of First Wyoming common stock. A share of First Wyoming common stock for which an election to receive the Cash Consideration is made is referred to as a Cash Election Share and a share of First Wyoming common stock for which an election to receive the Stock Consideration is made is referred to as a Stock Election Share. Shares of First Wyoming common stock for which no election is made will be deemed to be Non-Election Shares. All such elections are subject to adjustment on a pro rata basis except for elections for Split Election Shares.

The terms of the merger agreement provide that the aggregate amount of the Cash Consideration that holders of First Wyoming common stock are entitled to receive is $32,020,410, or the Maximum Cash Contribution. As a result, except for elections for Split Election Shares, all elections may be subject to proration depending on the elections made by other holders of First Wyoming common stock if the Maximum Cash Contribution is undersubscribed or oversubscribed. Proration will be applied so that ultimately 50% of the shares of First Wyoming common stock are treated as Cash Election Shares and 50% of the shares of First Wyoming common stock are treated as Stock Election Shares.

For example, if the aggregate of the Cash Consideration payable to holders of Cash Election Shares is in excess of the Maximum Cash Contribution, all of the Non-Election Shares will be treated as Stock Election Shares and a number of Cash Election Shares that are not Split Election Shares will be converted into Stock Election Shares until the Maximum Cash Contribution is no longer oversubscribed. If the aggregate of the Cash Consideration payable to holders of Cash Election Shares is less than the Maximum Cash Contribution, a number of Non-Election Shares will be treated as Cash Election Shares until the Maximum Cash Contribution is no longer undersubscribed and, if necessary, a number of Stock Election Shares that are not Split Election Shares will be converted into Cash Election Shares until the Maximum Cash Contribution is no longer undersubscribed.

Accordingly, depending on the elections made by other First Wyoming stockholders, if a holder of First Wyoming common stock elects to receive all Cash Consideration pursuant to the merger, such holder may receive a portion of the Merger Consideration due to such holder in the form of Stock Consideration. If a holder of First Wyoming common stock elects to receive all Stock Consideration pursuant to the merger, such holder may receive a portion of the Merger Consideration due to such holder in the form of Cash Consideration. First Wyoming stockholders who make an election to receive the Stock Consideration for some of their shares and the Cash Consideration for the remainder of their shares may receive different amounts or proportions of the Stock Consideration and the Cash Consideration than they elected.

The market price of WSFS common stock after the merger may be affected by factors different from those affecting the shares of First Wyoming or WSFS currently.

Upon the effective time of the merger, holders of First Wyoming common stock who receive the Stock Consideration will become holders of WSFS common stock. WSFS business differs from that of First Wyoming, and, accordingly, the results of operations of the combined company and the market price of the combined company s shares of common stock may be affected by factors different from those currently affecting the independent results of operations of each of WSFS and First Wyoming. For a discussion of the business of First Wyoming, see Information About First

Wyoming on page 28. For a discussion of the business of WSFS and of certain factors to consider in connection with that business, see the documents incorporated by reference in this proxy statement/prospectus and referred to under Where You Can Find More Information beginning on page 86.

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The fairness opinion obtained by First Wyoming from its financial advisor will not reflect changes in circumstances between signing the merger agreement and the effective time of the merger.

As of the date of this proxy statement/prospectus, First Wyoming has not obtained an updated fairness opinion from GMS, First Wyoming s financial advisor. Changes in the operations and prospects of First Wyoming or WSFS, general market and economic conditions, and other factors that may be beyond the control of First Wyoming and WSFS, and on which the fairness opinion was based, may alter the value of First Wyoming or WSFS or the prices of shares of First Wyoming common stock or WSFS common stock by the time the merger is completed. The opinion speaks only as of the date of such opinion and not as of the effective time of the merger or as of any other date. Therefore, because First Wyoming does not anticipate asking its financial advisor to update its opinion, the fairness opinion from GMS, dated November 22, 2013, does not address the fairness of the acquisition of First Wyoming by WSFS, from a financial point of view, at the effective time of the merger. The opinion is included as Annex III to this proxy statement/prospectus. For a description of the opinion that First Wyoming received from its financial advisor, please refer to The Merger Fairness Opinion of First Wyoming s Financial Advisor on page 40. For a description of the other factors considered by First Wyoming s board of directors in determining to approve the merger, please refer to The Merger First Wyoming s Reasons for the Merger on page 37.

Some of the conditions to the merger may be waived by First Wyoming or WSFS without resoliciting stockholder approval of the merger agreement.

Some of the conditions set forth in the merger agreement may be waived by First Wyoming or WSFS, subject to the agreement of the other party in specific cases. See The Merger Agreement Conditions to Completion of the Merger. If any conditions are waived, First Wyoming will evaluate whether an amendment of this proxy statement/prospectus and resolicitation of proxies is warranted. In the event that the board of directors of First Wyoming determines that resolicitation of stockholders is not warranted, First Wyoming and WSFS will have the discretion to complete the transaction without seeking further First Wyoming stockholder approval.

Some of the directors and officers of First Wyoming may have interests and arrangements that may have influenced their decisions to support the merger or recommend that you approve the merger agreement.

The interests of some of the directors and executive officers of First Wyoming may be different from those of holders of First Wyoming common stock, and directors and officers of First Wyoming may be participants in arrangements that are different from, or in addition to, those of holders of First Wyoming common stock. These interests are described in more detail in the section entitled The Merger Interests of First Wyoming s Directors and Executive Officers in the Merger beginning on page 48.

The merger is subject to certain closing conditions that, if not satisfied or waived, will result in the merger not being completed, which may negatively impact First Wyoming.

The merger is subject to customary conditions to closing, including the receipt of required regulatory approvals and approval of the First Wyoming stockholders. If any condition to the merger is not satisfied or, where permitted, waived, the merger will not be completed. In addition, WSFS and/or First Wyoming may terminate the merger agreement under certain circumstances even if the merger is approved by First Wyoming s stockholders.

If the merger agreement is terminated, there may be various consequences. For example, First Wyoming s business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger and the restrictions on First Wyoming s ability to do so under the merger agreement, without realizing any of the anticipated benefits of completing the merger, or the price of First Wyoming common stock could decline to the extent that the current price reflects a market assumption that the merger will be completed. In addition, termination of the merger agreement would increase the possibility of adverse regulatory actions which could adversely affect First Wyoming s business. If the merger agreement is terminated and First Wyoming s board of directors seeks another merger or business combination, First Wyoming stockholders cannot be certain that First Wyoming will be able to find a party willing to pay the equivalent or greater consideration than that which WSFS has agreed to pay in the merger. In addition, if the merger agreement is terminated under certain circumstances, including circumstances involving a change in recommendation by First Wyoming s board of directors, First Wyoming may be required to pay WSFS a termination fee of $2.88 million.

Provisions of the merger agreement may deter alternative business combinations.

The merger agreement generally prohibits First Wyoming from soliciting any acquisition proposal or offer for a merger or business combination with any other party, including a proposal that might be advantageous to the stockholders of First Wyoming when compared to the terms and conditions of the merger described in this proxy statement/prospectus. In addition, if the merger agreement is terminated, under certain specified circumstances, First Wyoming could be required to pay to WSFS a termination fee of $2.88 million. These provisions may deter third parties from proposing or pursuing alternative business combinations that might result in greater value to holders of First Wyoming common stock than the transaction.

If the merger is not consummated, First Wyoming and WSFS will have incurred substantial costs that may adversely affect First Wyoming s and WSFS financial results and operations.

First Wyoming and WSFS have incurred and will continue to incur substantial costs in connection with the proposed merger. These costs are primarily associated with the fees of their respective financial advisors, accountants and attorneys. If the merger is not consummated, First Wyoming and WSFS will have incurred these costs from which they will have received little or no benefit. Also, if the merger is not consummated under certain circumstances specified in the merger agreement, First Wyoming may be required to pay WSFS a termination fee of $2.88 million.

Regulatory consents, non-objections and approvals may not be received, may take longer than expected or impose conditions that are not presently anticipated.

Before the merger may be completed, First Wyoming and WSFS must obtain various approvals, consents, non-objections and waivers from, among others, the Federal Reserve Board and the OCC. These regulators may impose conditions on consummation of the merger or require changes to the terms of the merger. Although WSFS and First Wyoming do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying the effective time of the merger or imposing additional costs on or limiting the revenues of WSFS following the merger. Furthermore, such conditions or changes may constitute a burdensome condition that may allow WSFS to terminate the merger agreement and WSFS may exercise its right to terminate the merger agreement. There can be no assurance as to whether the regulatory approvals will be received, the timing of those approvals, or whether any conditions will be imposed. See The Merger Regulatory Approvals Required for the Merger beginning on page 51.

First Wyoming and WSFS will be subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the merger on employees, suppliers and customers may have an adverse effect on First Wyoming and/or WSFS. These uncertainties may impair First Wyoming s and/or WSFS ability to attract, retain and motivate key personnel until the merger is completed and for a period of time thereafter, and could cause customers, suppliers and others who deal with First Wyoming or WSFS to seek to change existing business relationships with First Wyoming or WSFS. First Wyoming employee retention and recruitment may be particularly challenging prior to the effective time of the merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company.

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The pursuit of the merger and the preparation for the integration may place a significant burden on management and internal resources. Any significant diversion of management attention away from ongoing business and any difficulties encountered in the transition and integration process could affect First Wyoming s and/or WSFS financial results.

In addition, the merger agreement requires that, subject to certain exceptions, each of First Wyoming and WSFS operate in the ordinary course of business consistent with past practice prior to the effective time of the merger or termination of the merger agreement. See The Merger Agreement Covenants and Agreements Conduct of Businesses Prior to the Effective Time of the Merger beginning on page 58.

The tax consequences of the merger to a First Wyoming stockholder will be dependent upon the Merger Consideration received.

The tax consequences of the merger to a First Wyoming stockholder will depend upon the Merger Consideration that the stockholder receives. Assuming the merger qualifies as a nontaxable reorganization, a First Wyoming stockholder generally will not recognize any gain or loss on the conversion of shares of First Wyoming common stock solely into shares of WSFS common stock. However, a First Wyoming stockholder generally will be taxed if the stockholder receives Cash Consideration in exchange for shares of First Wyoming common stock or for any fractional share of WSFS common stock. For a detailed discussion of the tax consequences of the merger to First Wyoming stockholder generally, see Material U.S. Federal Income Tax Consequences of the Merger beginning on page 69. Each First Wyoming stockholder should consult his, her or its own tax advisors as to the effect of the merger as applicable to the First Wyoming stockholder s particular circumstances.

If the merger does not constitute a reorganization under Section 368(a) of the Code, then each First Wyoming stockholder may be responsible for payment of U.S. income taxes related to the merger.

The United States Internal Revenue Service, or the IRS, may determine that the merger does not qualify as a nontaxable reorganization under Section 368(a) of the Code. In that case, each First Wyoming stockholder would recognize a gain or loss equal to the difference between the (i) the sum of the fair market value of WSFS common stock and cash received by the First Wyoming stockholder in the merger, and (ii) the First Wyoming stockholder s adjusted tax basis in the shares of First Wyoming common stock exchanged therefor. The likely tax treatment of the merger will not be known until the closing date of the merger, as the aggregate value of the WSFS common stock to be received by First Wyoming stockholder will fluctuate with the market price of the WSFS common stock.

Risks Relating to WSFS Business Following the Merger

Combining the two companies may be more difficult, costly or time-consuming than expected.

WSFS and First Wyoming have operated and, until the effective time of the merger, will continue to operate, independently. The success of the merger will depend, in part, on our ability to successfully combine the businesses of WSFS and First Wyoming. To realize these anticipated benefits, after the effective time of the merger, WSFS expects to integrate First Wyoming s business into its own. It is possible that the integration process could result in the loss of key employees, the disruption of each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company s ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. The loss of key employees could adversely affect WSFS ability to successfully conduct its business in the markets in which First Wyoming now operates, which could have an adverse effect on WSFS financial results and the value of its common stock. If WSFS experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause First Wyoming or WSFS to lose current customers or cause current customers to remove their accounts from First

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Wyoming or WSFS and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of First Wyoming and WSFS during this transition period and for an undetermined period after consummation of the merger.

WSFS may fail to realize the cost savings estimated for the merger.

WSFS estimates that it will achieve cost savings from the merger when the two companies have been fully integrated. While WSFS continues to be comfortable with these expectations as of the date of this proxy statement/prospectus, it is possible that the estimates of the potential cost savings could turn out to be incorrect. The cost savings estimates also assume WSFS ability to combine the businesses of WSFS and First Wyoming in a manner that permits those cost savings to be realized. If the estimates turn out to be incorrect or WSFS is not able to combine successfully the two companies, the anticipated cost savings may not be realized fully or at all, or may take longer to realize than expected.

The shares of WSFS common stock to be received by First Wyoming stockholders who receive the Stock Consideration in the merger will have different rights from the shares of First Wyoming common stock they currently hold.

Following the effective time of the merger, holders of First Wyoming common stock who receive the Stock Consideration will no longer be stockholders of First Wyoming, a Nevada corporation, but will instead be stockholders of WSFS, a Delaware corporation. The rights associated with First Wyoming common stock are different from the rights associated with WSFS common stock. See the section entitled Comparison of Stockholders Rights beginning on page 76.

First Wyoming stockholders who receive the Stock Consideration will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

First Wyoming stockholders currently have the right to vote in the election of the First Wyoming board of directors and on other matters affecting First Wyoming. When the merger occurs, each First Wyoming stockholder that receives the Stock Consideration will become a stockholder of WSFS with a percentage ownership of the combined organization that is much smaller than such stockholder s current percentage ownership of First Wyoming. Because of this, First Wyoming stockholders will have less influence on the management and policies of WSFS than they now have on the management and policies of First Wyoming.

WSFS operates in a highly regulated environment, which could have a material and adverse impact on its operations and activities, financial condition, results of operations, growth plans and future prospects.

Banking is highly regulated under federal and state law. WSFS is subject to extensive regulation and supervision that governs almost all aspects of our operations.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. This system is intended primarily for the protection of the FDIC s Deposit Insurance Fund and bank depositors, rather than WSFS stockholders and creditors. The banking agencies have broad enforcement power over bank and savings and loan holding companies as well as banks and savings banks, including the authority, among other things, to enjoin unsafe or unsound practices, require affirmative action to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil monetary penalties, remove officers and directors, and, with respect to banks, terminate our charter, terminate our deposit insurance or place us into conservatorship or receivership. In general, these enforcement actions may be initiated for violations of laws and regulations or unsafe or unsound practices.

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Compliance with the myriad laws and regulations applicable to WSFS can be difficult and costly. In addition, these laws, regulations and policies are subject to continual review by governmental authorities, and changes to these laws, regulations and policies, including changes in interpretation or implementation of these laws, regulations and policies, could affect us in substantial and unpredictable ways and often impose additional compliance costs. Further, any new laws, rules and regulations, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, which is referred to as the Dodd-Frank Act, could make compliance more difficult or expensive. All of these laws and regulations, and the supervisory framework applicable to our industry, could have a material adverse impact on WSFS operations and activities, financial condition, results of operations, growth plans and future prospects.

The short-term and long-term impact of the newly proposed regulatory capital rules is uncertain.

In July 2013, federal banking regulatory agencies issued final rules (in the case of the FDIC, interim final rules) for new capital requirements for banks that are consistent with the Basel III capital framework. Basel III creates a new regulatory capital standard based on tier 1 common equity and increases the minimum leverage and risk-based capital ratios applicable to all banking organizations. Basel III also changes how a number of the regulatory capital components are calculated. While the final rules will require WSFS to maintain higher regulatory capital standards in the future, it is not certain at this time how these new rules will ultimately affect WSFS. A significant increase in WSFS capital requirement could reduce its growth and profitability and could have a material adverse effect on its business, financial condition, results of operations and future prospects.

WSFS is subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Consumer Financial Protection Bureau, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution s performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on WSFS business, financial condition, results of operations and future prospects.

WSFS faces a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports when appropriate. In addition to other bank regulatory agencies, the federal Financial Crimes Enforcement Network of the Department of the Treasury is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the state and federal banking regulators, as well as the U.S. Department of Justice, Consumer Financial Protection Bureau, Drug Enforcement Administration, and Internal Revenue Service.

WSFS is also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control of the Department of the Treasury regarding, among other things, the prohibition of transacting business with, and the need to freeze assets of, certain persons and organizations identified as a threat to the national security, foreign policy or economy of the United States. If WSFS policies, procedures and systems are deemed deficient, WSFS would be subject to liability, including fines and regulatory actions, which may include

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restrictions on WSFS ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of WSFS business plan, including any acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for WSFS. Any of these results could have a material adverse effect on WSFS business, financial condition, results of operations and future prospects.

The laws that regulate WSFS operations are designed for the protection of depositors and the public, not its stockholders.

The federal and state laws and regulations applicable to WSFS operations give regulatory authorities extensive discretion in connection with their supervisory and enforcement responsibilities, and generally have been promulgated to protect depositors and the Deposit Insurance Fund and not for the purpose of protecting stockholders. These laws and regulations can materially affect WSFS future business. Laws and regulations now affecting WSFS may be changed at any time, and the interpretation of such laws and regulations by bank regulatory authorities is also subject to change.

WSFS can give no assurance that future changes in laws and regulations or changes in their interpretation will not adversely affect our business. Legislative and regulatory changes may increase WSFS cost of doing business or otherwise adversely affect WSFS and create competitive advantages for non-bank competitors.

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INFORMATION ABOUT WSFS

WSFS is parent to WSFS Bank, the seventh oldest bank and trust company in the United States continuously operating under the same name. A fixture in Delaware and contiguous areas of neighboring states community, WSFS Bank has been in operation for 182 years. In addition to its focus on stellar customer service, WSFS Bank has continued to fuel growth and remain a leader in our community. WSFS is a relationship-focused, locally-managed, community banking institution that has grown to become the largest independent bank or thrift holding company headquartered and operating in the State of Delaware, one of the top commercial lenders in the state, the third largest bank in terms of Delaware deposits and among the top trust companies in the country. For the seventh year in a row, our Associates (what WSFS calls its employees) ranked WSFS a Top Workplace in Delaware and for the second year in a row the Delaware News Journal s readers voted us the Top Bank in the state. WSFS mission is simply stated: We Stand For Service.

WSFS core banking business is commercial lending funded by customer-generated deposits. WSFS has built a $2.4 billion commercial loan portfolio by recruiting the best seasoned commercial lenders in its markets and offering a high level of service and flexibility typically associated with a community bank. WSFS funds this business primarily with deposits generated through commercial relationships and retail deposits in its 52 offices located in Delaware (42), Pennsylvania (8), Virginia (1) and Nevada (1). WSFS also offers a broad variety of consumer loan products, retail securities and insurance brokerage services through our retail branches.

WSFS offers trust and wealth management services through Christiana Trust, Cypress Capital Management, LLC (Cypress), WSFS Investment Group brokerage and Private Banking group. The Christiana Trust division of WSFS Bank provides investment, fiduciary, agency and commercial domicile services from locations in Delaware and Nevada and has $8.9 billion in assets under administration. These services are provided to individuals and families as well as corporations and institutions. Christiana Trust provides these services to customers locally, nationally and internationally taking advantage of its branch facilities in Delaware and Nevada. Cypress is an investment advisory firm that manages over $600 million of portfolios for individuals, trusts, retirement plans and endowments. WSFS Investment Group, Inc. markets various third-party insurance products and securities through the Bank s retail banking system.

WSFS Cash Connect division is a premier provider of ATM Vault Cash and related services in the United States. Cash Connect manages more than $476 million in vault cash in more than 15,000 ATMs nationwide. They also provide online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing and equipment sales. Cash Connect also operates over 450 ATMs for WSFS Bank, which owns by far, the largest branded ATM network in Delaware.

As of December 31, 2013, on a consolidated basis, WSFS had total assets of approximately $4.5 billion, total loans of approximately $2.9 billion, total deposits of approximately $3.2 billion, and stockholders equity of approximately $383 million.

WSFS principal executive office is located at WSFS Bank Center 500 Delaware Avenue, Wilmington, DE, 19801, and its telephone number is (302) 792-6000.

Additional information about WSFS and its subsidiaries is included in documents incorporated by reference in this proxy statement/prospectus. See Where You Can Find More Information beginning on page 86.

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INFORMATION ABOUT FIRST WYOMING

First Wyoming is a bank holding company headquartered in Wyoming, Delaware. As of December 31, 2013, First Wyoming had total consolidated assets of approximately $302 million, total consolidated deposits of approximately $245 million, and total consolidated stockholders equity of approximately $50 million. First Wyoming s strategic objective is to serve as a bank holding company for a community-based commercial bank serving primarily Kent County, Delaware, referred to herein as the Kent County Market. First Wyoming owns 100% of the capital stock of The First National Bank of Wyoming, a national bank with its headquarters in Wyoming, Delaware. First Wyoming and its subsidiary focus on meeting the financial service needs of consumers and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Kent County Market.

The First National Bank of Wyoming operates branches at six locations in Delaware, including one in Wyoming, two in Dover, one in Harrington, one in Felton, and one in Smyrna.

The First National Bank of Wyoming was established on March 9, 1909 and received deposit insurance from the FDIC beginning January 1, 1934. The First National Bank of Wyoming s customer deposits are fully insured to the limits set by the FDIC.

First Wyoming s principal executive offices are located at 120 West Camden Wyoming Avenue, Wyoming, Delaware 19934, and its telephone number is (302) 697-2666.

Through The First National Bank of Wyoming, First Wyoming offers a range of commercial and retail lending products to businesses, professionals and individuals in the Kent County Market. Commercial lending products include owner-occupied commercial real estate loans, interim construction loans, commercial loans (such as SBA guaranteed loans, business term loans, equipment financing and lines of credit) to a diversified mix of small and midsized businesses, and loans to professionals. Retail lending products include residential first and second mortgage loans, and consumer installment loans such as loans to purchase cars, boats and other recreational vehicles.

Deposits are First Wyoming s principal source of funds for use in lending and other general banking purposes. First Wyoming provides a full range of deposit products and services, including a variety of checking and savings accounts, debit cards, online banking, eStatements and bank-by-mail and direct deposit services. First Wyoming also offers business accounts and management services, including business checking, business savings, and treasury management services. First Wyoming solicits deposits through its relationship-driven team of dedicated and accessible bankers and through community focused marketing.

As of June 30, 2013 (the most up-to-date information publicly available), The First National Bank of Wyoming held $241.7 million in deposits in the Kent County Market and ranked third in total deposits, with a total market share in the Kent County Market of 13.21%.

On March 17, 2011, The First National Bank of Wyoming entered into a Formal Agreement, referred to as the Formal Agreement, with the OCC. The Formal Agreement will remain in effect until it is modified or terminated by the OCC. By entering into the Formal Agreement, The First National Bank of Wyoming agreed to take certain measures in a number of areas, including, among other things and without limitation, the following: (i) ensuring its compliance with the provisions of the Formal Agreement; (ii) establishing an effective internal audit program; (iii) ensuring appropriate credit risk and loan portfolio management programs; (iv) adopting and implementing a written asset diversification program consistent with OCC guidance; (v) reviewing the adequacy of, and maintaining an adequate allowance for loan and lease losses; and (vi) developing and implementing a three-year capital plan, a written profit plan, and a three-year strategic plan.

The Formal Agreement also provides that The First National Bank of Wyoming will obtain prior regulatory approval before the payment of any dividends. The First National Bank of Wyoming has adopted and implemented the actions prescribed in the Formal Agreement and management believes The First National Bank of Wyoming is in substantial compliance with the Formal Agreement.

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The capital plan submitted pursuant to the Formal Agreement requires The First National Bank of Wyoming to maintain a minimum Tier 1 leverage ratio of at least 11%, a Tier 1 risk-based capital ratio of at least 14% and a total risk-based capital ratio of at least 15%. At December 31, 2013, The First National Bank of Wyoming s capital ratios exceeded such minimums set forth in the capital plan.

THE FIRST WYOMING SPECIAL MEETING

This section contains information for First Wyoming stockholders about the First Wyoming special meeting. We are mailing this proxy statement/prospectus to you, as a First Wyoming stockholder, on or about March 31, 2014. Together with this proxy statement/prospectus, we are also sending to you a notice of the First Wyoming special meeting and a form of proxy card that First Wyoming s board of directors is soliciting for use at the First Wyoming special meeting and at any adjournments or postponements of the First Wyoming special meeting.

This proxy statement/prospectus is also being furnished by WSFS to First Wyoming stockholders as a prospectus in connection with the issuance of shares of WSFS common stock upon the effective time of the merger.

Date, Time and Place of First Wyoming Special Meeting

The First Wyoming special meeting will be held at the main office of The First National Bank of Wyoming, located at 120 West Camden-Wyoming Avenue, Wyoming, DE 19934, on April 30, 2014, at 10:30 a.m., local time.

Matters to Be Considered

At the First Wyoming special meeting, you will be asked to consider and vote upon the following matters:

- a proposal to approve the merger agreement and the transactions it contemplates; and
- the adjournment proposal, if necessary.

Recommendation of the First Wyoming Board of Directors

First Wyoming s board of directors has determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interest of First Wyoming and its stockholders and that the terms and conditions of the merger and the merger agreement are fair to its stockholders. All but one of First Wyoming s six directors have approved the merger agreement and the transactions contemplated thereby. However, the one director voting against the merger and the merger agreement did not do so based on the merits of the transaction, but on his personal desire for First Wyoming to remain an independent corporation. The director voting against the merger and the merger agreement joins the other directors of First Wyoming in recommending the approval of the transaction to the First Wyoming stockholders. Accordingly, First Wyoming s board of directors unanimously recommends that First Wyoming stockholders vote **FOR** approval of the merger agreement and **FOR** the adjournment proposal, if necessary. See The Merger First Wyoming s Reasons for the Merger on page 37 for a more detailed discussion of the factors considered by First Wyoming s board of directors in reaching its decision to approve the merger agreement.

Record Date and Quorum

First Wyoming s board of directors has fixed the close of business on March 28, as the record date for determining the holders of First Wyoming common stock entitled to receive notice of and to vote at the First Wyoming special meeting.

As of the record date, there were 1,067,347 shares of First Wyoming common stock outstanding and entitled to vote at the First Wyoming special meeting held by approximately 403 holders of record. Each share of First Wyoming common stock entitles the holder to one vote at the First Wyoming special meeting on each proposal to be considered at the First Wyoming special meeting.

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The presence at the First Wyoming special meeting, in person or by proxy, of the holders of a majority of the stock issued and outstanding and entitled to vote thereat will constitute a quorum for the transaction of business. Shares that are present, or represented by a proxy, at the First Wyoming special meeting and any postponement or adjournment thereof will be counted for quorum purposes regardless of whether the holder of the shares or proxy fails to vote (or instruct its bank or broker how to vote) on any particular matter, or abstains on any matter. If a quorum is not present at the First Wyoming special meeting, the First Wyoming special meeting will be adjourned until the holders of the number of shares required to constitute a quorum are represented.

Vote Required; Treatment of Abstentions and Failure to Vote

Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of First Wyoming common stock entitled to vote at the First Wyoming special meeting. You are entitled to one vote for each share of First Wyoming common stock you held as of the record date. Because approval is based on the affirmative vote of a majority of shares outstanding, your failure to vote, failure to instruct your bank or broker with respect to the proposal to approve the merger agreement, or an abstention will have the same effect as a vote against approval of the merger agreement.

The adjournment proposal, if necessary, will be approved if the number of votes cast in favor of the adjournment proposal exceeds the number of votes cast in opposition to the adjournment proposal at the First Wyoming special meeting. A failure to vote, failure to instruct your bank or broker with respect to the adjournment proposal, or an abstention will have no effect on the adjournment proposal.

Voting and/or Non-Competition Agreements

As an inducement to and condition of WSFS willingness to enter in the merger agreement, each of the directors of First Wyoming have entered into voting and non-competition agreements with First Wyoming and WSFS pursuant to which such directors have agreed to vote (or cause to be voted) the shares of First Wyoming common stock beneficially owned by them in favor of approval of the merger agreement and the transactions it contemplates at any First Wyoming stockholder s meeting held in connection with the merger. Similarly, certain officers of First Wyoming have entered into voting agreements with First Wyoming and WSFS pursuant to which such officers have agreed to vote (or cause to be voted) the shares of First Wyoming common stock beneficially owned by them for approval of the merger agreement and the transactions it contemplates at any First Wyoming stockholder s meeting held in connection with the merger. In addition, such directors and officers have agreed, by execution of their agreements, to vote their shares of First Wyoming common stock against any other proposal to acquire at least 20% of the outstanding shares or assets of First Wyoming. The number of shares of First Wyoming common stock that are beneficially owned and entitled to vote by directors and officers of First Wyoming that have signed voting and noncompetition agreements is 158,283, or 14.83% of the total shares of First Wyoming common stock outstanding on the record date.

Voting of Proxies; Incomplete Proxies

Each copy of this proxy statement/prospectus mailed to holders of First Wyoming common stock is accompanied by a form of proxy with instructions for voting. If you hold stock in your name as a stockholder of record, you should complete and return the proxy card accompanying this proxy statement/prospectus, or call the toll-free telephone number or use the Internet as described in the instructions included with your proxy card or voting instruction card, regardless of whether you plan to attend the First Wyoming special meeting.

If you hold your stock in street name through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker.

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First Wyoming stockholders should not send First Wyoming stock certificates with their proxy cards. After the merger is completed, holders of First Wyoming common stock will be mailed a transmittal form with instructions on how to exchange their First Wyoming stock certificates for the Merger Consideration.

All shares represented by valid proxies (including those given by telephone or the Internet) that we receive through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card. If you make no specification on your proxy card as to how you want your shares voted before signing and returning it, your proxy will be voted **FOR** approval of the merger agreement and **FOR** approval of the adjournment proposal, if necessary. No matters other than the matters described in this proxy statement/prospectus are anticipated to be presented for action at the First Wyoming special meeting or at any adjournment or postponement of the First Wyoming special meeting.

Shares Held in Street Name; Broker Non-Votes

If you hold your shares of First Wyoming common stock in the name of a bank, broker or other nominee and do not provide voting instructions to the bank, broker or other nominee, your shares will not be voted on the proposal to adopt the merger agreement or the adjournment proposal. This is called a broker non-vote. In the case of a broker non-vote, the bank, broker or other nominee can register your shares as being present at the First Wyoming special meeting for purposes of determining the presence of a quorum, but will not be able to vote on any of the proposals. Therefore, if your broker, bank or other nominee holds your shares of First Wyoming common stock in street name, your broker, bank or other nominee will vote your shares of First Wyoming common stock only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker, bank or other nominee with this proxy statement/prospectus.

Revocability of Proxies and Changes to a First Wyoming Stockholder s Vote

If you hold stock in your name as a stockholder of record, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to First Wyoming s secretary, (3) voting again by telephone or the Internet, or (4) attending the First Wyoming special meeting in person, notifying the secretary, and voting by ballot at the First Wyoming special meeting.

Any stockholder entitled to vote in person at the First Wyoming special meeting may vote in person regardless of whether a proxy has been previously given, but the mere presence (without notifying First Wyoming s secretary) of a stockholder at the First Wyoming special meeting will not constitute revocation of a previously given proxy.

Written notices of revocation and other communications about revoking your proxy should be addressed to:

First Wyoming Financial Corporation

120 West Camden-Wyoming Avenue

Wyoming, DE 19934

Attention: Judy Cook

If your shares are held in street name by a bank or broker, you should follow the instructions of your bank or broker regarding the revocation of proxies.

Solicitation of Proxies

First Wyoming will bear the entire cost of soliciting proxies from you, except that First Wyoming and WSFS will bear equally the cost of printing this proxy statement/prospectus and all filing fees paid to the SEC in connection with this proxy statement/prospectus. In addition to solicitation of proxies by mail, First Wyoming will request that banks, brokers, and other record holders send proxies and proxy material to the beneficial

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owners of First Wyoming common stock and secure their voting instructions. First Wyoming will reimburse the record holders for their reasonable expenses in taking those actions. First Wyoming has also made arrangements with Georgeson Inc. to assist it in soliciting proxies and has agreed to pay them $7,500 plus reasonable expenses for these services. If necessary, First Wyoming may use directors, officers and several of its regular employees, who will not be specially compensated, to solicit proxies from the First Wyoming stockholders, either personally or by telephone, facsimile, letter or other electronic means.

Attending the First Wyoming Special Meeting

All holders of First Wyoming common stock, including stockholders of record and stockholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the First Wyoming special meeting. Stockholders of record can vote in person at the First Wyoming special meeting. If you are not a stockholder of record, you must obtain a proxy executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the First Wyoming special meeting. If you plan to attend the First Wyoming special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted. First Wyoming reserves the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the First Wyoming special meeting is prohibited without First Wyoming s express written consent.

Assistance

If you have any questions concerning the merger or this proxy statement/prospectus, would like additional copies of this proxy statement/prospectus or need help voting your shares of First Wyoming common stock, please contact Georgeson Inc., First Wyoming s proxy solicitor:

Georgeson Inc.

Toll Free: (877) 278-4751

Banks and Brokers: (212) 440-9800

http://proxy.georgeson.com

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THE FIRST WYOMING PROPOSALS

Proposal 1: Approval of the Merger Agreement

First Wyoming is asking its stockholders to approve the merger agreement. For a detailed discussion of the terms and conditions of the merger agreement, see The Merger Agreement. As discussed in the section entitled The Merger First Wyoming s Reasons for the Merger, after careful consideration, all but one of the six members of the First Wyoming board of directors approved the merger agreement. However, the director voting against the merger and the merger agreement did not do so based on the merits of the transaction, but on his personal desire for First Wyoming to remain an independent corporation. The director voting against the merger and the merger agreement joins the other directors of First Wyoming in recommending the approval of the transaction to the First Wyoming stockholders. Accordingly, the First Wyoming board of directors unanimously recommends the merger agreement and the transactions contemplated thereby, including the merger, to be advisable and in the best interest of First Wyoming and the First Wyoming stockholders.

Required Vote

The approval of the merger agreement requires the affirmative vote of the holders of a majority of the shares of First Wyoming common stock outstanding and entitled to vote. Failures to vote, votes to abstain and broker non-votes, if any, will have the effect of votes AGAINST the proposal.

The First Wyoming board of directors unanimously recommends that First Wyoming stockholders vote FOR the approval of the merger agreement.

Proposal 2: Adjournment Proposal

First Wyoming stockholders are being asked to adjourn the First Wyoming special meeting, if necessary, to solicit additional proxies in favor of the approval of the merger agreement if there are insufficient votes at the time of such adjournment to approve such proposal.

If at the First Wyoming special meeting there are an insufficient number of shares of First Wyoming common stock present in person or represented by proxy and voting in favor of the approval of the merger agreement, First Wyoming may move to adjourn the First Wyoming special meeting in order to enable the First Wyoming board of directors to solicit additional proxies for approval of such proposal. If the First Wyoming stockholders approve this proposal, First Wyoming could adjourn the First Wyoming special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from First Wyoming stockholders who have previously voted. If the date of the adjournment is not announced at the special meeting or a new record date is fixed for the adjourned meeting, a new notice of the adjourned meeting will be given to each stockholder of record entitled to vote at the adjourned meeting.

Required Vote

The adjournment proposal, if necessary, will be approved if the number of votes cast in favor of the adjournment proposal exceeds the number of votes cast in opposition to the adjournment proposal at the First Wyoming special meeting. Failures to vote, broker non-votes and votes to abstain, if any, will not have an effect on the adjournment proposal.

The First Wyoming board of directors unanimously recommends that First Wyoming stockholders vote FOR the adjournment proposal, if necessary.

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THE MERGER

The following discussion contains material information about the merger. The discussion is subject, and qualified in its entirety by reference, to the merger agreement included as Annex I to this proxy statement/prospectus. We urge you to read carefully this entire proxy statement/prospectus, including the merger agreement, for a more complete understanding of the merger.

Terms of the Merger

WSFS board of directors has unanimously approved the merger agreement. All but one of the six members of First Wyoming s boards of directors have approved the merger agreement. One member of First Wyoming s board of directors voted against the merger agreement. However, the director voting against the merger and the merger agreement did not do so based on the merits of the transaction, but on his personal desire for First Wyoming to remain an independent corporation. The director voting against the merger and the merger agreement joins the other directors of First Wyoming in recommending the approval of the transaction to the First Wyoming stockholders. Accordingly, the board of directors of WSFS and First Wyoming each unanimously recommend approval of the merger agreement. The merger agreement provides for the acquisition of First Wyoming by WSFS through the merger of First Wyoming with and into WSFS, with WSFS continuing as the surviving corporation. As a result of the merger, shares of First Wyoming common stock issued and outstanding immediately prior to the merger will be converted, at the election of the stockholder, into the right to receive either (i) cash in an amount equal to $60.00 per share, referred to as the Cash Consideration, or (ii) 0.8484 of a share of WSFS common stock per share, referred to as the Stock Consideration, and together with the Cash Consideration, the Merger Consideration. No fractional shares of WSFS common stock will be issued in connection with the merger, and holders of First Wyoming common stock will be entitled to receive cash in lieu thereof. Each holder of First Wyoming common stock is entitled to elect the form of the Merger Consideration that he or she would like to receive for his or her shares of First Wyoming common stock. All such elections are subject to adjustment on a pro rata basis as described elsewhere in this proxy statement/prospectus.

First Wyoming stockholders are being asked to approve the merger agreement. See the section entitled The Merger Agreement beginning on page 53 for additional and more detailed information regarding the legal documents that govern the merger, including information about the conditions to consummation of the merger and the provisions for terminating or amending the merger agreement.

Background of the Merger

As part of its ongoing oversight of First Wyoming and The First National Bank of Wyoming, management and the board of directors of First Wyoming regularly review the strategic and financial prospects of First Wyoming and The First National Bank of Wyoming, including First Wyoming s prospects as an independent entity and its ability to continue its historical financial performance. Although the board of directors and management of First Wyoming and The First National Bank of Wyoming had not specifically adopted a strategy to pursue a sale of the organization, certain directors and executive officers of First Wyoming and WSFS have discussed the possibility and prospects of a merger transaction between the two organizations for a number of years. Prior to May 22, 2013, these discussions were general and conceptual in nature, and did not rise to a level of specificity that would form the basis for an agreement in principle or a definitive merger agreement. On May 22, 2013, Mark Turner, WSFS Chief Executive Officer, met with Joshua M. Twilley, Chairman of First Wyoming, Joseph Chippie, President and Chief Executive Officer of The First National Bank of Wyoming, and John Coleman, Vice President and Chief Risk Officer of The First National Bank of Wyoming, to discuss the possibility and prospects of an acquisition of First Wyoming by WSFS. During the meeting the parties generally discussed the concept of a potential combination of the two organizations. No written indication of interest or indication of value was presented.

On July 18, 2013, representatives of WSFS and First Wyoming had a follow-up meeting to further discuss a potential combination of the two organizations. At this meeting, WSFS was represented by Mark Turner and Rodger Levenson and First Wyoming was represented by Joshua M. Twilley, Joseph Chippie and John Coleman,

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and they discussed the potential value of First Wyoming, including a range of values and the type of consideration to be paid in a potential transaction. This meeting also resulted in an agreement between WSFS and First Wyoming to seek approval from the board of directors of First Wyoming to authorize the execution of a nondisclosure agreement with WSFS. The execution of the nondisclosure agreement allowed First Wyoming to provide WSFS with due diligence information, though First Wyoming initially provided only limited confidential information. This meeting was followed by an additional meeting with the same representatives on September 24, 2013. At the September meeting, the representatives of WSFS and First Wyoming continued their discussions regarding potential valuation of First Wyoming and the type of consideration to be paid to First Wyoming stockholders. During this meeting, representatives of WSFS presented the First Wyoming representatives with a non-binding indication of interest, which the First Wyoming representatives agreed to present to the board of directors of First Wyoming.

On October 8, 2013, Messrs. Turner and Levenson traveled to Wyoming, Delaware to meet with First Wyoming s board of directors. At this meeting, Messrs. Turner and Levenson discussed the non-binding indication of interest with First Wyoming s board of directors. The meeting included a discussion of purchase price, as well as the other material terms of the non-binding indication of interest previously made by WSFS.

These discussions between the representatives of WSFS and the board of directors of First Wyoming resulted in First Wyoming engaging Gerrish McCreary Smith, P.C. as its legal advisor and Gerrish McCreary Smith Consultants, LLC, referred to as GMS, as its financial advisor in the potential transaction. First Wyoming selected GMS because GMS is a nationally recognized legal and consulting firm with substantial experience in transactions similar to the merger and is familiar with First Wyoming and its business. As part of its financial advisory business, GMS is continually engaged in the valuation of financial services companies and their securities in connection with mergers and acquisitions. Counsel for WSFS presented GMS with a proposed Agreement and Plan of Reorganization, which is referred to as the merger agreement. This merger agreement was subsequently negotiated, with each organization receiving independent advice from their respective counsels.

In November 2013, First Wyoming, with the counsel and assistance of its advisors, reviewed and negotiated the terms of the Merger Consideration, the merger agreement and related documents with WSFS and its advisors. First Wyoming s board of directors was actively involved in overseeing these discussions. On November 21, 2013, First Wyoming s board of directors accepted the resignation of David Mitten as a member of the First Wyoming board of directors due to his disagreement with the potential merger of First Wyoming with WSFS.

On Thursday, November 21, 2013, and Friday, November 22, 2013, the board of directors of First Wyoming met with GMS to review in detail the terms of the merger and the merger agreement. During these meetings, First Wyoming s legal counsel discussed the fiduciary obligations of the board of directors of First Wyoming with respect to merger transactions. Also, at this meeting, representatives of GMS discussed with the First Wyoming board of directors a range of matters, including the matters set forth in, Opinion of First Wyoming Financial Corporation s Financial Advisor . On Thursday, November 21, 2013, GMS provided the board of directors its oral opinion, which was subsequently confirmed in writing, that based upon and subject to the considerations described in its opinion, the acquisition of First Wyoming by WSFS pursuant to the merger agreement was fair, from a financial point of view, to the holders of First Wyoming common stock. Following the presentations, the board of directors engaged in discussions about the proposed transaction, the proposed merger agreement and other transaction documents and the effect of the transaction on the stockholders, customers and employees of First Wyoming and The First National Bank of Wyoming. Members of the First Wyoming board of directors asked questions of Gerrish McCreary Smith, P.C. regarding the proposed transaction and their fiduciary duties to stockholders. The board of directors of First Wyoming continued its discussion about the terms of the proposed merger, the proposed merger agreement and the other transaction documents, and the effect of the merger on the stockholders, customers and employees of First Wyoming. After reviewing the Merger Consideration offered by WSFS and giving consideration to other factors described under

First Wyoming s Reasons for the Merger, all but one of the six members of the board of directors of First Wyoming voted to approve the merger agreement. The director voting against the merger and the merger agreement did not

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do so based on the merits of the transaction, but on his personal desire for First Wyoming to remain an independent corporation. The director voting against the merger and the merger agreement joins the other directors of First Wyoming in recommending the approval of the transaction to the First Wyoming stockholders. Accordingly, First Wyoming s board of directors unanimously recommends approval of the merger agreement to First Wyoming s stockholders.

The merger agreement was executed as of November 24, 2013. The transaction was announced before the open of the stock markets on the morning of November 25, 2013.

First Wyoming s Reasons for the Merger

After careful consideration, at its meeting on November 22, 2013, the board of directors of First Wyoming determined that the merger, the merger agreement and the transactions contemplated therein are advisable and in the best interests of First Wyoming and its stockholders and that the terms and conditions of the merger and the merger agreement are fair to the stockholders of First Wyoming. Accordingly, the board of directors of First Wyoming approved and adopted the merger agreement and unanimously recommends that First Wyoming stockholders vote FOR approval of the merger agreement.

In reaching its decision to approve the merger agreement and related transactions and recommend their approval to stockholders, the First Wyoming board of directors consulted with senior management and Gerrish McCreary Smith, P.C. and GMS and considered a number of factors, including, among others, the following, which are not presented in order of priority:

- A review of, and the board of directors understanding of, the historical financial statements and condition of First Wyoming and certain other internal information, primarily financial in nature, relating to the respective businesses, earnings and balance sheets of First Wyoming;

- The business strategy and strategic plan of First Wyoming, and the expectations relating to the proposed merger, based on discussions with management of WSFS;

- A review of the risks and prospects of First Wyoming remaining independent, including the challenges to maintaining a small community bank subsidiary in the prevailing financial and regulatory climate versus aligning First Wyoming with a well-capitalized, well-run larger organization;

- The board of directors views of the current and prospective state of the financial services industry, including the current economic environment in the markets in which First Wyoming operates, the interest rate environment, increased competition in the financial services industry, and the regulatory environment in which First Wyoming and The First National Bank of Wyoming operate, including pursuant to the Formal Agreement between The First National Bank of Wyoming and the OCC described under Information About First Wyoming beginning on page 28;

The potential advantages and disadvantages of the type, mix and amount of the Merger Consideration, its premium to market value and book value of First Wyoming common stock, and comparability with respect to premiums paid in comparable transactions;

The possibility of merging with other potential acquirers and the merger consideration which could reasonably be expected from other potential acquirers with apparent ability to consummate the acquisition of First Wyoming;

The board of directors understanding of WSFS business, operations, financial condition, asset quality, earnings and prospects, as well as the complementary geographic footprints of the two organizations, and the complementary nature of the cultures of the two organizations, which First Wyoming management believes should facilitate integration of the two organizations and allow the combined organization to take advantage of the synergies potentially available in the merger to create the opportunity for the combined organization to have superior future earnings and prospects compared to First Wyoming s earnings and prospects on a stand-alone basis;

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The diversification of credit risk in terms of both types of lending and geographic coverage and the minimal overlapping credits;

The relative financial strength of WSFS as a merger partner compared to other potential acquirers based on WSFS historical revenues and revenue expectations over the near and long term;

The ability of WSFS to pay the Merger Consideration;

The ability of WSFS to complete a merger transaction from a financial and regulatory perspective;

The board of directors belief that the merger is likely to increase value to First Wyoming stockholders in part due to the opportunity First Wyoming stockholders who receive Stock Consideration will have to participate in the future performance of the combined organization resulting from the merger;

The understanding that the Stock Consideration (0.8484 of a share of WSFS common stock per share) and the Cash Consideration ($60.00 per share) each were fixed and would not fluctuate;

The current and historical prices of First Wyoming s common stock, the lack of liquidity in First Wyoming s common stock due to the fact that First Wyoming is a private company and the fact that the Merger Consideration represented a premium of approximately 128.5 percent to the book value per share of First Wyoming common stock on September 30, 2013;

The current and historical market prices of WSFS common stock and WSFS dividend history, which indicate the potential to provide First Wyoming stockholders with increased value following the merger, including a significant quarterly dividend payment, whereas First Wyoming does not currently pay dividends on its common stock and does not expect to pay any dividends for the foreseeable future;

The geographic fit and increased customer convenience of the branch networks of the combined entity;

The anticipated effect of the acquisition on First Wyoming s employees;

The continuity provided by WSFS longstanding history of serving the same customers and communities served by The First National Bank of Wyoming;

The financial analyses presented by GMS, First Wyoming s financial advisor, and the oral opinion of GMS delivered on November 21, 2013, subsequently confirmed by a written opinion dated November 22, 2013, to the effect that, as of the date of such opinion, and based upon and subject to the assumptions, limitations, qualifications and conditions described in GMS opinion, the acquisition of First Wyoming by WSFS in accordance with the provisions of the merger agreement was fair, from a financial point of view, to First Wyoming stockholders, as more fully described below under The Merger Fairness Opinion of First Wyoming s Financial Advisor beginning on page 40 and which opinion is included as Annex III to this proxy statement/prospectus;

The financial and other terms of the merger agreement, including the Merger Consideration, tax treatment and deal protection and termination fee provisions, which the board of directors reviewed with its outside financial and legal advisors, including:

the ability of the board of directors, subject to certain conditions, including the payment of a termination fee under certain circumstances, to exercise its fiduciary duties to consider potential superior alternative transactions and to change its recommendation to First Wyoming s stockholders to approve the merger agreement;

that the date in the merger agreement by which the merger must be completed allows for sufficient time to complete the merger but evidences WSFS intent to consummate the merger expeditiously; and

the level of effort that WSFS must use under the merger agreement to obtain required regulatory approvals, and the prospects for such approvals being obtained in a timely fashion and without the imposition of a burdensome condition of the type described in The Merger Regulatory Approvals Required for the Merger on page 51;

That First Wyoming stockholders are entitled to dissenters rights in connection with the merger;

The review by the board of directors with its legal advisor of the provisions of the merger agreement, including the provisions of the merger agreement designed to enhance the probability that the merger will be completed;

The board of directors review and discussions with First Wyoming s management and outside advisors concerning the due diligence examination of the operations, financial condition, regulatory compliance, regulatory compliance programs and prospects of WSFS;

The terms of the merger agreement, including the representations and warranties of the parties, the covenants, the consideration, the termination provision, the benefits to The First National Bank of Wyoming s employees and the circumstances under which the First Wyoming board of directors may consider a superior proposal;

The increased legal lending limit available to borrowers by reason of the merger;

The likelihood of expeditiously obtaining the necessary regulatory approvals without unusual or burdensome conditions;

The long-term and short-term interest of First Wyoming and its stockholders, the interests of the employees, customers, creditors and suppliers of First Wyoming, and community and societal considerations including those of the communities in which The First National Bank of Wyoming maintains offices;

First Wyoming s legal advisors expectation that the merger will qualify as a transaction of a type that is generally tax-free for United States federal income tax purposes to First Wyoming, WSFS and First Wyoming stockholders who receive the Stock Consideration; and

The opportunities for cost savings resulting from economies of scale, increased efficiencies of operations and the development and availability of new products and services to customers that come from a merger with a larger institution.

The board of directors of First Wyoming also considered a number of potentially negative factors outlined below in its deliberations concerning the merger agreement and the merger, but concluded that the anticipated benefits of the merger were likely to outweigh substantially these potential negative factors. The potential negative factors included:

That First Wyoming will no longer exist as an independent company and that First Wyoming stockholders may have less influence with WSFS after consummation of the merger than they may have with First Wyoming currently;

The potential adverse effect on First Wyoming stockholders from a decrease in the trading price of WSFS common stock during the pendency of the merger, because the Stock Consideration is based on a fixed exchange ratio of shares of WSFS common stock to First Wyoming common stock;

The risk that, while First Wyoming expects that the merger will be consummated, all conditions to the parties obligations to complete the merger agreement may not be satisfied, including the risk that certain regulatory approvals, the receipt of which are conditions to the consummation of the merger, might not be obtained, or that a burdensome condition may be imposed in connection with such approval, and, as a result, the merger may not be consummated;

The risk that potential benefits and synergies sought in the merger may not be realized or may not be realized within the expected time period, and the risks associated with the integration of First Wyoming and WSFS;

The restrictions on the conduct of First Wyoming s business prior to the consummation of the merger, which are customary for merger agreements of this type that involve financial institutions, but which, subject to specific exceptions, could delay or prevent First Wyoming from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of First Wyoming absent the pending consummation of the merger;

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The significant risks and costs involved in connection with entering into and consummating the merger, or failing to consummate the merger in a timely manner, or at all, including as a result of any failure to obtain required regulatory approvals, such as the risks and costs relating to diversion of management and employee attention, potential employee attrition, and the potential adverse effect on business and customer relationships;

That First Wyoming would be prohibited from affirmatively soliciting acquisition proposals after execution of the merger agreement, and the possibility that the $2.88 million termination fee payable by First Wyoming following the termination of the merger agreement under certain circumstances could discourage other potential acquirers from making a competing bid to acquire First Wyoming; and

the possibility of litigation in connection with the merger.

The foregoing discussion of the factors considered by the board of directors of First Wyoming is not intended to be exhaustive, but is believed to include the material factors considered by the board of directors of First Wyoming. In view of the wide variety of the factors considered in connection with its evaluation of the merger and the complexity of these matters, the board of directors of First Wyoming did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, the individual members of the board of directors of First Wyoming may have given different weight to different factors. The board of directors of First Wyoming conducted an overall analysis of the factors described above including thorough discussions with, and questioning of, First Wyoming management and First Wyoming s legal and financial advisors, and considered the factors overall to be favorable to, and to support, its determination. The board of directors of First Wyoming viewed its position as being based on all of the information and the factors presented to and considered by it. In addition, individual directors may have given different weights to different information and factors.

Fairness Opinion of First Wyoming s Financial Advisor

Gerrish McCreary Smith Consultants, LLC, referred to as GMS, was engaged by First Wyoming as financial advisor in connection with the merger. GMS is a nationally recognized legal and consulting firm with substantial expertise in transactions similar to the merger. As part of its legal and consulting activities, GMS is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions. GMS acted as financial advisor to assist First Wyoming in assessing the fairness of the acquisition of First Wyoming by WSFS in connection with the proposed merger and participated in certain negotiations leading to the execution of the merger agreement.

On Thursday, November 21, 2013, GMS rendered its oral opinion, which was subsequently confirmed in writing, to the board of directors of First Wyoming that, as of the date of its opinion, the acquisition of First Wyoming by WSFS in accordance with the provisions of the merger agreement was fair to First Wyoming stockholders, from a financial point of view.

The full text of GMS written opinion, dated November 22, 2013, is attached as Annex III to this proxy statement and is incorporated herein by reference. Holders of First Wyoming common stock are urged to read the opinion carefully and in its entirety in connection with this proxy statement/prospectus. The opinion of GMS will not reflect any developments that may occur or may have occurred after the date of its opinion and prior to the completion of the merger.

GMS opinion speaks only as of the date of the opinion. The opinion is directed to the First Wyoming board of directors and addresses only the fairness, from a financial point of view, of the acquisition of First Wyoming by WSFS in accordance with the provisions of the merger agreement. It does not address the underlying business decision to proceed with the merger and does not constitute a recommendation to any First Wyoming stockholder as to how the stockholder should vote on the merger at the First Wyoming special meeting.

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In connection with rendering its opinion on November 22, 2013, GMS:

- Reviewed the merger agreement;

- Reviewed certain publicly-available financial information of First Wyoming, WSFS and their affiliates which was deemed to be relevant;

- Reviewed certain information relating to the business, earnings, cash flows, assets, liabilities, liquidity and prospects of First Wyoming and WSFS;

- Reviewed materials detailing the merger prepared by First Wyoming;

- Conducted conversations with members of the board of directors, senior management or other representatives of First Wyoming and senior management of WSFS regarding the matters described in the above clauses, as well as their respective businesses and prospects before and after giving effect to the merger;

- Compared certain financial metrics of First Wyoming and WSFS to similarly-situated banks and thrifts;

- Analyzed the terms of the merger relative to similarly-situated prior mergers and acquisitions involving a depository institution as the selling entity;

- Analyzed the impact of the merger on certain balance sheet and capital ratios of WSFS as of September 30, 2013;

- Analyzed the consideration offered relative to First Wyoming s book value and tangible book value as of September 30, 2013;

- Analyzed the consideration offered relative to First Wyoming s stand-alone estimated earnings per share for a ten-year projection period, which projections were independently developed by GMS and subsequently reviewed by the senior management of First Wyoming;

- Reviewed the overall environment for depository institutions in the United States; and

Conducted such other financial studies, analyses and investigations and took into account such other matters as it deemed appropriate for purposes of its opinion, including its assessment of general economic, market and monetary conditions.

In preparing the opinion, GMS assumed and relied upon, without independent verification, the accuracy and completeness of the information provided to it or otherwise publicly available for the purposes of the opinion. GMS relied upon publicly available information, without independent verification, that GMS believed to be reliable, accurate, and complete; however, GMS cannot guarantee the reliability, accuracy, or completeness of any such publicly available information. GMS was not engaged to express, and is not expressing, any opinion with respect to any other transactions or alternative proposed transactions, if any, between First Wyoming and WSFS. In addition, GMS has assumed that the merger agreement is a valid, binding and enforceable agreement upon the parties and their affiliates and will not be terminated or breached by either party. GMS has also assumed that there have been no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of First Wyoming, WSFS and their affiliates since either (i) the date of the last financial statements made available to GMS and (ii) the date of the merger agreement, and that no legal, political, economic, regulatory or other developments have occurred or will occur that will adversely affect these entities. GMS did not make an independent evaluation of the assets or liabilities of First Wyoming, WSFS or their affiliates, including, but not limited to, any derivative or off-balance sheet assets or liabilities.

The projections used by GMS in certain of its analyses were independently prepared by it and subsequently reviewed by First Wyoming s senior management team. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

For purposes of rendering its opinion, GMS assumed that, in all respects material to its analyses:

- The merger will be completed substantially in accordance with the terms set forth in the merger agreement with no additional payments or adjustments to the merger consideration;
- The representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;
- Each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;
- All material conditions to the completion of the merger will be satisfied without any waiver; and
- In the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial conditions of the combined entity or the contemplated benefits of the merger, including the cost savings and related expenses expected to result from the merger.

GMS further assumed that the merger will be accounted for using the Acquisition Method of Accounting in accordance with FASB 141(R) and that the merger will qualify as a tax-free reorganization for United States federal income tax purposes.

In performing its analyses, GMS made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of GMS, First Wyoming and WSFS. Any estimates contained in the analyses performed by GMS are not necessarily indicative of actual values or future results, which are inherently subject to substantial uncertainty and may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the GMS opinion was among several factors taken into consideration by the First Wyoming board of directors in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the First Wyoming board of directors with respect to the fairness of the merger consideration.

The following is a summary of the material analyses presented by GMS to the First Wyoming board of directors on November 21 and 22, 2013, in connection with its fairness opinion. The summary is not a complete description of the analyses underlying the GMS opinion or the presentation made by GMS to the First Wyoming board of directors, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. In arriving at its opinion, GMS did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. Accordingly, GMS believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion.

Summary of Proposal

The outstanding shares of common stock of First Wyoming will be converted into the right to receive either $60.00 cash or 0.8484 of a share of WSFS common stock for each share of First Wyoming stock upon surrender of the certificate formally evidencing such First Wyoming shares.

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Based upon the financial information, as adjusted, at September 30, 2013, GMS calculated the following transaction ratios:

Transaction Value / Tangible Book Value per Share	128.48%
Transaction Value / Last Twelve Months Earnings per Share	26.79x

Market Trade Analysis

GMS reviewed information related to non-affiliate trading in First Wyoming s common stock since September 30, 2011. According to the information provided by First Wyoming management, there were 21 separate non-affiliate trades of First Wyoming s common stock since September 30, 2011. The assigned value of $60.00 per share is 100% greater than the highest non-affiliate trade in the Company s common stock of $30.00 per share since September 30, 2011 and is 173.81% of the average, volume-weighted trading price of $21.9133 per share for all trades in First Wyoming common stock since September 30, 2011.

Public Comparable Analysis

GMS reviewed publicly available information related to comparable publicly traded banks and thrifts. The selected comparables include 53 companies involving banks and thrifts headquartered in the Mid-Atlantic region. The selected comparable companies meet the following criteria:

- The company s total assets were between $100 and $500 million;
- The company s last twelve months return on average assets was at least 0.5%;
- The company was headquartered in Delaware, Washington, D.C., Maryland, New Jersey, New York or Pennsylvania; and
- The company was not a mutual holding company.

The selected comparable companies include:

Company Name	City, State
Allegheny Valley Bancorp, Inc.	Pittsburgh, PA
Apollo Bancorp, Inc.	Apollo, PA
Ballston Spa Bancorp, Inc.	Ballston Spa, NY
Bank of Akron	Akron, NY
Bay Bancorp, Inc.	Lutherville, MD
Calvin B. Taylor Bankshares, Inc.	Berlin, MD
Capital Bank of New Jersey	Vineland, NJ
CBT Financial Corporation	Clearfield, PA

Clarion County Community Bank	Clarion, PA
CMS Bancorp, Inc.	White Plains, NY
Commercial National Financial Corporation	Latrobe, PA
Damascus Community Bank	Damascus, MD
Delhi Bank Corp.	Delhi, NY
Enterprise National Bank N.J.	Kenilworth, NJ
Eureka Financial Corporation	Pittsburgh, PA
Farmers and Merchants Bank	Upperco, MD
FedFirst Financial Corporation	Monessen, PA
First Community Financial Corporation	Mifflintown, PA

First National Bank of Groton	Groton, NY
First Resource Bank	Exton, PA
Fleetwood Bank Corporation	Fleetwood, PA
Frederick County Bancorp, Inc.	Frederick, MD
Glen Burnie Bancorp	Glen Burnie, MD
GNB Financial Services, Inc.	Gratz, PA
Gouverneur Bancorp, Inc. (MHC)	Gouverneur, NY
Hamlin Bank and Trust Company	Smethport, PA
Harford Bank	Aberdeen, MD
Highlands Bancorp, Inc.	Vernon, NJ
Jonestown Bank and Trust Co.	Jonestown, PA
JTNB Bancorp, Inc.	Jim Thorpe, PA
Juniata Valley Financial Corp.	Mifflintown, PA
Kinderhook Bank Corporation	Kinderhook, NY
Lake Shore Bancorp, Inc. (MHC)	Dunkirk, NY
Landmark Bancorp, Inc.	Pittston, PA
Mauch Chunk Trust Financial Corp.	Jim Thorpe, PA
Mifflinburg Bank & Trust Company	Mifflinburg, PA
MNB Corporation	Bangor, PA
Muncy Bank Financial, Inc.	Muncy, PA
National Bank of Coxsackie	Coxsackie, NY
National Capital Bank of Washington	Washington, DC
Neffs Bancorp, Inc.	Neffs, PA
New Tripoli Bancorp, Inc.	New Tripoli, PA
Northumberland Bancorp	Northumberland, PA
Peoples Limited	Wyalusing, PA
Riverview Financial Corporation	Halifax, PA
Scottdale Bank & Trust Company	Scottdale, PA
Seneca-Cayuga Bancorp, Inc. (MHC)	Seneca Falls, NY
Standard Financial Corp.	Monroeville, PA
Turbotville National Bancorp, Inc.	Turbotville, PA
UNB Corporation	Mount Carmel, PA
West Milton Bancorp, Inc.	West Milton, PA
William Penn Bancorp, Inc. (MHC)	Levittown, PA
Woodlands Financial Services Company	Williamsport, PA

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To perform this analysis, GMS used publicly available financial information as of or for the twelve-month period ended September 30, 2013. Market price information was as of November 18, 2013. Certain financial data prepared by GMS, and referenced in the table presented below, may not correspond to the data presented in First Wyoming s historical financial statements as a result of the different periods, assumptions and methods used by GMS to compute the financial data presented. The average and median financial metrics of the comparable companies and the common stock of First Wyoming valued at $60.00 per share are as follows:

Financial Metric	FWFC Valued at $60.00 per Share	FWFC Guideline Median Companies	FWFC Guideline Average Companies
Price / Last Twelve Month (LTM) EPS	26.79	12.54	14.53
Price / LTM Core EPS	26.79	13.43	15.24
Price / Book	128.48	100.11	107.86
Price / Tangible Book	128.48	103.63	111.18
Price / Assets	20.81	10.40	11.42
Annual Dividend Rate	0	.84	2.25
Dividend Yield	0	2.73	2.57

During the meeting of First Wyoming s board of directors on November 21, 2013, GMS noted that the offer price of $60.00 per share for First Wyoming includes a control premium which is not reflected in the comparable companies per share values. GMS stated that the difference between the First Wyoming $60.00 per share valuation and the valuation of the guideline companies reflected an appropriate control premium range for the shares of First Wyoming. In its review of the Public Comparable Analysis, First Wyoming s board of directors considered the lack of any control premium associated with the comparable companies per share values.

No company used as a comparison in the above analysis is identical to First Wyoming or WSFS. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

Contribution Analysis

In evaluating the transaction, GMS considered a contribution analysis. This analysis determines the percentage of the combined company that should be owned by the current WSFS stockholders and the current First Wyoming stockholders based on each organization s contribution to the combined organization s earnings, equity and assets in a 100% stock transaction. The contribution analysis applies a weighting to each of these contributions based on their importance to overall value of the combined company. Since, in the view of GMS, corporate earnings are the primary determination of corporate value, the contribution analysis weighs earnings at 50%. The contribution analysis weighs equity at 45% and assets at 5%. This weighting factor is considered to be appropriate since, in the view of GMS, equity is significantly more important than assets when determining corporate value.

The contribution analysis uses the earnings, equity and assets for each organization as of September 30, 2013. The assumed annual income for each organization is estimated based on year-to-date income through September 30, 2013. Based on the assigned weighting factors, in a 100% stock transaction, the First Wyoming stockholders should own 7.88% of the combined organization and the WSFS stockholders should own 92.12% of the combined organization. Based on WSFS 8,850,368 shares of common stock outstanding as of November 26, 2013, the contribution analysis would require WSFS to issue 757,118 shares of common stock to the First Wyoming stockholders in a 100% stock transaction. The issuance of 757,118 shares would result in 9,607,486 shares of WSFS common stock outstanding, with the First Wyoming stockholders owning 7.88% of the combined organization and the WSFS stockholders owning 92.12% of the combined organization.

WSFS acquisition of First Wyoming is structured as a 50% cash/50% stock transaction. Adjustment to the contribution analysis is necessary to account for the issuance of the cash consideration. This adjustment is

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completed by multiplying the required number of shares to be issued by 50%. This results in a required issuance of 378,559 shares of WSFS common stock to the First Wyoming stockholders based on the contribution analysis. The transaction will result in the issuance of 452,768 shares of WSFS common stock, which exceeds the required issuance as adjusted in the contribution analysis of 378,559 shares by 74,209 shares. The issuance of the excess of the 74,209 shares valued at $72.35 per share results in the exchange of $5,369,021 more in stock consideration than is required using the contribution analysis.

Comparable Transaction Analysis

GMS reviewed publicly available information related to comparable mergers and acquisitions. The analysis includes a review of comparable transactions that occurred in both the Mid-Atlantic region and United States since January 1, 2012. The selected transactions included 21 transactions announced from January 1, 2012 through November 21, 2013 involving target banks and thrifts headquartered in the Mid-Atlantic region where the target bank had assets of between $100 million and $500 million.

The selected transactions in the Mid-Atlantic region are described in the following table:

Acquiror (City, State)	Target (City, State)
1st Constitution Bancorp (Cranbury, NJ)	Rumson-Fair Haven Bank & Trust Co. (Rumson, NJ)
Bridge Bancorp, Inc. (Bridgehampton, NY)	FNBNY Bancorp, Inc. (New York, NY)
ESSA Bancorp, Inc. (Stroudsburg, PA)	Franklin Security Bancorp, Inc. (Wilkes-Barre, PA)
F.N.B. Corporation (Hermitage, PA)	Annapolis Bancorp, Inc. (Annapolis, MD)
First Bank (Hamilton, NJ)	Heritage Community Bank (Randolph, NJ)
First Priority Financial Corp. (Malvern, PA)	Affinity Bancorp, Inc. (Wyomissing, PA)
Hana Financial Group Inc. (Seoul)	BNB Financial Services Corporation (New York, NY)
Haven Bancorp, MHC (Hoboken, NJ)	Hilltop Community Bancorp, Inc. (Summit, NJ)
Investors Bancorp, Inc. (MHC) (Short Hills, NJ)	Gateway Community Financial Corp. (Sewell, NJ)
Jefferson Bancorp, Inc.	Carrollton Bancorp

(Washington, DC)	(Columbia, MD)
Lakeland Bancorp, Inc. (Oak Ridge, NJ)	Somerset Hills Bancorp (Bernardsville, NJ)
MVB Financial Corp. (Fairmont, WV)	CFG Community Bank (Lutherville, MD)
Northfield Bancorp, Inc. (MHC) (Avenel, NJ)	Flatbush Federal Bancorp, Inc. (MHC) (Brooklyn, NY)
Old Line Bancshares, Inc. (Bowie, MD)	WSB Holdings, Inc. (Bowie, MD)
Penns Woods Bancorp, Inc. (Williamsport, PA)	Luzerne National Bank Corporation (Luzerne, PA)
Private investor Jacob M. Safra	T. Rowe Price Savings Bank (Baltimore, MD)

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Provident New York Bancorp (Montebello, NY)	Gotham Bank of New York (New York, NY)
Riverview Financial Corporation (Halifax, PA)	Union Bancorp, Inc. (Pottsville, PA)
S&T Bancorp, Inc. (Indiana, PA)	Gateway Bank of Pennsylvania (McMurray, PA)
TF Financial Corporation (Newtown, PA)	Roebling Financial Corp, Inc. (Roebling, NJ)
Wilshire Bancorp, Inc. (Los Angeles, CA)	BankAsiana (Palisades Park, NJ)

For the transactions referred to above, GMS derived and compared the average and median deal value as a multiple of the acquired companies earnings, book value and assets. Using these multiples, GMS then derived a pro forma value for First Wyoming by taking an average value from each of these multiples. According to the comparable transaction analysis, the pro forma value of First Wyoming based on the average pricing multiples of similar deals in the Mid-Atlantic Region that have occurred since January 1, 2012 is $50,562,831. The agreed upon transaction consideration exceeds the pro forma company value by $13,477,989 when compared to similar deals in the Mid-Atlantic Region.

No company or transaction used as a comparison in the above analysis is identical to First Wyoming, WSFS or the merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

Discounted Future Income Analysis

GMS performed an analysis that estimated the net present value of the future income of First Wyoming. In performing this analysis, GMS used financial projections that incorporated estimates supplied or approved by First Wyoming s management team. A range of net present values was determined by discounting First Wyoming s future projected net income using a 5%, 7.5%, 10% and 12.5% discount rate. This resulted in the following range of net present values for First Wyoming:

Assumed Discount Rate	Present Value of Future Net Income	Excess of Consideration Over Present Value
5%	$63,988,411	$52,409
7.5%	$43,840,664	$20,200,156
10%	$32,485,251	$31,555,569
12.5%	$25,589,638	$38,451,182

For all of the above analyses, the actual results achieved by WSFS following the merger will vary from the projected results, and the variations may be material.

GMS acted as First Wyoming s financial advisor in connection with the merger. First Wyoming has paid GMS a cash fee of $30,000 associated with GMS rendering of a fairness opinion. Additionally, First Wyoming has also agreed to reimburse GMS for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify it against certain liabilities, including liabilities under the federal securities laws. Gerrish McCreary Smith, P.C., an affiliate of GMS, acts as legal counsel to First Wyoming.

WSFS Reasons for the Merger

WSFS believes that the acquisition of First Wyoming provides an excellent opportunity to increase the scale of its operations in Delaware. In particular, the acquisition enhances WSFS existing franchise in Kent County, Delaware. The acquisition also provides WSFS a significant opportunity to generate additional revenue by providing its full suite of banking, mortgage banking, wealth management and insurance services to First

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Wyoming s markets as well as leverage WSFS operating platform. In addition, the acquisition of First Wyoming will strengthen the breadth of WSFS loan products and capabilities. The board of directors of WSFS approved the merger agreement after WSFS senior management discussed with the board of directors a number of factors, including those described above and the business, assets, liabilities, results of operations, financial performance, strategic direction and prospects of First Wyoming. WSFS s board of directors did not consider it practicable, and did not attempt, to quantify or otherwise assign relative weights to the specific factors it considered in reaching its determination. WSFS board of directors viewed its position as being based on all of the information and the factors presented to and considered by it. In addition, individual directors may have given different weights to different information and factors.

Management and Board of Directors of WSFS After the Merger

The directors and officers of WSFS immediately prior to the effective time of the merger will continue as the directors and officers of WSFS as the surviving corporation of the merger. Information about the current WSFS directors and executive officers can be found in the documents listed under Where You Can Find More Information beginning on page 86.

Interests of First Wyoming s Directors and Executive Officers in the Merger

When considering the recommendation of First Wyoming s board of directors that First Wyoming stockholders vote for the approval of the merger agreement, First Wyoming stockholders should be aware that some of First Wyoming s directors and executive officers may have interests in the merger and have arrangements that may be different from, or in addition to, those of First Wyoming stockholders generally. Some of these interests include that, pursuant to the terms of the merger agreement, effective as of the consummation of the merger, WSFS and WSFS Bank will combine the existing Kent County and Sussex County advisory boards to form the Southern Delaware Advisory Board, and WSFS Bank s appointee, Joshua M. Twilley, will become its chairperson. Mr. Twilley is currently the chairman of the board of directors of First Wyoming. In addition, at the effective time of the merger, Mr. Twilley may enter into a three-year consulting arrangement with WSFS s board of directors pursuant to which he will receive cash consulting fees of approximately $50,000 per year from WSFS. These interests and arrangements may create potential conflicts of interest. First Wyoming s board of directors was aware of these interests and considered them, among other matters, when making its decision to approve the merger agreement and recommend that First Wyoming stockholders vote in favor of approval of the merger agreement. For purposes of all of the First Wyoming agreements and plans described below, the completion of the transactions contemplated by the merger agreement will constitute a change of control.

Change in Control Severance Agreements

First Wyoming entered into an employment agreement with John Coleman on September 2, 2011. The employment agreement covers the period from Mr. Coleman s original date of hire (February 22, 2011) for a period of five (5) years. In the event of a termination or change in control, Mr. Coleman is entitled to receive the remaining salary payable from the date of termination or change in control through February 22, 2016. In 2013, Mr. Coleman s annual base salary was $130,000 and he is entitled to 3% to 5% increases in base salary annually subject to satisfactory employee evaluation. Mr. Coleman s estimated payment is described in the table below.

Mr. Coleman s employment agreement contains certain restrictive covenants. Mr. Coleman has agreed that for a period of one (1) year following his termination or voluntary withdrawal, within the State of Delaware, that he will not, directly or indirectly, solicit or attempt to solicit the business of any client or customer of First Wyoming for his own benefit or that of any third person or organization, and shall refrain from either directly or indirectly attempting to obtain the withdrawal from the employment by First Wyoming of any other employee of First Wyoming having regard to the same geographical and temporal restrictions. In addition, Mr. Coleman shall not directly or indirectly divulge any financial information relating to First Wyoming or any of its affiliates or clients to any person whatsoever.

The following table summarizes the estimated cash payments and benefits payable to Mr. Coleman pursuant to his employment agreement, assuming the merger closed and he was terminated on February 22, 2014. First Wyoming currently has no change in control severance agreements with any other executive officer. The actual amounts that would be paid to an executive officer would be reduced to the extent required to avoid the imposition of excise taxes under Section 4999 of the Code and can only be determined at the time of the executive officer s termination of employment.

Name and Principal Position	Annualized Compensation	Multiplier	Cash Severance	COBRA Reimbursement
John Coleman Vice President & Chief Risk Officer	$ 130,000	None	$ 260,000*	None

* Represents the extension of Mr. Coleman s 2013 base salary through February 22, 2016.

Indemnification and Insurance

The merger agreement provides that for six years after the effective time of the merger, WSFS will indemnify, defend and hold harmless the present and former directors and officers of First Wyoming and its subsidiaries against all liabilities arising out of actions or omissions arising out of such person s services in such capacities to the fullest extent permitted by applicable law and First Wyoming s governing documents in effect on the date of the merger agreement (including any provisions relating to the advancement of expenses incurred in the defense of any litigation).

The merger agreement requires WSFS to use its reasonable best efforts to maintain for a period of six years after the effective time of the merger First Wyoming s existing directors and officers liability insurance policy, or policies of at least the same coverage and amounts and containing terms and conditions which are substantially no less advantageous than the current policy (or, with the consent of First Wyoming prior to the effective time of the merger, any other policy), with respect to claims arising from facts or events that occurred prior to the effective time of the merger, and covering such individuals who are currently covered by such insurance. However, WSFS is not required to incur annual premium payments greater than 200 percent of First Wyoming s current annual directors and officers annual liability insurance premium. In lieu of the insurance described in the preceding sentence, prior to the effective time of the merger, WSFS, or First Wyoming, in consultation with WSFS, may obtain a six-year tail prepaid policy providing coverage equivalent to such insurance. See The Merger Agreement Covenants and Agreements D&O Indemnification and Insurance on page 63.

Public Trading Markets

WSFS common stock is listed on NASDAQ under the symbol WSFS . First Wyoming common stock is not listed on any stock exchange or quoted on any interdealer quotation system. The newly issued WSFS common stock issuable pursuant to the merger agreement will be listed on NASDAQ and freely transferable under the Securities Act.

Dissenters Appraisal Rights

If the merger is consummated, holders of record of First Wyoming common stock who followed the procedures specified by Chapter 92A.300 to 92A.500 of the NRS will be entitled to determination and payment in cash of the fair value of their stock (as determined immediately before the effective time of the merger), excluding any appreciation or depreciation resulting from the anticipation of the merger, unless such exclusion would be inequitable, plus accrued interest from the effective date of the merger until the date of payment. First Wyoming stockholders who elect to follow these procedures are referred to as dissenting stockholders.

A vote in favor of the merger agreement by a holder of First Wyoming common stock will result in a waiver of the stockholder s right to demand payment for his or her shares.

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The following summary of the provisions of Sections 92A.300 to 92A.500 is not intended to be a complete statement of such provisions, the full text of which is attached as Annex II to this proxy statement/prospectus, and is qualified in its entirety by reference thereto.

A holder of First Wyoming common stock electing to exercise dissenters rights must deliver to First Wyoming a written notice of dissent stating that he or she intends to demand payment for his or her shares if the merger is consummated. This notice must be sent before the vote is taken. The dissenting stockholder must not vote, or cause or permit to be voted, any of his or her shares in favor of the proposed transaction or, if action is taken by written consent of the stockholders, consent or approve the proposed transaction. If the dissenting stockholder fails to comply with these requirements, he or she will not be entitled to dissenters rights. The fair value of the shares as defined above is determined using customary and current valuation concepts and techniques generally employed for similar businesses in the context of the transaction requiring appraisal and without discounting for lack of marketability or minority status.

Within 10 days after the effective time of the merger, WSFS, as surviving corporation of the merger, will give written notice of the effective date of the merger by certified mail to each stockholder who filed a written notice of dissent. The notice will provide (i) where demand for payment must be sent and where and when share certificates, if any, must be deposited, (ii) inform the holders of shares not represented by certificates to what extent the transfer of shares will be restricted after the demand for payment is received, (iii) supply a form for demanding payment in compliance with Section 92A.430(c) of the NRS, (iv) set a date by which the surviving corporation must receive the demand for payment, which may not be less than 30 nor more than 60 days after the date the notice is delivered, (v) state that the stockholder shall be deemed to have waived the right to demand payment with respect to the shares unless the form is received by the surviving corporation by such specified date, and (vi) be accompanied by a copy of NRS 92A.300 to 92A.500, inclusive. A form of demand for payment is set forth at the end of Annex II.

Within the time period set forth in the notice, the dissenting stockholder must (i) make a written demand on WSFS for payment of the fair value of his or her shares, (ii) certify that the stockholder acquired beneficial ownership of the shares before the date required as set forth in the notice, and (iii) deposit his or her share certificates, if any, in accordance with the terms of the notice. Once the stockholder deposits his or her share certificates, or, in the case of uncertificated shares makes demand for payment, that stockholder loses all rights as a stockholder.

Within 30 days after the receipt of the dissenting stockholder s demand for payment, WSFS, as the surviving corporation, will pay each dissenting stockholder who complied with the required procedures the amount it estimates to be the fair value of the dissenting stockholder s shares, plus accrued interest. WSFS will include along with the payment to each dissenting stockholder (i) a balance sheet as of the end of a fiscal year ending not more than 16 months before the date of payment, a statement of income for that year, a statement of changes in the stockholders equity for that year, or, where such financial statements or not reasonably available, then such reasonably equivalent financial information, and the latest available interim financial statements, if any, (ii) a statement of WSFS estimate of the fair value of the shares, and (iii) a statement of the dissenting stockholder s right to demand payment of fair value under Nevada law and that if any such stockholder does not do so within the period specified, such stockholder shall be deemed to have accepted such payment in full satisfaction of WSFS obligations under the NRS.

Following receipt of payment, a dissenting stockholder, within 30 days, may send WSFS notice containing such stockholder s own estimate of fair value and accrued interest, and demand payment for that amount less the amount received pursuant to WSFS payment of fair value to such stockholder. This right is waived if the dissenting stockholder does not make written demand within 30 days of WSFS payment for the stockholder s shares. If a demand for payment remains unsettled, WSFS will petition the court to determine fair value and accrued interest. If WSFS fails to commence an action within 60 days following the receipt of a dissenting stockholder s demand, WSFS will pay each dissenting stockholder whose demand remains unsettled the amount demanded by each dissenting stockholder, plus interest. WSFS shall commence proceedings in the United States District Court for the District of Delaware, the district court of the county where First Wyoming s principal office is located.

All dissenting stockholders whose demands remain unsettled, whether residents of Nevada or not, must be made parties to the action and the court will render judgment for the fair value of their shares. Each party must be served with the petition. The judgment shall include payment for the amount, if any, by which the court finds the fair value of such shares, plus interest, exceeds the amount already paid. If the court finds that the demand of any dissenting stockholder for payment was arbitrary, vexatious or otherwise not in good faith, the court may assess costs, including reasonable fees of counsel and experts, against such stockholder. Otherwise the costs and expenses of bringing the action will be determined by the court. In addition, reasonable fees and expenses of counsel and experts may be assessed against WSFS if the court finds that it did not substantially comply with the requirements of the Nevada dissenters rights statute or that it acted arbitrarily, vexatiously, or not in good faith with respect to the rights granted to dissenters under Nevada law.

If you are a holder of shares and you wish to seek dissenters rights, you are urged to review the applicable Nevada statutes attached to this proxy statement/prospectus as Annex II.

Regulatory Approvals Required for the Merger

WSFS and First Wyoming have agreed to use their reasonable best efforts to obtain all regulatory approvals, consents, non-objections and waivers required to complete the transactions contemplated by the merger agreement; provided, that in no event will WSFS be required to accept any new restriction or condition on WSFS or its subsidiaries which is materially and unreasonably burdensome on WSFS business or on the business of First Wyoming or its subsidiaries following the closing or which would reduce the economic benefits of the transactions contemplated by the merger agreement to WSFS to such a degree that WSFS would not have entered into the merger agreement had such condition or restriction been known to it on the date of the merger agreement, which is referred to as a burdensome condition. These approvals include approval from the OCC, among others. WSFS and First Wyoming have filed, or are in the process of filing, the applications, notices, requests and letters necessary to obtain the required regulatory determinations.

Federal Reserve. The merger of WSFS with First Wyoming represents WSFS s acquisition of a federal registered bank holding company. Under the Bank Holding Company Act, prior approval of the Federal Reserve Board is generally required prior to any company or entity acquiring an existing bank holding company, like First Wyoming. There are, however, certain exceptions from this prior approval requirement, including an exception for transactions involving simultaneous mergers approved by a federal banking agency under the Bank Merger Act, where certain conditions are met. WSFS plans to provide a letter filing to the Federal Reserve Bank of Philadelphia in advance of the merger explaining how the parties and the merger meet the requirements for the exception and request that the Federal Reserve Bank of Philadelphia waive the prior approval requirement. In the event that the Federal Reserve Bank of Philadelphia determines that either the parties or the merger does not qualify for this exception to the prior approval requirement of the Bank Holding Company Act, we will be required to file an application with the Federal Reserve Bank of Philadelphia formally requesting approval of the merger.

Office of the Comptroller of the Currency. Simultaneously with the merger, WSFS intends to merge The First National Bank of Wyoming with and into WSFS Bank, with WSFS Bank as the surviving entity. Consummation of the bank subsidiary merger is subject to receipt of the approval of the OCC under the Bank Merger Act. Application for approval of the bank merger will be subject to a 30-day public notice and comment period, as well as review and approval by the OCC. In evaluating an application filed under the Bank Merger Act, the OCC generally considers the financial and managerial resources of the banks, the convenience and needs of the community to be served, the banks effectiveness in combating money-laundering activities as well as the

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import of the transaction on financial stability. In connection with its review, the OCC will provide an opportunity for public comment on the application for the bank merger, and is authorized to hold a public meeting or other proceeding if they determine that would be appropriate.

Timing. We cannot assure you that all of the regulatory approvals and waivers described above will be obtained and, if obtained, we cannot assure you as to the timing of any such regulatory determinations, our ability to obtain the approvals and waivers on satisfactory terms or the absence of any litigation challenging such approvals or waivers. We also cannot assure you that any third party will not attempt to challenge the merger on antitrust grounds, and, if such a challenge is made, we cannot assure you as to its result.

WSFS and First Wyoming believe that the merger does not raise substantial antitrust or other significant regulatory concerns and that we will be able to obtain all requisite regulatory approvals on a timely basis without the imposition of any condition that would have a material adverse effect on WSFS or First Wyoming. The parties obligation to complete the merger is conditioned upon the receipt of all required regulatory approvals.

We are not aware of any material governmental approvals, waivers or actions that are required for consummation of the merger other than those described above. It is presently contemplated that if any such additional governmental approvals, waivers or actions are required, those approvals or actions will be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

NASDAQ Listing of WSFS Common Stock

Before the effective time of the merger, WSFS has agreed to use its reasonable best efforts to cause the shares of WSFS common stock to be issued in the merger to be approved for listing on NASDAQ. The listing of the shares of WSFS common stock is also a condition to the consummation of the merger.

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THE MERGER AGREEMENT

The following describes certain material provisions of the merger agreement, but does not describe all of the terms of the merger agreement and may not contain all of the information about the merger agreement that is important to you. The following description of the merger agreement is subject to, and qualified in its entirety by reference to, the merger agreement, which is attached to this proxy statement/prospectus as Annex I and is incorporated by reference into this proxy statement/prospectus. We urge you to read the merger agreement carefully and in its entirety, as it is the legal document governing this merger.

Structure of the Merger

Each of the First Wyoming board of directors and the WSFS board of directors has approved the merger agreement, which provides for the merger of First Wyoming with and into WSFS, with WSFS continuing as the surviving corporation.

The Merger Consideration

As a result of the merger, each share of First Wyoming common stock issued and outstanding immediately prior to the merger will be converted, at the election of the stockholder, into the right to receive either (i) cash in an amount equal to $60.00, referred to as the Cash Consideration, or (ii) 0.8484 of a share of WSFS common stock, referred to as the Stock Consideration, and together with the Cash Consideration, the Merger Consideration. Each holder of First Wyoming common stock is entitled to elect the form of the Merger Consideration that he or she would like to receive for his or her shares of First Wyoming common stock. All such elections are subject to adjustment on a pro rata basis except for elections by holders of First Wyoming common stock to receive the Stock Consideration for half of their shares and the Cash Consideration for the remaining half of their shares (and, if the holder of First Wyoming common stock holds an odd number of shares, an election to receive either the Stock Consideration or the Cash Consideration for the remaining odd share of First Wyoming common stock), which are referred to as Split Election Shares.

Fractional Shares

WSFS will not issue any fractional shares of WSFS common stock in the merger. Instead, a First Wyoming stockholder who otherwise would have been entitled to receive a fraction of a share of WSFS common stock will receive, in lieu thereof, an amount in cash rounded to the nearest cent. This cash amount will be determined by multiplying the fraction of a share of WSFS common stock to which the holder would otherwise be entitled by the last reported sale price of WSFS common stock on NASDAQ on the last trading day preceding the date on which the merger is completed.

Proration

The terms of the merger agreement provide that the aggregate amount of the Cash Consideration that holders of First Wyoming common stock are entitled to receive is $32,020,410, or the Maximum Cash Contribution. As a result, except for elections for Split Election Shares, all elections may be subject to proration depending on the elections made by other holders of First Wyoming common stock if the Maximum Cash Contribution is undersubscribed or oversubscribed. Proration will be applied so that ultimately 50% of the shares of First Wyoming common stock are treated as Cash Election Shares and 50% of the shares of First Wyoming common stock are treated as Stock Election Shares.

For example, if the aggregate Cash Consideration payable to holders of Cash Election Shares is in excess of the Maximum Cash Contribution, all of the Non-Election Shares will be treated as Stock Election Shares and a number of Cash Election Shares that are not Split Election Shares will be converted into Stock Election Shares until the Maximum Cash Contribution is no longer oversubscribed. If the aggregate Cash Consideration payable to holders of Cash Election Shares is less than the Maximum Cash Contribution, a number of Non-Election

Shares will be treated as Cash Election Shares until the Maximum Cash Contribution is no longer undersubscribed and, if necessary, a number of Stock Election Shares that are not Split Election Shares will be converted into Cash Election Shares until the Maximum Cash Contribution is no longer undersubscribed.

Surviving Corporation, Governing Documents and Directors

At the effective time of the merger, WSFS certificate of incorporation and bylaws in effect immediately prior to the effective time will be the certificate of incorporation and bylaws of WSFS as the surviving corporation of the merger, until thereafter amended in accordance with their respective terms and applicable law. At the effective time of the merger, the board of directors of WSFS immediately prior to the effective time of the merger will be the board of directors of WSFS as the surviving corporation of the merger.

Bank Subsidiary Merger

Simultaneously with the effective time of the merger, The First National Bank of Wyoming will merge with and into WSFS Bank, with WSFS Bank continuing as the surviving corporation of the merger.

Closing and Effective Time of the Merger

The merger will be completed only if all conditions to the merger discussed in this proxy statement/prospectus and set forth in the merger agreement are either satisfied or waived (subject to applicable laws). See Conditions to Consummation of the Merger beginning on page 65.

The merger will become effective on the date and at the time specified in the articles of merger to be filed with the Secretary of State of the State of Nevada and in the certificate of merger to be filed with the Secretary of State of the State of Delaware. In the merger agreement, we have agreed to cause the effective time of the merger to occur on the fifth business day following the satisfaction or waiver (subject to applicable laws) of the last of the conditions specified in the merger agreement, or on another mutually agreed date. It currently is anticipated that the effective time of the merger will occur in the third quarter of 2014, subject to the receipt of regulatory approvals and waivers and other customary closing conditions, but we cannot guarantee when or if the merger will be completed.

Conversion of Shares; Exchange of Certificates

The conversion of First Wyoming common stock into the right to receive the Merger Consideration will occur automatically at the effective time of the merger. Promptly after the effective time of the merger, the exchange agent will exchange certificates or book-entry shares representing shares of First Wyoming common stock for the Merger Consideration to be received pursuant to the terms of the merger agreement.

Form of Election/ Letter of Transmittal

WSFS shall appoint an exchange agent reasonably acceptable to First Wyoming, for the purpose of receiving elections and exchanging shares of First Wyoming common stock for the Merger Consideration, pursuant to an exchange agent agreement entered into between WSFS and the exchange agent. Each holder of First Wyoming common stock issued and outstanding shall have the right, subject to certain limitations set forth in the merger agreement, to submit an election as to the type of Merger Consideration they would like to receive on or prior to 5:00 p.m. local time (in the city in which the principal office of the exchange agent is located) on the date that is 30 days following the closing date of the merger, which date is referred to as the election deadline. First Wyoming and WSFS shall issue a press release announcing the anticipated date of the election deadline not more than 15 business days before, and at least five business days prior to, the election deadline.

Each holder of First Wyoming common stock may specify in a form of election/letter of transmittal, (i) the number of shares of First Wyoming common stock owned by such holder with respect to which such holder desires to make a Stock Election and (ii) the number of shares of First Wyoming common stock owned by such holder with respect to which such holder desires to make a Cash Election.

A form of election/letter of transmittal will be prepared by WSFS in a form reasonably acceptable to First Wyoming which shall be mailed or delivered to record holders of First Wyoming common stock as of the record date for the First Wyoming stockholder meeting not less than 20 business days prior to the anticipated election deadline.

Any holder of First Wyoming common stock may, at any time prior to the election deadline, change or revoke his or her election by written notice received by the exchange agent prior to the election deadline accompanied by a properly completed and signed revised form of election/letter of transmittal or by withdrawal prior to the election deadline of his or her certificates representing shares of First Wyoming common stock, or of the guarantee of delivery of such certificates, or any documents in respect of shares of First Wyoming common stock held in book-entry form, previously deposited with the exchange agent. After an election is validly made with respect to any shares of First Wyoming common stock, any subsequent transfer of such shares of First Wyoming common stock shall automatically revoke such election. Subject to the terms of the exchange agent agreement and the merger agreement, the exchange agent shall have reasonable discretion to determine if any election is not properly made with respect to any shares of First Wyoming common stock (neither WSFS nor First Wyoming nor the exchange agent being under any duty to notify any holder of First Wyoming common stock of any such defect); in the event the exchange agent makes such a determination, such election shall be deemed to be not in effect, and the shares of First Wyoming common stock covered by such election shall be deemed to be Non-Electing Shares, unless a proper election is thereafter timely made with respect to such shares.

After the effective time of the merger, there will be no further transfers on the stock transfer books of First Wyoming.

Withholding

WSFS and the exchange agent will be entitled to deduct and withhold from the consideration otherwise payable pursuant to the merger agreement to any First Wyoming stockholder the amounts, if any, it is required to deduct and withhold under the Code or any provision of state, local or foreign tax law. To the extent that any amounts are so withheld, these amounts will be treated for all purposes of the merger agreement as having been paid to the stockholders in respect of which such deduction and withholding was made.

Dividends and Distributions

Whenever a dividend or other distribution is declared by WSFS on WSFS common stock, the record date for which is at or after the effective time of the merger, the declaration will include dividends or other distributions on all shares of WSFS common stock issuable pursuant to the merger agreement, but such dividends or other distributions will not be paid to the holder thereof until such holder has duly surrendered its First Wyoming stock certificates or book-entry shares in accordance with the merger agreement.

Prior to the effective time of the merger, neither First Wyoming nor its subsidiaries may, except with WSFS prior written consent, declare or pay any dividend or distribution on its capital stock.

Representations and Warranties

In the merger agreement, First Wyoming has made customary representations and warranties to WSFS with respect to, among other things:

the due organization, valid existence, good standing and corporate power and authority of First Wyoming and The First National Bank of Wyoming;

First Wyoming s authority to enter into the merger agreement and to complete the transactions contemplated by the merger agreement (subject to receipt of the vote of the holders of a majority of the outstanding shares of First Wyoming common stock) and the enforceability of the merger agreement against First Wyoming in accordance with its terms;

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the absence of conflicts with or breaches of First Wyoming s or its subsidiaries governing documents, certain agreements or applicable laws as a result of entering into the merger agreement and the consummation of the merger and the other transactions contemplated by the merger agreement;

the required consents of regulatory authorities in connection with the transactions contemplated by the merger agreement;

the capitalization of First Wyoming and The First National Bank of Wyoming, including in particular the number of shares of First Wyoming common stock and The First National Bank of Wyoming common stock issued and outstanding;

reports filed with regulatory authorities;

financial matters;

the absence of undisclosed liabilities;

the absence since December 31, 2012 of a material adverse effect on First Wyoming and the conduct by First Wyoming and its subsidiaries of their respective businesses in the ordinary and usual course of business consistent with past practice since December 31, 2012;

tax matters;

the assets of First Wyoming and its subsidiaries;

intellectual property matters;

environmental matters;

compliance with laws, orders and permits;

compliance with the Community Reinvestment Act of 1977, which is referred to as the Community Reinvestment Act, and the regulations promulgated thereunder;

compliance with the Foreign Corrupt Practices Act of 1977, as amended;

labor relations;

matters relating to employee benefit plans and ERISA;

matters with respect to certain of First Wyoming s contracts;

derivative transactions entered into for the account of First Wyoming and its subsidiaries;

legal proceedings;

reports filed with regulatory authorities other than the SEC since December 31, 2009;

the accuracy of the information supplied by First Wyoming in this proxy statement/prospectus;

the inapplicability of state anti-takeover statutes;

receipt by the First Wyoming board of the GMS fairness opinion;

loan matters;

deposits;

allowance for loan and lease losses;

insurance matters;

the absence of sanctions imposed by the U.S. Department of the Treasury s Office of Foreign Assets Control;

the absence of undisclosed brokers fees and expenses; and

affiliate transactions.

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In the merger agreement, WSFS made customary representations and warranties to First Wyoming with respect to, among other things:

- the due organization, valid existence, good standing and corporate power and authority of WSFS;
- WSFS authority to enter into the merger agreement and to complete the transactions contemplated by the merger agreement and the enforceability of the merger agreement against WSFS in accordance with its terms;
- the absence of conflicts with or breaches of WSFS governing documents, certain agreements or applicable laws as a result of entering into the merger agreement and the consummation of the merger and the other transactions contemplated by the merger agreement;
- the required consents of regulatory authorities in connection with the transactions contemplated by the merger agreement;
- WSFS capitalization, including in particular the number of shares of WSFS common stock issued and outstanding;
- WSFS SEC filings since December 31, 2009, including financial statements contained therein;
- internal controls and compliance with the Sarbanes-Oxley Act of 2002;
- the absence of undisclosed liabilities;
- the absence since September 30, 2013 of a material adverse effect on WSFS;
- tax matters;
- compliance with laws, orders and permits;
- legal proceedings;
- reports filed with regulatory authorities other than the SEC since December 31, 2009;

- matters with respect to WSFS material contracts;

- the accuracy of the information supplied by WSFS in this proxy statement/prospectus; and

- the absence of undisclosed brokers fees and expenses.

Many of the representations and warranties in the merger agreement made by First Wyoming and WSFS are qualified by a materiality or material adverse effect standard (that is, they will not be deemed to be untrue or incorrect unless their failure to be true or correct, individually or in the aggregate, would, as the case may be, be material or have a material adverse effect on First Wyoming or WSFS, as applicable).

Under the merger agreement, a material adverse effect is defined, with respect to a party, any fact, circumstance, event, change, effect, development or occurrence that, individually or in the aggregate together with all other facts, circumstances, events, changes, effects, developments or occurrences, directly or indirectly, (1) has had or would reasonably be expected to result in a material adverse effect on the condition (financial or otherwise), results of operations, assets, liabilities or business of such Party and its Subsidiaries taken as a whole, but does not include effects to the extent resulting from the following:

- changes after the date of the merger agreement in GAAP or regulatory accounting requirements;

- changes after the date of the merger agreement in laws of general applicability to companies in the financial services industry;

- changes after the date of the merger agreement in global, national or regional political conditions or general economic or market conditions in the United States (and with respect to the First Wyoming, the State of Delaware), including changes in prevailing interest rates, credit availability and liquidity, currency exchange rates, and price levels or trading volumes in the United States or foreign securities markets) affecting other companies in the financial services industry;

after the date of the merger agreement, general changes in the credit markets or general downgrades in the credit markets;

failure, in and of itself, to meet earnings projections or internal financial forecasts, but not including any underlying causes thereof unless separately excluded hereunder, or changes in the trading price of a party s common stock, in and of itself, but not including any underlying causes unless separately excluded hereunder;

the public disclosure of the merger agreement and the impact thereof on relationships with customers or employees;

any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism; or

actions or omissions taken with the prior written consent of the other party hereto or expressly required by the merger agreement; except to the extent that the effects of such change disproportionately affect such party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its subsidiaries operate, or (2) prevents or materially impairs the ability of such party to timely consummate the transactions contemplated by the merger agreement.

The representations and warranties in the merger agreement do not survive the effective time of the merger and, as described below under Effect of Termination, if the merger agreement is validly terminated, the merger agreement will become void and have no effect (except with respect to designated provisions of the merger agreement, including those related to payment of fees and expenses and the confidential treatment of information), unless a party breached the merger agreement.

This summary and the copy of the merger agreement attached to this proxy statement/prospectus as Annex I are included solely to provide investors with information regarding the terms of the merger agreement. They are not intended to provide factual information about the parties or any of their respective subsidiaries or affiliates. The foregoing discussion is qualified in its entirety by reference to the merger agreement. The merger agreement contains representations and warranties by WSFS and First Wyoming, which were made only for purposes of that agreement and as of specific dates. The representations, warranties and covenants in the merger agreement were made solely for the benefit of the parties to the merger agreement, may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures made for the purposes of allocating contractual risk between the parties to the merger agreement instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those generally applicable to investors. Investors are not third-party beneficiaries under the merger agreement, and in reviewing the representations, warranties and covenants contained in the merger agreement or any descriptions thereof in this summary, it is important to bear in mind that such representations, warranties and covenants or any descriptions thereof were not intended by the parties to the merger agreement to be characterizations of the actual state of facts or condition of WSFS, First Wyoming or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the merger agreement, which subsequent information may or may not be fully reflected in WSFS and First Wyoming s public disclosures. For the foregoing reasons, the representations, warranties and covenants or any descriptions of those provisions should not be read alone and should instead be read in conjunction with the other information contained in the reports, statements and filings that WSFS publicly files with the SEC. For more information regarding these documents, see the section

entitled Where You Can Find More Information beginning on page 86.

Covenants and Agreements

Conduct of Businesses Prior to the Effective Time of the Merger. First Wyoming has agreed that, prior to the effective time of the merger or termination of the merger agreement, unless the prior written consent of WSFS has been obtained, it will, and will cause its subsidiaries to, (1) operate its business only in the usual, regular and ordinary course, consistent with past practice, (2) use its reasonable best efforts to preserve intact its business organization and maintain its rights, authorizations, franchises, advantageous business relationships with

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customers, vendors, strategic partners, suppliers, distributors and others doing business with it, and the services of its officers and key employees and (3) take no action that would reasonably be expected to adversely affect or delay the receipt of any required regulatory approvals or the consummation of the transactions contemplated by the merger agreement.

Additionally, First Wyoming has agreed that prior to the effective time of the merger or termination of the merger agreement, unless the prior written consent of WSFS has been obtained and except for certain exceptions and as otherwise expressly contemplated in the merger agreement, First Wyoming will not, and will not permit any of its subsidiaries to, undertake the following actions or commit to undertake the following actions:

amend First Wyoming s articles of incorporation or bylaws or other governing documents of any of its subsidiaries;

incur or guarantee any additional debt obligation or other obligation for borrowed money (other than indebtedness of First Wyoming to The First National Bank of Wyoming or of The First National Bank of Wyoming to First Wyoming incurred in the ordinary course of business consistent with past practice;

repurchase, redeem, or otherwise acquire or exchange (other than in accordance with the terms of the merger agreement), directly or indirectly, any shares, or any securities convertible into or exchangeable or exercisable for any shares, of the capital stock of any First Wyoming or any of its subsidiaries, or make, declare, pay or set aside for payment any dividend or set any record date for or declare or make any other distribution in respect of First Wyoming common stock or other equity interests;

issue, sell, pledge, dispose of, encumber, authorize or propose the issuance of, enter into any contract to issue, sell, pledge, dispose of, encumber, or authorize or propose the issuance of, or otherwise permit to become outstanding, any additional shares of First Wyoming common stock or any other capital stock of First Wyoming or any of its subsidiaries, or any stock appreciation rights, or any option, warrant, or other equity rights;

directly or indirectly adjust, split, combine or reclassify any capital stock or other equity interest of First Wyoming or any of its subsidiaries or issue or authorize the issuance of any other securities in respect of or in substitution for shares of First Wyoming common stock, or sell, transfer, lease, mortgage, permit any lien on, or otherwise dispose of, discontinue or otherwise encumber, (1) any shares of capital stock of First Wyoming or any of its subsidiaries (unless any such shares of stock are sold or otherwise transferred to First Wyoming or a wholly owned subsidiary of First Wyoming) or (2) any asset other than pursuant to contracts in force at the date of the merger agreement;

(1) (i) purchase any securities or make any acquisition of or investment in, either by purchase of stock or other securities or equity interests, contributions to capital, asset transfers, purchase of any assets (including any investments or commitments to invest in real estate or any real estate development project) or other business combination, or by formation of any joint venture or other business organization or by contributions

to capital (other than by way of foreclosures or acquisitions of control in a fiduciary or similar capacity or in satisfaction of debts previously contracted in good faith, in each case in the ordinary course of business), any person other than The First National Bank of Wyoming (except for purchases of investment securities made by The First National Bank of Wyoming for its investment portfolio made in ordinary course of business), or otherwise acquire direct or indirect control over any person; or (ii) enter into a plan of consolidation, merger, share exchange, share acquisition, reorganization or complete or partial liquidation with any person (other than consolidations, mergers or reorganizations solely among wholly owned subsidiaries of First Wyoming), or a letter of intent, memorandum of understanding or agreement in principle with respect thereto;

(1) grant any increase in compensation or benefits to the employees or officers of First Wyoming or any of its subsidiaries, except (A) an increase in base salary for employees that does not exceed in the aggregate 3% of the total base compensation paid to all employees of The First National Bank of Wyoming during the fiscal year ending December 31, 2013, (B) bonuses for employees that do not

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exceed in the aggregate $300,000 or (C) as required by law; (2) pay any (x) severance or termination pay or (y) any bonus, in either case other than pursuant to the First Wyoming employee benefit plan in effect on the date hereof and in the case of (x) subject to receipt of an effective release of claims from the employee, and in the case of (y) to the extent required under the terms of the plan without the exercise of any upward discretion; (3) enter into or amend any severance agreements with employees or officers of First Wyoming or any of its subsidiaries; (4) grant any increase in fees or other increases in compensation or other benefits to directors of First Wyoming or any of its subsidiaries except in the ordinary course of business; or (5) waive any stock repurchase rights, accelerate, amend or change the period of exercisability of any equity rights or restricted stock, or authorize cash payments in exchange for any equity rights;

enter into, amend or renew any employment contract between First Wyoming or any of its subsidiaries and any person having a salary thereunder in excess of $75,000 per year (unless such amendment is required by law) that First Wyoming or its subsidiary does not have the unconditional right to terminate without liability (other than liability for services already rendered), at any time on or after the effective time of the merger;

except as required by law and subject to certain exceptions, (1) adopt any new employee benefit plan of First Wyoming or any of its subsidiaries or terminate or withdraw from, or amend, any First Wyoming employee benefit plan, (2) make any distributions from such employee benefit plans, except as required by the terms of such plans or (3) fund or in any other way secure the payment of compensation or benefits under any First Wyoming employee benefit plan;

make any change in any tax or accounting principles, practices or methods or systems of internal accounting controls, except as may be required to conform to changes in tax laws or regulatory accounting requirements or GAAP;

commence any litigation other than in the ordinary course of business consistent with past practice, or settle, waive or release or agree or consent to the issuance of any order in connection with any litigation (1) involving any liability of First Wyoming or any of its subsidiaries for money damages in excess of $50,000 or (2) arising out of or relating to the transactions contemplated by the merger agreement;

enter into, renew, extend, modify, amend or terminate specified contracts;

enter into any new line of business or change in any material respect its lending, investment, risk and asset-liability management, interest rate or fee pricing with respect to depository accounts of First Wyoming or any of its subsidiaries, or other material banking or operating policies, or waive any material fees with respect thereto, except as required by law or by rules or policies imposed by a regulatory authority;

make, or commit to make, any capital expenditures in excess of $50,000 individually or $250,000 in the aggregate;

except as required by law or applicable regulatory authorities, make any material changes in its policies and practices with respect to (1) underwriting, pricing, originating, acquiring, selling, servicing, or buying or selling rights to service loans, or (2) its hedging practices and policies;

cancel or release any material indebtedness owed to any person or any claims held by any person, except for (1) sales of loans and sales of investment securities, in each case in the ordinary course of business consistent with past practice, or (2) as expressly required by the terms of any contracts in force at the date of the merger agreement;

permit the commencement of any construction of new structures or facilities upon, or purchase or lease any real property in respect of any branch or other facility, or make any application to open, relocate or close any branch or other facility;

materially change its investment securities portfolio policy or its policies with respect to the classification or reporting of such portfolios, or invest in any mortgage-backed or mortgage-related securities which would be considered high-risk securities under applicable regulatory pronouncements;

alter materially its interest rate or fee pricing policies with respect to depository accounts of First Wyoming or The First Wyoming National Bank or waive any material fees with respect thereto;

make, change or revoke any material tax election, change any material method of tax accounting, adopt or change any taxable year or period, file any amended material tax returns, agree to an extension or waiver of any statute of limitations with respect to the assessment or determination of taxes, settle or compromise any material tax liability of First Wyoming or any of its subsidiaries, enter into any closing agreement with respect to any material tax or surrender any right to claim a material tax refund;

take any action, or knowingly fail to take any action, which action or failure to act prevents or impedes, or could reasonably be expected to prevent or impede, the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code;

knowingly take any action that is reasonably likely to result in any of the conditions described under Conditions to Consummation of the Merger not being satisfied or materially impair its ability to perform its obligations under the merger agreement or to consummate the transactions contemplated by the merger agreement, except as required by applicable law;

enter into any securitizations of any loans or create any special purpose funding or variable interest entity other than on behalf of clients;

foreclose upon or take a deed or title to any commercial real estate without first conducting a Phase I environmental assessment (except where such an assessment has been conducted in the preceding 12 months) of the property or foreclose upon any commercial real estate if such environmental assessment indicates the presence of hazardous material;

make or acquire any loan or issue a commitment (including a letter of credit) or renew or extend an existing commitment for any Loan, or amend or modify in any material respect any loan (including in any manner that would result in any additional extension of credit, principal forgiveness, or effect any uncompensated release of collateral, *i.e.*, at a value below the fair market value thereof as determined by First Wyoming), except (1) new loans not in excess of $1,000,000, (2) loans or commitments for loans that have previously been approved by First Wyoming prior to the date of the merger agreement not in excess of $1,000,000, (3) with respect to amendments or modifications that have previously been approved by First Wyoming prior to the date hereof, amend or modify in any material respect any existing loan rated special mention or worse by WSFS, with total credit exposure not in excess of $2,000,000, or (4) with respect to any such actions that have previously been approved by First Wyoming prior to the date hereof, modify or amend any loan in a manner that would result in any additional extension of credit, principal forgiveness, or effect any uncompensated release of collateral, *i.e.*, at a value below the fair market value thereof as determined by First Wyoming, in each case not in excess of $1,000,000; or agree to take, make any commitment to take or adopt any resolutions of the board of directors of First Wyoming in support of any of the above prohibited actions.

Additionally, WSFS has agreed that prior to the effective time of the merger or termination of the merger agreement, unless the prior written consent of First Wyoming has been obtained and except as otherwise expressly contemplated in the merger agreement, WSFS will not, and will not permit any of its subsidiaries to, among other things, undertake the following actions:

amend WSFS certificate of incorporation or bylaws or other governing documents of WSFS or its significant subsidiaries in a manner that would adversely affect First Wyoming or its stockholders relative to other holders of WSFS common stock;

take any action, or knowingly fail to take any action, which action or failure to act prevents or impedes, or could reasonably be expected to prevent or impede, the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code;

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ily:inherit;font-size:10pt;background-color:#ffffff;">lated to a make-whole premium. White Mountains had provided an irrevocable and unconditional guarantee as to the payment of principal and interest on the 2003 Senior Notes. This obligation was cancelled as a result of the full retirement of the notes in the fourth quarter 2012.

See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing."

Capital Lease

In December 2011, OneBeacon Insurance Company (OBIC), a wholly-owned insurance operating subsidiary, sold the majority of its fixed assets and capitalized software to OneBeacon Services LLC (OB Services), an indirect wholly-owned subsidiary of the Company. The fixed assets and capitalized software were sold at a cost equal to book value with no gain or loss recorded on the sale. Subsequent to purchasing the fixed assets and capitalized software from OBIC, OB Services entered into lease financing arrangements with US Bancorp Equipment Finance, Inc. (US Bancorp) and Fifth Third Equipment Finance Company (Fifth Third) whereby OB Services sold its furniture and equipment and its capitalized software, respectively, to US Bancorp and Fifth Third. The assets were sold at a cost equal to net book value. OB Services then leased the assets back from US Bancorp for a lease term of five years and leased the capitalized software back from Fifth Third for a lease term of four years. OBIC recorded the sale of the assets with no gain or loss recognized while OB Services has recorded a capital lease obligation. See Note 16—"Commitments and Contingencies" of the accompanying consolidated financial statements.

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) and OBH, both 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.

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Regulatory Matters

General

Our insurance operations are subject to regulation and supervision in each of the 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.

State Accreditation and Monitoring

Most states have laws that establish standards for current, as well as continued, state accreditation. 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.

The NAIC has a set of financial relationships or tests known as the Insurance Regulatory Information System (IRIS) to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. 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), includes provisions that are similar to Sarbanes-Oxley requirements for public companies and requires certain insurance companies to appoint audit committees to oversee accounting and financial reporting processes as well as the audit of the financial statements of the insurer. 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.

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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, 2012 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 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 the year ended December 31, 2012, we, through our top tier regulated operating subsidiaries, distributed $173.1 million to OneBeacon Insurance Group LLC (OneBeacon LLC). Included in this amount, and as part of the internal capital restructuring transactions described in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Significant Transactions," were $114.7 million of dividends, which included the distribution of a regulated insurance subsidiary with a value of $34.0 million, and a return of capital to OneBeacon LLC of $58.4 million.

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 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. For example, 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. In addition, the FIO can recommend changes to state insurance laws and regulations. Although the deadline was in January 2012, the FIO's "Study and Report on the Regulation of Insurance" in the United States has not yet been released. We cannot predict whether the FIO will recommend any changes or whether states will adopt any such changes.

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 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 in 2014, and there can be no assurance that it will be extended.

The NAIC's 2010 amendment to the Model Insurance Company Holding Company System Regulatory Act (the Model Law) enhances the authority of state insurance regulators in the adopting state to regulate insurers as well as their affiliated entities, on an enterprise risk basis. The amendment to the Model Law requires the ultimate controlling person in an insurer's

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holding company structure to identify and report to state insurance regulators material risks within the structure that could pose enterprise risk to the insurer. The amendment to the Model Law will need to be adopted by individual state legislatures before they become binding on any given state. States may also deviate from these Model Law revisions as states differ in their approaches on several requirements. We cannot predict whether states will adopt the amendment to the Model Law, or if adopted, whether the amendment will differ from the Model Law.

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 includes coverage for such exposures at our company, however, there can be no assurance that the coverage provided under the NICO Cover (as defined in Item 1A—"Risk Factors") 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 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) 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) is available who meets the minimum standard requirements for the advertised position. The Bermuda government's policy limits the duration of work permits to six years, with certain exemptions for key employees.

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 specialty insurance operations (Ongoing Subsidiaries) as well as our Runoff Subsidiaries, as of February 28, 2013:

	A.M. Best[1]	Standard & Poor's[2]	Moody's[3]	Fitch[4]
Ongoing Subsidiaries:				
Ratings	"A" (Excellent)	"A-" (Strong)	"A2" (Good)	"A" (Strong)
Outlook	Stable	Stable	Stable	Stable
Runoff Subsidiaries:[5]				
Ratings	"A" (Excellent)	Unrated	"A2" (Good)	"A" (Strong)
Outlook	Under Review - Negative	N/A	Negative	Rating Watch - Negative

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

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

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

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

(5) Following OneBeacon's announcement of the Runoff transaction, A.M. Best, Fitch, Moody's and Standard & Poor's each issued a press release regarding the ratings implications. A.M. Best placed the Runoff Subsidiaries under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch negative; and Moody's assigned a negative outlook. Standard & Poor's downgraded and subsequently, at the request of OneBeacon, withdrew its rating on the Runoff Subsidiaries. All four ratings agencies affirmed the ratings of the Ongoing Subsidiaries with stable Outlook. The above table summarizes the ratings related to the entities supporting the Ongoing Subsidiaries and, separately the Runoff Subsidiaries.

Employees

As of December 31, 2012, we employed approximately 1,200 persons. We believe that we have satisfactory relations with our employees.

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

Our loss and loss adjustment expense reserves may be inadequate to cover our ultimate liability for losses and as a result our financial results could be adversely affected.

We are required to maintain adequate reserves 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, which include a provision 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 the uncertainties that surround estimating loss and LAE reserves, we cannot be certain that our reserves are adequate and actual claims and claim expenses paid might exceed our reserves due to the uncertainties that surround estimating loss and LAE reserves. For example, we have a 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 inflation including increased utilization could have a material adverse impact on the ultimate amount of losses paid.

We had established gross loss and LAE reserves of $1.0 billion and $3.4 billion as of December 31, 2012 and 2011, respectively. For the years ended December 31, 2012, 2011 and 2010, we recorded favorable loss reserve development of $7.4 million, $29.8 million and $36.0 million, respectively, net of reinsurance, related to the re-estimation of previously established reserves. As of December 31, 2012, $2.1 billion of gross loss reserves were reclassified to liabilities held for sale on the consolidated balance sheet, which are not reflected in the amounts above.

Our reserves are intended to cover future payments, which could be impacted by future changes in calendar year inflation. We have modeled the impact of future inflation on our reserve portfolio, and we estimate that our current reserves would be sufficient to cover adverse development to the 80th percentile of all inflation scenarios. Our principal risk management tools for reserve volatility are to (1) maintain a conservative provision for the loss and loss expense liabilities, (2) test reserve adequacy on a quarterly basis, and (3) purchase excess of loss reinsurance annually to limit potential adverse development on individual claims to our retentions. However, our models could turn out to be inaccurate predictors of inflation, and our risk management tools could be ineffective, with the result that our reserves are inadequate to offset inflation.

If in the future we determine that our reserves are insufficient to cover our actual loss and LAE, we would have 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, 2012 consolidated balance sheet, which may be difficult to estimate. To help protect against potential A&E claims relating to the period prior to 2001, we have a reinsurance contract from National Indemnity Company

(NICO), rated "A++" (Superior, the highest of sixteen financial strength ratings) by A.M. Best and "AA+" (Very Strong, the second highest of twenty-one financial strength ratings) by Standard & Poor's. We refer to this reinsurance contract as the NICO Cover. Under the NICO Cover, we are entitled to recover up to $2.5 billion from NICO for (1) all asbestos claims arising from business written by us in 1992 and prior, (2) all environmental claims arising from business written by us in 1987 and prior, and (3) certain other latent exposures.

In September 2011, we completed a study of our A&E exposures based on experience through 2010. Reasonable estimates of potential adverse scenarios continue to be within the $2.5 billion cover issued by NICO. Based on the study, we increased the point estimate of incurred losses ceded to NICO, net of underlying reinsurance, by $121.9 million to $2.3 billion. As of December 31, 2012, we have ceded estimated incurred losses of approximately $2.3 billion to the NICO Cover, leaving remaining protection under the NICO Cover of $198.3 million. Net losses paid totaled $1.5 billion as of December 31, 2012. Due to exclusions in policy language and changes in coverages provided, we do not believe that we have significant exposure to asbestos claims arising from business we wrote after 1992 or to environmental claims arising from business we wrote after 1987.

As of December 31, 2012, we had established gross loss and LAE reserves for asbestos claims of $929.4 million. Approximately 99% of these loss and LAE reserves are covered under reinsurance arrangements. Our net loss and LAE reserves for asbestos claims after giving effect to third-party reinsurance other than the NICO Cover were $602.5 million at December 31, 2012. Our net loss and LAE reserves for asbestos claims after giving effect to both third-party reinsurance and the NICO Cover were $2.4 million at December 31, 2012.

As of December 31, 2012, we had established gross loss and LAE reserves for environmental claims of $233.0 million. Approximately 98% of these loss and LAE reserves are covered under reinsurance arrangements. Our net loss and LAE reserves for environmental claims after giving effect to third-party reinsurance other than the NICO Cover were $125.4 million at December 31, 2012. Our net loss and LAE reserves for environmental claims after giving effect to both third-party reinsurance and the NICO Cover were $6.4 million as of December 31, 2012.

Estimating our exposure to A&E claims is subject to a high degree of uncertainty and final ultimate loss and LAE could exceed the coverage available under our reinsurance arrangements or our net loss and LAE reserves. Policyholders continue to assert new theories of recovery. From time to time, there is proposed state and federal legislation regarding A&E liability, which would also affect our exposure. Although we expect the number of our A&E related claims to decrease over time, there is no assurance that these or other factors may not impact our liability or increase our 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.

Unpredictable catastrophic events could adversely affect our results of operations and financial condition.

We write insurance policies that cover catastrophic events. Our policies cover unpredictable natural and other disasters, such as hurricanes, windstorms, earthquakes, floods, fires, explosions and severe winter weather. Recent event frequency, particularly severe storms, has been high relative to historic standards. Our exposure to hurricanes and earthquakes is the largest natural catastrophe risk to our business. Exposure to damage resulting from a hurricane in the northeastern United States has historically been and remains the largest natural catastrophe exposure for us. We also have exposure to windstorm damage in the United States Atlantic Coast (i.e., Massachusetts to Florida) and the United States Gulf Coast region (i.e., Florida to Texas), as well as a major earthquake in California. In addition, we are exposed to losses from terrorist attacks, such as the attacks on the United States on September 11, 2001.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Increases in the value and concentrations of insured property or insured employees, the effects of inflation, and changes in cyclical weather patterns may increase the frequency and severity of claims from catastrophic events in the future. 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.

We seek to manage our exposure to catastrophic losses by tracking our aggregate exposure in high hazard zones, underwriting and pricing our policies to reflect the costs of concentrations, by estimating our PML for many different catastrophe scenarios and by buying reinsurance. To manage and analyze aggregate insured values and PML, we use a variety of tools, including catastrophe modeling software packages. Our estimates of PML are dependent on many variables, including assumptions about the demand surge and storm surge, loss adjustment expenses, insurance-to-value and storm intensity in the aftermath of weather-related catastrophes utilized to model the event and the relationship of the actual event to the modeled event. Accordingly, if our assumptions about these variables are incorrect, the losses we might incur from an actual catastrophe

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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 are unable to predict the extent to which our future insurance contracts will cover terrorist acts. We also are unsure how terrorist acts will be defined in our future contracts. The Terrorism Act, which has been modified and extended through the end of 2014, requires primary commercial insurers to make terrorism coverage available and provides Federal protection for certain losses above both individual company retention and industry retention levels. While we know of no reason that the Terrorism Act will not be extended for an additional period of time, there is no assurance that it will be extended or of the terms of any such extension. The following types of coverage are excluded from the program: commercial automobile, burglary and theft, surety, farmowners multi-peril and all professional liability coverages except directors and officers coverage. We manage our exposure to losses resulting from acts of terrorism by limiting our concentration of risk by geographic area. We estimate our PML for different scenarios using computer models in conjunction with other data. We also manage our terrorism exposures by purchasing reinsurance. Our current property and casualty catastrophe reinsurance programs provide coverage for us for "non-certified" events as defined under the Terrorism Act, provided such losses are not the result of a nuclear, biological, chemical or radiological terrorist attack. 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 to our results of operations and financial condition.

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 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 cannot assure you that we will 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. Investments generate both income, consisting primarily of interest earned on fixed maturity investments and dividends earned on equity securities, and realized and unrealized investment gains or losses.

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. Although we attempt to manage the risks of changes in interest rates, we may not be able to do so. In particular, a significant increase in interest rates could result in significant losses in the fair value of our investment portfolio, and consequently, could have an adverse effect on 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 are outside of our control and could adversely affect the value of our investments and our results of operations and financial condition.

We are highly dependent on WM Advisors, which is owned by White Mountains, and Prospector, in connection with the management of our investment portfolio. 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. We entered into a new investment management agreement with WM Advisors effective October 1, 2010 which replaced the November 2006 agreement and remains in full force and effect until terminated by either party upon sixty (60) days' prior written notice. We entered into a new investment management agreement with Prospector effective March 1, 2011 which replaced the 2006 agreement with substantially the same terms and conditions as the 2006 agreement, including an initial fixed term of three years which may be extended for an additional two year term. 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, 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., 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. Many of our competitors have greater resources than we do and have established long-term and continuing business relationships throughout the insurance industry, which can be a significant competitive advantage for them.

We offer our products through a network of independent agents, regional and national brokers, wholesalers and MGAs. We selectively appoint our distribution partners based upon their knowledge of our target markets, and our specialized capabilities as well as their geographic profiles. We sometimes pay higher commissions and incur higher expenses to align with these distribution partners, however, we believe that they add value to our business with their specialized knowledge. These agents, brokers, MGAs and wholesalers are sometimes able to offer substantial discounts in pricing through their other markets as compared to our insurance products. If our distribution partners experience increased competition from other writers of insurance, we in turn could be adversely affected if they are unable to maintain our competitive position in their respective markets. If we are unable to maintain our competitive position throughout soft and hard market cycles, our results of operations and financial condition may be adversely affected.

The current pricing market is highly competitive and soft, however, we have maintained underwriting and pricing discipline. Any significant decrease in the rates we can charge for property and casualty insurance would adversely affect our results. We expect to continue to experience the effects of this 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 used by policyholders, agents and brokers as an important means of assessing the suitability of insurers as business counterparties and have become an increasingly important factor in establishing the competitive position of insurance companies. 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.

Rating agencies periodically evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us. Our current financial strength ratings for our operating subsidiaries which are not being transferred as part of the Runoff Transaction ("Ongoing Subsidiaries") are "A" (Excellent, third highest of sixteen ratings) by A. M. Best, "A-" (Stron seventh highest of twenty-one ratings) by Standard & Poor's, "A2" (Good, sixth highest of twenty-one ratings) by Moody's and "A" (Strong, sixth highest of nineteen ratings) by Fitch. For our Ongoing Subsidiaries, we currently have a "Stable" outlook from each of A.M. Best, Standard & Poor's, Fitch and Moody's. 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. See Risk Factors -- "Brokers, agents or policyholders may react negatively to the Runoff Transaction."

General creditworthiness ratings are used by existing or potential investors to assess the likelihood of repayment on a particular debt issue. We believe that strong creditworthiness ratings are important factors that 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. Following OneBeacon's announcement of the Runoff Transaction, A.M. Best, Fitch, Moody's and Standard & Poor's each issued a press release regarding the ratings implications. A.M. Best placed the Runoff Subsidiaries under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch negative; and Moody's assigned a negative outlook. Standard & Poor's downgraded and subsequently, at the request of OneBeacon, withdrew its rating on the Runoff Subsidiaries. All four ratings agencies affirmed the ratings of the Ongoing Subsidiaries with stable Outlook.

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

As of December 31, 2012, 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 sell 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 be able to successfully alleviate risk through reinsurance arrangements. Additionally, we may be unable to collect all amounts due from our 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 under 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.

We are not relieved of our obligations to our policyholders by purchasing reinsurance. We may be unable to recover amounts due under our reinsurance arrangements if our reinsurers choose to withhold payment due to a dispute or other factors beyond our control. We are also subject to credit risk with respect to our reinsurance in the event that a reinsurer is unable to pay amounts owed to us as a result of a deterioration in its financial condition. A number of reinsurers experienced such deterioration in the aftermath of the 2001 terrorist attacks and the active 2005 hurricane season. To mitigate this risk, we annually review and periodically monitor our reinsurers' financial condition and require at the time of purchase of reinsurance that each of our reinsurers holds a rating of at least "A-" (Excellent, the fourth highest of sixteen financial strength ratings) by A.M. Best or the equivalent. While we believe that our reinsurers' financial 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 to pay amounts owed to us.

Many of our reinsurers are non-U.S. companies and as such are subject to foreign regulations, including Solvency II which regulates insurance firms that operate in the European Union. Solvency II was enacted to reduce the risk that insurers would not be able to pay claims to policyholders as well as promote financial stability through minimum capital and other requirements for the governance, risk management and supervision of insurers. We cannot predict what regulations will be adopted to implement Solvency II nor the impact of such regulation upon our non-U.S. reinsurers, which could affect our ability to obtain reinsurance on terms acceptable to us, or at all.

We are 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, we rely 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 without the prior approval of regulatory authorities. Generally, our regulated operating subsidiaries have the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the greater of prior year statutory net income or 10% of prior year statutory surplus, subject to the availability of unassigned funds. 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 Atlantic Specialty Insurance Company (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 2013 may be dependent on receipt of dividends from ASIC. ASIC’s dividend capacity is impacted by a different formula than the calculation described above and will likely require prior approval by its regulatory authority, which operates in a different jurisdiction than OBIC. At December 31, 2012, ASIC had negative earned surplus and $0.7 billion of statutory surplus.

At December 31, 2012, OBIC had approximately $0.7 billion of unassigned funds. At December 31, 2012, OneBeacon had approximately $272 million of net unrestricted cash, short-term investments and fixed maturity investments and approximately $33 million of common equity securities and convertible fixed maturity investments outside of its regulated insurance operating subsidiaries.

Management believes that our cash balances, cash flows from operations and cash flows from investments are adequate to meet expected cash requirements for the foreseeable future on both a holding company and operating subsidiary level. However, 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."

In addition, 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.

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 these legal proceedings as part of our loss and LAE reserves. We do not believe that the ultimate outcome of such matters will have a material adverse effect on our financial condition. However, 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 legal matters, our ultimate liability may be in excess of amounts we have currently reserved for and such additional amounts may be material to our results of operations and financial condition. Except as disclosed in "Legal Proceedings" and Note 16 to our financial statements, as of December 31, 2012, we had no material pending non-claims legal proceedings.

As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. 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 insurance contracts that are affected by the changes.

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 to increase the severity of claim payments, such as described above with respect to A&E claims. 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.

Regulation may restrict our ability to operate.

The insurance industry is subject to extensive regulation under U.S. and state laws. Governmental agencies have broad administrative power to regulate many aspects of the insurance business, which include premium rates, marketing practices, advertising, policy forms and capital adequacy. These governmental agencies are concerned primarily with the protection of policyholders rather than shareholders. Insurance laws and regulations impose restrictions on the amount and type of investments, prescribe solvency standards that must be met and maintained and require the maintenance of reserves. Premium rate regulation may make it difficult for us to increase premiums to adequately reflect the cost of providing insurance coverage to our policyholders. In our underwriting, we rely heavily upon information gathered from third parties such as credit report agencies and other data aggregators. The use of this information is also highly regulated and any changes to the current regulatory structure could materially affect how we underwrite and price premiums.

Changes in federal or state 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 Dodd-Frank Act, which was enacted in 2010, created the FIO within the Treasury Department. The FIO 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 has the authority to recommend changes to state insurance laws and regulations. Although the deadline was in January 2012, the FIO's "Study and Report on the Regulation of Insurance" in the United States has not yet been released. We cannot predict whether the FIO will recommend any such changes, whether any states will adopt any such changes, or what effect such changes may have on our insurance operations. As another example, it is possible that the NAIC could adopt part or all of Solvency II including minimum capital requirements that could be in excess of our current minimum capital requirements established by state regulations. If the NAIC adopted Solvency II including additional capital requirements, our business and results of operations could be materially impacted.

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 our licenses to do business 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 or routine underwriting perspective. Underwriting performance related to assigned risk plans, a form of mandated market mechanism, is typically adverse and, as a result, we are required to underwrite some policies with a higher risk of loss than we would normally accept. Our participation in assigned risk plans may result in greater liabilities than we anticipate and could materially adversely affect our results of operations and financial condition.

In addition, virtually all states require insurers licensed to do business in their state to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. These guaranty funds are funded by assessments that are expected to increase in the future as a result of recent insolvencies. Many states also have laws that established second-injury funds to provide compensation to injured employees for aggravation of a prior condition or injury which are funded by either assessments based on paid losses or premium surcharge mechanisms. The effect of these assessments and surcharges or changes in them could reduce our profitability in any given period or limit our ability to grow our business.

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 $275.0 million aggregate principal amount of our 2012 Senior Notes;
- 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 and 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 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 teams. Difficulty in hiring or retaining key personnel could adversely affect our results of operation and financial condition.

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 and programs lines. We intend to continue to look for appropriate opportunities to diversify our business portfolio by adding new specialty lines of insurance coverage. We also intend to continue to grow our existing specialty business lines. Due to our limited history in new business lines, there could be limited financial information available to us to help us estimate sufficient loss reserves for these lines and to help

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evaluate whether we will be able to successfully develop these lines or estimate the likely ultimate losses and expenses associated with these lines. Also, we may have less experience than some of our competitors in managing certain of these business lines. We may also incur expenses related to these business lines that may be difficult to manage in addition to our existing expense structure. Accordingly, we may fail to fully realize the benefits and profits from some or all of our new specialty lines businesses relative to the resources that we invest in them. Also, these business lines may fail to perform at the levels we anticipate. Although we have a conservative approach to adding new businesses to our portfolio, including stringent management oversight of, among other areas, underwriting, product and pricing development, and financial performance, there is no assurance that we will be able to realize profitability from some or all of these new specialty businesses, which could materially adversely affect our results of operations and 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) such as a name together with a social security number, bank account number, driver's license number, passport number, birthday or other identifying information. Our ability to effectively operate our business depends upon our ability and the ability of certain third parties including vendors and business partners to access our computer systems to perform necessary business functions such as providing quotes and product pricing, billing and processing premiums, administering claims, and reporting our financial results. Our business and operations also depend upon our ability to safeguard PII and other confidential and proprietary information belonging to us, our employees, our policyholders and our business partners as well as Tower's policyholders as a result of the TSA entered into in connection with the Personal Lines Transaction (as defined in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Significant Transactions"). Our systems may be vulnerable to unauthorized access and hackers, computer viruses, and other scenarios in which our data may be vulnerable to a breach. Specifically, we could be exposed to data breach risk from lost or stolen laptops, other portable media or prohibited disclosure containing PII.

Data incidents could result in financial loss and reputational harm to us, which could affect our business and results of operations. Nearly every state has enacted data breach laws and regulations that require, among other things, notification to affected persons and state regulatory agencies of a data breach that involves PII. Some U.S. state and federal laws also require us to implement measures to safeguard PII. For example, new Massachusetts regulations require our employees to encrypt information stored on laptops and other portable devices and transmitted through electronic media, and take reasonable steps to verify that our third-party vendors utilize security procedures to protect PII.

Although we have taken measures to safeguard our information and that of policyholders and other third parties, we could be exposed to data loss. As a result, our ability to conduct our business may be affected, and impact our results of operations, financial condition and reputation.

Risks Relating to the Runoff Transaction

There is no certainty that the Runoff Transaction will close.

Consummation 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 of the control of the parties. There can be no assurance as to whether or when such conditions may be satisfied and a closing would occur.

Brokers, agents or policyholders may react negatively to the Runoff Transaction.

Following OneBeacon's announcement of the Runoff Transaction, A.M. Best, Fitch, Moody's and Standard & Poor's each issued a press release regarding the ratings implications. A.M. Best placed the subsidiaries being sold in the Runoff Transaction (the Runoff Subsidiaries) under review with negative implications; Fitch placed the Runoff Subsidiaries on credit watch negative; and Moody's assigned a negative outlook. Standard & Poor's downgraded and subsequently, at the request of OneBeacon, withdrew its rating on the Runoff Subsidiaries. All four ratings agencies affirmed the ratings of the Ongoing Subsidiaries with stable Outlook.

The Runoff Subsidiaries have been underwriting specialty policies, and they will continue to do so on a limited basis up until the closing of the Runoff Transaction and for a limited time following the closing through a fronting and reinsurance agreement with Armour. It is possible that certain brokers, agents or policyholders dealing with specialty policies underwritten by the Runoff Subsidiaries could determine that the Runoff Subsidiaries no longer meet their placement standards and could cease placing business with the Runoff Subsidiaries. While the Company believes that the Runoff Subsidiaries' financial strength is robust notwithstanding the Runoff Transaction, it has taken various steps to provide assurances to the Runoff Subsidiaries' brokers, agents and policyholders. However, there is no assurance that the Runoff Subsidiaries will be successful

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in continuing to underwrite the specialty business on an interim basis, which may have an adverse impact on the Company's results of operations or financial condition.

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, 2012. 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 ten directors that we have on our Board, six are current or former employees, directors or officers of White Mountains, 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.

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. The corporate opportunity policy included in our bye-laws addresses potential conflicts of interest between us, on the one hand, and White Mountains and its officers and directors who are also our directors, on the other hand. These provisions are designed to resolve conflicts between us and White Mountains. 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.

Transitional and other arrangements 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 on a discretionary basis by a registered investment advisor which is owned by White Mountains. We have a multi-year investment management contract with this advisor. 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, after the expiration of this agreement, 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.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As of the date of this report, we had no unresolved written comments from the Commission staff regarding our periodic or current reports under the Exchange Act.

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. We will 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

The Company from time to time is involved in various routine legal proceedings. 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, OBIC-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. 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

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White Mountains that are defendants in the action. OneBeacon and OBIC-sponsored benefit plans received approximately $32 million for Tribune common stock tendered in connection with the LBO.

In December 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate all of the Noteholder Actions for pretrial matters and transfer all such proceedings to the United States District Court for the Southern District of New York.

In addition, OneBeacon, OBIC-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, 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 the Committee Action has since been consolidated with the Noteholder Actions.

In September 2012, a case management order was entered in the consolidated cases, setting forth, among other things, a briefing schedule for an omnibus motion to dismiss in the Noteholder Actions. The court is expected to hear oral argument on that motion in March 2013. Discovery and other motion practice (other than motions to amend the complaints) in the Committee Action and the Noteholder Actions is stayed until further order of the court.

Ace American Insurance Company

A subsidiary of the Company, OBH, was sued in Federal Court in the Eastern District of Pennsylvania on August 17, 2012 by Ace American Insurance Company (“Ace”). The complaint alleges that OBH, through a professional recruiting firm, improperly hired a group of Ace employees from Ace's surety division. The complaint sought injunctive relief and unspecified damages. After court-ordered expedited discovery was completed, the claims for injunctive relief were resolved pursuant to a confidential agreement. The remaining claim against OBH is for damages only and is scheduled to be heard in April. After the claims against OBH for injunctive relief were resolved, Ace filed a Demand for Arbitration against five of the former Ace surety employees hired by OneBeacon, alleging breach of their duty of loyalty to Ace and misappropriation of Ace trade secrets. OneBeacon believes that Ace's damages claim against OBH and the claims against the individual employees are without merit and intends to vigorously defend both.

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, 2013 was $13.27. As of February 25, 2013, the 23,631,441 outstanding Class A common shares were held by 54 holders of record. During 2012, we paid a quarterly dividend of $0.21 per common share, or $80.1 million total. On February 27, 2013, the Board declared an ordinary dividend of $0.21 per common share, payable on March 29, 2013 to shareholders of record on March 15, 2013. 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" in 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,
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
2011				
Common share price:				
High	$15.43	$15.00	$14.15	$15.91
Low	$12.80	$12.63	$12.37	$13.19
Dividends declared	$0.21	$1.21	$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, 2012, White Mountains owned 75.2% of our common shares.

For information on securities authorized for issuance under our equity compensation plans, see "Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters."

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, 2012 and 2011, no shares were repurchased. During the year ended December 31, 2010, 0.7 million of our Class A common shares under this program were repurchased for $10.5 million and retired. As of December 31, 2012, 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, 2007 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, 2012, 2011, 2010, 2009 and 2008 from our consolidated financial statements. Prior periods have been reclassified to conform to the current presentation.

	Year ended December 31,					
	2012	2011	2010	2009		2008
Summary Income Statement Data:	(in millions, except per share amounts)					
Net written premiums	$1,179.2	$1,062.7	$1,167.7	$1,366.1	946,100,000	$1,336.4
Revenues						
Earned premiums	$1,132.0	$1,012.2	$1,181.1	$1,385.1		$1,248.7
Net investment income	53.6	71.4	96.6	125.5		164.4
Net realized and change in unrealized investment gains (losses)	55.7	10.6	74.6	248.6		(763.6)
Net other revenues (expenses)	(0.5)	(12.4)	(0.6)	(0.1)		3.5
Total revenues	1,240.8	1,081.8	1,351.7	1,759.1		653.0
Expenses						
Loss and loss adjustment expenses	650.0	548.3	685.6	716.0		660.6
Policy acquisition and other underwriting expenses	454.6	383.5	448.2	498.4		431.7
General and administrative expenses	13.4	9.8	12.9	13.1		15.6
Interest expense	16.9	20.5	29.6	39.7		78.3
Total expenses	1,134.9	962.1	1,176.3	1,267.2		1,186.2
Pre-tax income (loss) from continuing operations	105.9	119.7	175.4	491.9		(533.2)
Income tax (expense) benefit	(8.4)	(14.8)	(25.1)	(125.1)		196.0
Net income (loss) from continuing operations	97.5	104.9	150.3	366.8		(337.2)
Loss (income) from discontinued operations, net of tax	(24.3)	(29.6)	(30.4)	(22.7)		(43.8)
Loss from sale of discontinued operations, net of tax	(91.0)	(19.2)	—	—		—
Net income (loss) including noncontrolling interests	(17.8)	56.1	119.9	344.1		(381.0)
Less: Net income attributable to noncontrolling interests	(1.4)	(1.0)	(1.6)	(2.1)		(1.7)
Net income (loss) attributable to OneBeacon's common shareholders	(19.2)	55.1	118.3	342.0		(382.7)
Change in other comprehensive income (loss) items	(2.9)	(11.2)	6.5	18.8		(25.5)
Comprehensive income (loss) attributable to OneBeacon's common shareholders	$(22.1)	$43.9	$124.8	$360.8		$(408.2)
Basic and diluted earnings (loss) per share attributable to OneBeacon's common shareholders:						
Net income (loss) from continuing operations per share	$1.00	$1.08	$1.57	$3.83		$(3.53)
Loss (income) from discontinued operations, net of tax, per share	(0.25)	(0.30)	(0.32)	(0.23)		(0.46)
	(0.96)	(0.20)	—	—		—

Loss from sale of discontinued operations, net of tax, per share					
Net income (loss) attributable to OneBeacon's common shareholders per share	$(0.21)	$0.58	$1.25	$3.60	$(3.99)
Weighted average number of common shares outstanding[(1)]	94.5	94.4	94.8	95.1	95.9

(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,									
	2012		2011		2010		2009		2008	
	(in millions)									
Underwriting Ratios:										
Consolidated Insurance Operations										
Loss and LAE ratio[(1)(2)]	57.4	%	54.2	%	58.0	%	51.7	%	52.9	%
Expense ratio[(1)(3)]	40.1		37.9		38.0		36.0		34.6	
Combined ratio[(1)(4)]	97.5	%	92.1	%	96.0	%	87.7	%	87.5	%
Specialty Products										
Loss and LAE ratio[(2)]	57.2	%	51.2	%	50.5	%	39.8	%	42.2	%
Expense ratio[(3)]	40.7		37.5		35.9		36.6		33.5	
Combined ratio[(4)]	97.9	%	88.7	%	86.4	%	76.4	%	75.7	%
Specialty Industries										
Loss and LAE ratio[(2)]	57.7	%	57.7	%	61.1	%	49.3	%	53.5	%
Expense ratio[(3)]	39.4		38.3		41.8		41.6		39.4	
Combined ratio[(4)]	97.1	%	96.0	%	102.9	%	90.9	%	92.9	%
Summary Balance Sheet Data:										
Total cash and investments	$2,335.4		$2,762.5		$3,299.6		$4,087.6		$3,864.5	
Total assets	5,401.5		5,821.6		6,166.7		7,532.0		7,940.8	
Loss and LAE reserves	1,000.0		3,358.6		3,295.5		3,934.8		4,294.0	
Unearned premiums	573.8		528.0		627.5		1,018.3		1,088.2	
Debt	274.7		269.7		419.6		620.5		731.9	
OneBeacon's common shareholders' equity	1,014.5		1,099.8		1,229.0		1,429.0		1,155.1	
OneBeacon's common shareholders' equity and noncontrolling interests	1,017.3		1,113.9		1,248.9		1,448.1		1,172.3	

(1) The consolidated loss and LAE, expense and combined ratios for the years ended December 31, 2010, 2009 and 2008 include the results from personal lines that were sold in 2010, which are included in the Investing, Financing and Corporate segment. See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions—Dispositions."

(2) The loss and LAE ratio is calculated by dividing loss and LAE by earned premiums.

(3) The expense ratio is calculated by dividing policy acquisition and other underwriting expenses by earned premiums.

(4) The combined ratio is the sum of the loss and LAE ratio and the expense ratio.

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 77 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, 2012	2011	2010
	(in millions except per share amounts)		
Numerator			
OneBeacon's common shareholders' equity	$1,014.5	$1,099.8	$1,229.0
Denominator			
Common shares outstanding[1]	95.4	95.1	94.4
Book value per share	$10.63	$11.56	$13.02
Dividends paid per share	$0.84	$1.84	$3.34

(1) Common shares outstanding includes the impact of unvested restricted shares and also the impact of repurchases of Class A common shares made under the Company's share repurchase authorization.

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

We ended the full year 2012 with a book value per share of $10.63, reflecting a decrease of 0.8%, including dividends (a quarterly dividend 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 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). We reported comprehensive loss attributable to OneBeacon’s common shareholders of $22.1 million in the year ended December 31, 2012, compared to comprehensive income attributable to OneBeacon’s common shareholders of $43.9 million in the year ended December 31, 2011. The change in net income (loss) in the year ended December 31, 2012 compared to the prior year 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 hurricane Sandy, which made landfall in the mid-Atlantic and northeastern regions of the United States in October 2012.

Our combined ratio was 97.5% for the year ended December 31, 2012, compared to 92.1% for the year ended December 31, 2011. The increase in the combined ratio for the year ended December 31, 2012 was primarily due to the impact of hurricane Sandy in the year ended December 31, 2012. Favorable loss reserve development for our consolidated insurance operations was $7.4 million, or 0.7 points, in 2012 compared to $29.8 million, or 2.9 points, for the prior year. The favorable reserve development for the year ended December 31, 2012 was primarily in the workers' compensation, multiple peril liability and general liability lines. This favorable development was offset somewhat by adverse development on a few excess property claims. Catastrophe losses were $47.7 million, or 4.2 points, for the year ended December 31, 2012, due primarily to the impact of hurricane 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 the year ended December 31, 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 the year ended December 31, 2012.

Book Value Per Share—December 31, 2011 versus December 31, 2010

We ended the full year 2011 with a book value per share of $11.56, reflecting an increase of 3.1%, including dividends (a quarterly dividend of $0.21 per share and a special dividend of $1.00 per share paid in June 2011), on an internal rate of return basis, for the year ended December 31, 2011. The increase includes a 3.0% total return on invested assets for the year ended December 31, 2011. Results for the year ended December 31, 2011 were adversely impacted by investment results in the pension plan, the debt tender completed in April, the shares of restricted stock granted in May, as well as the estimated loss on sale of AutoOne. Results for AutoOne and the estimated loss on sale are reported as discontinued operations. We reported comprehensive income attributable to OneBeacon's common shareholders of $43.9 million in the year ended December 31, 2011, compared to $124.8 million in the year ended December 31, 2010. Our 2011 results include a $19.2 million after tax ($29.6 million pre-tax) estimated loss on the sale of AutoOne, as well as a $7.8 million after tax ($12.0 million pre-tax) loss related to the purchase of a portion of the 2003 Senior Notes. Change in other comprehensive income and loss items in the year ended December 31, 2011 includes the impact of an $11.2 million after tax decrease in our pension plans primarily related to a decrease in the over-funded status of our qualified pension plan driven by a decline in value of the investment assets in the plan.

Our combined ratio for the year ended December 31, 2011 decreased to 92.1% from 96.0% for the year ended December 31, 2010. The loss and LAE ratio decreased by 3.8 points to 54.2% while the expense ratio decreased by 0.1 points to 37.9%. The decrease in the loss and LAE ratio was primarily due to a decrease in current accident year non-catastrophe losses. We experienced a number of large losses in our property and inland marine business within Specialty Industries during the year ended December 31, 2010. The year ended December 31, 2011 included $29.8 million or 2.9 points of favorable loss reserve development, as compared to $36.0 million or 3.0 points of favorable loss reserve development in the year ended December 31, 2010. During the year ended December 31, 2011, the favorable loss reserve development in continuing operations was primarily related to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines. Catastrophe losses were 0.6 points higher than the prior year. The year ended December 31, 2011 included $36.7 million or 3.6 points of catastrophe losses, as compared to $35.1 million or 3.0 points of catastrophe losses in the year ended December 31, 2010. The slight decrease in the expense ratio reflects lower other underwriting expense.

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 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. During the fourth quarter of 2012, we restructured our internal pooling arrangement as part of the Runoff Transaction, as further described below. The internal pool restructuring did not have an effect on our consolidated results. We provide a wide range of specialty insurance products and services through independent agencies, regional and national brokers, wholesalers and managing general agencies. In the year ended December 31, 2012, our net written premiums totaled $1.2 billion and we had total assets of approximately $5.4 billion and total OneBeacon's common shareholders' equity of $1.0 billion at December 31, 2012.

Our Segments

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

The Specialty Products segment is comprised of seven 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, as well as operations associated with personal lines business that we sold in 2010 (see Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview").

Previously, we reported our insurance operations through a Specialty Insurance Operations segment and an Other Insurance Operations segment. The former Specialty Insurance Operations segment was comprised of twelve underwriting operating segments that were aggregated into a single reportable segment, with supplemental disclosures of three major underwriting units for financial reporting: MGA Business, Specialty Industries and Specialty Products. The former Other Insurance Operations segment consisted of substantially all operations classified as discontinued operations as of December 31, 2012, including AutoOne, other run-off business, and certain purchase accounting adjustments relating to the run-off business and the OneBeacon Acquisition. Prior periods have been reclassified to conform to the current presentation.

Significant Transactions

See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Transactions—Dispositions" below.

Historically, we have offered a range of specialty, commercial and personal products and services, however, as a result of recent 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.

Runoff Business. On October 17, 2012, one of OneBeacon's indirect wholly-owned subsidiaries, OneBeacon Insurance Group LLC, entered into a definitive agreement (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 its run-off business. OneBeacon's run-off business includes the results of OneBeacon's remaining non-specialty commercial lines business and certain other run-off business, including the vast majority of asbestos and environmental reserves, as well as certain purchase accounting adjustments related to the OneBeacon Acquisition (the Runoff Business, the sale of which is referred to as the Runoff Transaction). During 2012, OneBeacon recorded a $91.5 million after tax estimated loss on sale of the Runoff Business and $24.0 million in after tax losses from discontinued operations, which included $9.0 million of after tax incurred loss and loss adjustment expenses relating to an adjustment to the workers compensation discount rate applied to the loss reserves being transferred, as well as $6.5 million of after tax underwriting losses primarily related to adverse prior year loss reserve development related to a legacy assumed reinsurance treaty.

AutoOne. On August 30, 2011, we entered into the AutoOne Purchase Agreement to sell AutoOne to Interboro. AutoOne offers 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 with the prior periods reclassified to conform to the current presentation. Pursuant to the terms of the AutoOne Purchase Agreement, at closing OneBeacon transferred to Interboro all of the issued and outstanding shares of common stock of AutoOne Insurance Company (AOIC) and AutoOne Select Insurance Company (AOSIC), through which substantially all of the AutoOne business is written on a direct basis. At closing, OneBeacon transferred the assets, liabilities (including loss reserves and unearned premiums) and capital of the business as well as substantially all of the AutoOne infrastructure including systems and office space as well as certain staff. The AutoOne Transaction included the execution of a reinsurance agreement with certain subsidiaries of the Company pursuant to which we cede, on a 100% quota share basis, AutoOne business not directly written by AOIC and AOSIC. The AutoOne Transaction, which was subject to regulatory approvals, closed in 2012 and we recorded post-closing adjustments, which resulted in recording an after tax net charge of $0.3 million relating to underwriting activity and an after tax net gain of $0.5 million to true up the estimated loss on sale. During the year ended December 31, 2011, we recorded an after tax net charge of approximately $19.2 million reflecting the estimated loss on sale of the AutoOne business.

Personal lines. On July 1, 2010, we completed the sale of our traditional personal lines business (the Personal Lines Transaction) to Tower Group, Inc. (Tower). The Personal Lines Transaction included two insurance companies through which the majority of the traditional personal lines business was written on a direct basis, two attorneys-in-fact managing the reciprocals that wrote the traditional personal lines business in New York and New Jersey, the surplus notes issued by the New York and New Jersey reciprocals and the remaining renewal rights to certain other traditional personal lines insurance policies. In addition, the Personal Lines Transaction included the execution of reinsurance agreements with certain subsidiaries of the Company pursuant to which we cede, on a 100% quota share basis, traditional personal lines business not directly written by companies included in the sale and assume, on a 100% quota share basis, certain specialty lines business written directly by York Insurance Company of Maine (York). OneBeacon and Tower also entered into a

TSA, pursuant to which we provide certain services to Tower during the three-year term of the TSA. Tower reimburses us for all of our expenses incurred to provide these services. Reimbursement for these services is netted against the expense incurred.

As consideration, based upon the carrying value of the traditional personal lines business as of July 1, 2010, we received $166.6 million. The consideration represented the statutory surplus in the reciprocals (as consideration for surplus notes issued by the reciprocals), the combined GAAP equity in the insurance companies and attorneys-in-fact being sold, plus $32.5 million. During the year ended December 31, 2010, we recorded a total after tax net gain on the sale of $24.6 million that is comprised of $8.5 million included in net other revenues and $16.1 million included in the tax provision. During the second quarter of

2011, OneBeacon and Tower reached agreement on post-closing adjustments resulting in no material change to the $24.6 million after tax net gain on sale that OneBeacon had recorded during 2010.

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.

Deferred Acquisition Costs

Deferred acquisition costs represent commissions, premium taxes, brokerage expenses and other costs that are directly attributable to and vary with the production of business. These costs are deferred and amortized over the applicable premium recognition period. 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, 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. On January 1, 2012, we adopted Accounting Standards Update (ASU) 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts, codified within ASC 944. ASU 2010-26 is effective for interim periods and annual fiscal years beginning after December 15, 2011. We have elected to adopt ASU 2010-26 on a prospective basis. Under the new guidance, 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. See Note 1—"Nature of Operations and Summary of Significant Accounting Policies" of the accompanying consolidated financial statements.

Loss and Loss Adjustment Expenses

Loss and loss adjustment expense (LAE) are charged against income as incurred. Unpaid loss and LAE reserves 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 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 reviewed and updated on a quarterly basis and any adjustments resulting therefrom are reflected in current operations. The process of estimating loss and LAE 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 consolidated 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 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 a third-party reinsurer indemnifies our insurance subsidiaries for a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. We also have entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria are ceded to third-party reinsurers on a pro rata basis. The amount of each risk ceded by us is subject to maximum limits that vary by line of business and type of coverage. Amounts related to reinsurance contracts are recorded in our consolidated financial statements in accordance with ASC 944, as applicable.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Our ability to collect our reinsurance recoverables is subject to the solvency of the reinsurers with whom we have entered into reinsurance contracts. 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.

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 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. Additionally, in recognition that the 2007-2009 and 2008-2010 performance share cycles, as described below, were projected to payout at or close to zero, creating a significant retention risk over the next years the OneBeacon Compensation Committee of the Board (the Compensation Committee) in February 2009 approved cash retention awards for the executive officers and certain members of senior management. The Compensation Committee also approved a pool of money for senior management to make retention awards to certain other key personnel.

Share-Based Compensation Recognition

Our share-based compensation plans consist of performance shares which are typically settled in cash, stock options which were granted in connection with our initial public offering, restricted stock units and restricted shares. We account for these share-based compensation plans in accordance with ASC 718. 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 2007, the Compensation Committee approved the principal performance share goal of the OneBeacon Long-Term Incentive Plan to be growth in its intrinsic business value per share (GIBVPS), which was defined by the Compensation Committee with respect to each award cycle.

2008-2010 Performance Share Plan.   In February 2008, the Compensation Committee defined GIBVPS for the 2008-2010 performance cycle to be a weighted measure comprised of growth in adjusted book value per share and underwriting return on equity. In the 2008-2010 performance cycle, a total of 929,849 performance shares were earned based upon a performance factor of 68.5%.

2009-2011 Performance Share Plan. In February 2009, the Compensation Committee defined GIBVPS 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. In the 2009-2011 performance cycle, a total of 256,751 performance shares were earned based upon a performance factor of 138.6%.

2010-2012 Performance Share Plan. In February 2010, the Compensation Committee granted performance shares with a goal of growth in book value per share for the 2010-2012 performance cycle. As of December 31, 2012, 238,658 performance shares were outstanding with respect to the 2010-2012 performance cycle.

2011-2013 Performance Share Plan. In February 2011, the Compensation Committee granted performance shares with a goal of growth in book value per share for the 2011-2013 performance cycle. As of December 31, 2012, 151,563 performance shares were outstanding with respect to the 2011-2013 performance cycle.

2012-2014 Performance Share Plan. In February 2012, the Compensation Committee granted performance shares with a goal of growth in book value per share for the 2012-2014 performance cycle. As of December 31, 2012, 181,290 performance shares were outstanding with respect to the 2012-2014 performance cycle.

As a result of the sale of the renewal rights to our non-specialty commercial lines business in 2009 (the Commercial Lines Transaction) and the Personal Lines Transaction, payments were made in the year ended December 31, 2010 to certain former employees of OneBeacon prior to the end of the performance cycle on a pro rata basis. Performance shares earned and paid for the 2008-2010, 2009-2011 and 2010-2012 performance cycles were based upon a performance factor of 100%.

Restricted Stock Units

In connection with OneBeacon's initial public offering, options were issued to certain key employees as a one-time incentive. The options did not include a mechanism to reflect the contribution to total return from the regular quarterly dividend. As a result, in February 2008, the Compensation Committee approved a grant of restricted stock units as a supplement to the initial public offering stock grant. The RSUs were scheduled to vest one-third on each of November 9, 2009, 2010 and 2011 subject to growth in adjusted book value per share from January 1, 2008 through the end of the calendar year immediately following the applicable vesting date. All three tranches of RSUs vested and were mandatorily deferred into our deferred compensation plan and distributed in May 2012.

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 of the next five years are being reduced by 35,000 shares. The restricted shares contain dividend participation features, and therefore, are considered participating securities. At December 31, 2012 and 2011, the Company had unvested restricted shares outstanding of 927,000 and 630,000, respectively.

Income taxes

The income tax expense related to pre-tax income from continuing operations for the years ended December 31, 2012, 2011 and 2010 represented net effective tax rates of 7.9%, 12.4% and 14.3%, respectively. 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. Our effective tax rate for the year ended December 31, 2010 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, and recognition of a deferred tax asset for a higher tax basis and deconsolidation of the companies sold as part of the Personal Lines Transaction, partially offset by an increase in the valuation allowance for insurance reciprocals. For the years ended December 31, 2012, 2011 and 2010, the effective tax rate on non-U.S. income was 0.6%, 0.3% and 0.5%, respectively, and the effective rate on U.S. income was 26.1%, 31.6% and 25.2%, respectively.

Significant Transactions

Debt Issuance and Refinancing

In November 2012, OneBeacon U.S. Holdings, Inc. issued $275.0 million face value of senior unsecured debt through a public offering, at an issue price of 99.9% (2012 Senior Notes), which bear an annual interest rate of 4.60%. The net proceeds from the issuance of the 2012 Senior Notes were used to repurchase the outstanding balance on OBH's senior unsecured debt 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, we recognized a loss of $6.3 million.

Dispositions

Effective January 1, 2013, OneBeacon completed the sale of Essentia Insurance Company (Essentia), an indirect wholly-owned subsidiary which wrote the collector car and boat business, to Markel Corporation. Concurrently therewith, OneBeacon and Hagerty Insurance Agency (Hagerty) terminated their underwriting arrangement with respect to the collector car and boat business. OneBeacon anticipates recognizing a pre-tax gain on sale of approximately $23.0 million ($15.0 million after tax) in the first quarter of 2013. The business associated with this agreement generated net written premiums of approximately $179.7 million, or 15.2% of consolidated written premiums, for the year ended December 31, 2012.

On October 17, 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, OneBeacon 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 Runoff Business as well as certain elements of the Runoff Business infrastructure, including staff and office space. Additionally, as part of the Runoff Transaction, OneBeacon may provide financing in the form of surplus notes. The Runoff Transaction is expected to close in the second half of 2013. During 2012, we recorded a $91.5 million after tax estimated loss on sale of the Runoff Business and $24.0 million in after tax losses from discontinued operations, which included $9.0 million of after tax incurred loss and loss adjustment expenses relating to an adjustment to the workers compensation discount rate applied to the loss reserves being transferred, as well as $6.5 million of after tax underwriting losses primarily related to adverse prior year loss reserve development related to a legacy assumed reinsurance treaty.

The assets and liabilities associated with the Runoff Business as of December 31, 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 prior year balance sheet has not been reclassified to conform to the current period's presentation. 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. 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. Pursuant to the terms of the Stock Purchase Agreement, the legal entities included in the sale and expected to be transferred to Armour will hold an agreed upon level of invested assets and capital at closing. See Note 2—"Acquisitions and Dispositions" of the accompanying consolidated financial statements.

In anticipation of the Runoff Transaction, and as means to separate the Runoff Business from the ongoing specialty business, we sought and received various regulatory approvals to terminate, incept or amend various intercompany reinsurance agreements which took effect on October 1, 2012.

The Runoff Transaction is subject to various closing conditions, primarily the receipt of regulatory approvals. 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 OneBeacon will provide certain transition services to Armour during the term of the TSA, which has an initial term of one year. OneBeacon has concluded that continuing involvement after the closing of the transaction is insignificant relative to the business being sold.

On February 22, 2012, OneBeacon completed the sale of its 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. The assets and liabilities associated with the AutoOne business as of December 31, 2011 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 December 31, 2011.

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Results of Operations

Review of Consolidated Results

Certain amounts in the prior period consolidated results have been reclassified to conform to the current presentation.

A summary of our consolidated financial results for the years ended December 31, 2012, 2011 and 2010, is as follows:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Net written premiums	$1,179.2	$1,062.7	$1,167.7
Revenues			
Earned premiums	$1,132.0	$1,012.2	$1,181.1
Net investment income	53.6	71.4	96.6
Net realized and change in unrealized investment gains	55.7	10.6	74.6
Net other revenues (expenses)	(0.5)	(12.4)	(0.6)
Total revenues	1,240.8	1,081.8	1,351.7
Expenses			
Loss and loss adjustment expense	650.0	548.3	685.6
Policy acquisition expenses	249.4	221.2	252.1
Other underwriting expenses	205.2	162.3	196.1
General and administrative expenses	13.4	9.8	12.9
Interest expense	16.9	20.5	29.6
Total expenses	1,134.9	962.1	1,176.3
Pre-tax income from continuing operations	105.9	119.7	175.4
Income tax expense	(8.4)	(14.8)	(25.1)
Net income from continuing operations	97.5	104.9	150.3
Loss from discontinued operations, net of tax	(24.3)	(29.6)	(30.4)
Loss from sale of discontinued operations, net of tax	(91.0)	(19.2)	—
Net income (loss) including noncontrolling interests	(17.8)	56.1	119.9
Less: Net income attributable to noncontrolling interests	(1.4)	(1.0)	(1.6)
Net income (loss) attributable to OneBeacon's common shareholders	(19.2)	55.1	118.3
Change in foreign currency translation, net of tax	—	—	0.7
Net change in benefit plan assets and obligations, net of tax	(2.9)	(11.2)	5.8
Comprehensive (loss) income attributable to OneBeacon's common shareholders	$(22.1)	$43.9	$124.8

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The following table provides our consolidated underwriting ratios for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,		
	2012	2011	2010[(1)]
Underwriting ratios:			
Loss and LAE	57.4 %	54.2 %	58.0 %
Expense	40.1	37.9	38.0
Total combined ratio	97.5 %	92.1 %	96.0 %

(1) The amount for 2010 includes operations associated with personal lines business that we sold in 2010. Excluding results from the personal lines business which would have increased (decreased) the loss and LAE, expense and combined ratios presented above by (2.9) points, 0.4 points and (2.5) points, respectively.

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

	(Favorable) unfavorable impact		
	2012	2011	2010
Impact on loss and LAE ratio and combined ratio:			
Catastrophe losses, net of reinsurance	4.2	3.6	3.0
Prior year loss reserve development	(0.7)	(2.9)	(3.0)

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 the year ended December 31, 2012, compared to comprehensive income attributable to OneBeacon's common shareholders of $43.9 million in the year ended December 31, 2011. Net loss attributable to OneBeacon's common shareholders was $19.2 million for the year ended December 31, 2012, compared to net income attributable to OneBeacon's common shareholders of $55.1 million for the year ended December 31, 2011. The decrease in results for the year ended December 31, 2012 as compared to the prior year was primarily due to charges associated with the Runoff Transaction and $28.2 million after-tax of ($43.4 million pre-tax) catastrophe losses and reinstatement premiums resulting from the impact of hurricane 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 the year ended December 31, 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 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 the year ended December 31, 2012, compared to $1,081.8 million in the year ended December 31, 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 the year ended December 31, 2011. Net investment income decreased to $53.6 million in the year ended December 31, 2012, compared to $71.4 million in the year ended December 31, 2011, primarily due to a 13.2% decline in average invested assets, including invested assets of $338.1 million and $111.8 million reclassified to assets held for sale as of December 31, 2012 and 2011, respectively. 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 the year ended December 31, 2012, compared to $(12.4) million in the year ended December 31, 2011. Included in net other revenues (expenses) for the year ended December 31, 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 the year ended December 31, 2011. The net loss and LAE increase of 18.5% to $650.0 million in the year ended December 31, 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 hurricane Sandy, and non-catastrophe losses. Catastrophe losses from hurricane 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 the year ended December 31, 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 the year ended December 31, 2012. These were somewhat offset by depreciation of property leased to a tenant included in general and administration expense in the year ended December 31, 2012 that, in the year ended December 31, 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 the year ended December 31, 2012, reflective of actions taken to reduce outstanding debt.

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 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 the year ended December 31, 2012, compared to 92.1% for the year ended December 31, 2011. The increase in the combined ratio for the year ended December 31, 2012 was primarily due to the impact of hurricane Sandy in the year ended December 31, 2012, as well as a 2.2 point decrease in favorable loss reserve development compared to the year ended December 31, 2011. Favorable loss reserve development for our consolidated insurance operations 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 the year ended December 31, 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 the year ended December 31, 2012, due primarily to the impact of hurricane Sandy. The year ended December 31, 2011 included $36.7 million, 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 the year ended December 31, 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 the year ended December 31, 2012.

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 the year ended December 31, 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 hurricane 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.

Consolidated Results—Year ended December 31, 2011 versus year ended December 31, 2010

Our comprehensive income attributable to OneBeacon's common shareholders was $43.9 million in the year ended December 31, 2011, compared to $124.8 million in the year ended December 31, 2010. Change in other comprehensive income and loss items in the year ended December 31, 2011 included the impact of an $11.2 million after tax decrease in our pension plans primarily related to a decrease in the over-funded status of our qualified pension plan driven by a decline in the value of the investment results, as compared to a $5.8 million after tax increase in our pension plans in 2010 also driven by investment assets in the plan. Net income attributable to OneBeacon's common shareholders was $55.1

million in the year ended December 31, 2011, compared to $118.3 million in the year ended December 31, 2010.

Our total revenues decreased 20.0% to $1,081.8 million in the year ended December 31, 2011, compared to $1,351.7 million in the year ended December 31, 2010, due primarily to decreases in earned premiums, as well as decreases in net realized and change in unrealized investment gains and net investment income. Earned premiums decreased $168.9 million, primarily due to a decrease in earned premiums of $201.9 million resulting from the Personal Lines Transaction. Net realized and change in unrealized investment gains decreased 85.8% to $10.6 million, compared to $74.6 million in the year ended

December 31, 2010. Net investment income decreased 26.1% to $71.4 million in the year ended December 31, 2011, primarily due to an 18.5% decline in average invested assets, including invested assets of $111.8 million reclassified to assets held for sale as of December 31, 2011 as part of the AutoOne Transaction. The decline in average invested assets since December 31, 2010 was driven by the Personal Lines Transaction, return of capital to shareholders and repurchases of debt and the Commercial Lines Transaction, including the impact of claim payments related to non-specialty commercial lines reserves. Net other revenues (expenses) increased $11.8 million to $(12.4) million in the year ended December 31, 2011, compared to $(0.6) million in the year ended December 31, 2010. The year ended December 31, 2011 included a $12.0 million loss related to the purchase of a portion of our 2003 Senior Notes, whereas the year ended December 31, 2010 included a $10.8 million loss related to the purchase of a portion of our 2003 Senior Notes.

Our total expenses decreased 18.2% in the year ended December 31, 2011 to $962.1 million, compared to $1,176.3 million in the year ended December 31, 2010. Loss and LAE decreased 20.0% to $548.3 million in the year ended December 31, 2011, reflective of the decrease in our book of business resulting from the Personal Lines Transaction, partially offset by favorable loss reserve development in our specialty businesses. Policy acquisition expenses decreased 12.3% to $221.2 million and other underwriting expenses decreased 17.2% to $162.3 million in the year ended December 31, 2011, reflective of the shrink in our book of business resulting from the Personal Lines Transaction. Interest expense decreased 30.7% to $20.5 million in the year ended December 31, 2011, reflective of actions taken to reduce outstanding debt. General and administrative expenses decreased 24.0% to $9.8 million.

Our income tax expense related to pre-tax income from continuing operations for the years ended December 31, 2011 and 2010 represented net effective tax rates of 12.4% and 14.3%, respectively. The effective tax rate for the year ended December 31, 2011 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 for the year ended December 31, 2010 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, and recognition of a deferred tax asset for a higher tax basis and deconsolidation of the companies sold as part of the Personal Lines Transaction, partially offset by an increase in the valuation allowance for insurance reciprocals. For the years ended December 31, 2011 and 2010, the effective tax rate on non-U.S. income was 0.3% and 0.5%, respectively, and the effective rate on U.S. income was 31.6% and 25.2%, respectively. See Note 7—"Income Taxes" of the accompanying consolidated financial statements.

Our combined ratio for the year ended December 31, 2011 decreased to 92.1% from 96.0% for the year ended December 31, 2010. The loss and LAE ratio decreased by 3.8 points to 54.2% while the expense ratio decreased by 0.1 points to 37.9%. The decrease in the loss and LAE ratio was primarily due to a decrease in current accident year non-catastrophe losses. We experienced a number of large losses in our property and inland marine business within Specialty Industries during the year ended December 31, 2010. The year ended December 31, 2011 included $29.8 million or 2.9 points of favorable loss reserve development, as compared to $36.0 million or 3.0 points of favorable loss reserve development in the year ended December 31, 2010. During the year ended December 31, 2011, the favorable loss reserve development in continuing operations was primarily related to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines. Catastrophe losses were 0.6 points higher than the prior year. The year ended December 31, 2011 included $36.7 million or 3.6 points of catastrophe losses, as compared to $35.1 million or 3.0 points of catastrophe losses in the year ended December 31, 2010.

Reinsurance protection. For the year ended December 31, 2011, our net combined ratio was higher than our gross combined ratio by 3.5 points, primarily due to 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 seven 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, as well as operations associated with personal lines business that we sold in 2010 (see Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview").

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Previously, we reported our insurance operations through a Specialty Insurance Operations segment and an Other Insurance Operations segment. The former Specialty Insurance Operations segment was comprised of twelve underwriting operating segments that were aggregated into a single reportable segment, with supplemental disclosures of three major underwriting units for financial reporting: MGA Business, Specialty Industries and Specialty Products. The former Other Insurance Operations segment consisted of substantially all operations classified as discontinued operations as of December 31, 2012, including AutoOne, other run-off business, and certain purchase accounting adjustments relating to the run-off business and the OneBeacon Acquisition. Prior periods have been reclassified to conform to the current presentation.

Specialty Products

Financial results for our Specialty Products reportable segment for the years ended December 31, 2012, 2011 and 2010 were as follows:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Net written premiums	$630.9	$571.2	$556.8
Earned premiums	$604.0	$549.8	$557.9
Loss and LAE	(345.6)	(281.7)	(282.0)
Policy acquisition expenses	(150.3)	(129.1)	(124.1)
Other underwriting expenses	(96.2)	(77.1)	(76.3)
Total underwriting income	11.9	61.9	75.5
Net other revenues	0.4	—	—
Pre-tax income from continuing operations	$12.3	$61.9	$75.5

The following table provides underwriting ratios for Specialty Products for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,		
	2012	2011	2010
Underwriting ratios:			
Loss and LAE	57.2%	51.2%	50.5%
Expense	40.7	37.5	35.9
Total combined ratio	97.9%	88.7%	86.4%

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

	(Favorable) unfavorable impact		
	2012	2011	2010
Impact on loss and LAE ratio and combined ratio:			
Catastrophe losses, net of reinsurance	3.8	0.9	0.7
Prior year loss reserve development	(0.3)	(3.0)	(5.4)

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 million in the year ended December 31, 2012 from $571.2 million in the year ended December 31, 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 Excess and Surplus 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.

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The Specialty Products combined ratio for the year ended December 31, 2012 increased to 97.9% from 88.7% for the year ended December 31, 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 the prior year. The year ended December 31, 2012 included 3.8 points of catastrophe losses, primarily related to hurricane 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 tornados in the southeastern and midwestern United States. Additionally, current accident year non-catastrophe losses increased 0.4 points, compared with the year ended December 31, 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 Products—Year ended December 31, 2011 versus year ended December 31, 2010

Net written premiums for Specialty Products increased 2.6% to $571.2 million in the year ended December 31, 2011 from $556.8 million in the year ended December 31, 2010. The increase was primarily due to increases in net written premiums of $13.3 million from our Collector Cars and Boats underwriting operating segment, $3.5 million from Excess and Surplus which we began writing in 2011, $2.5 million from Specialty Property, and $0.9 million from Tuition Reimbursement, partially offset by a decrease in net written premiums of $5.8 million from Professional Insurance primarily related to the medical excess line.

The Specialty Products combined ratio for the year ended December 31, 2011 increased to 88.7% from 86.4% for the year ended December 31, 2010. The loss and LAE ratio increased by 0.7 points to 51.2% while the expense ratio increased by 1.6 points to 37.5%. The increase in the loss and LAE ratio was primarily due to lower favorable loss reserve development. The year ended December 31, 2011 included 3.0 points of favorable loss reserve development, compared to 5.4 points of favorable loss reserve development in the prior year, primarily related to Professional Insurance for both years. The year ended December 31, 2011 included 0.9 points of catastrophe losses, primarily related to tornados in the southeastern and midwestern United States, compared to 0.7 points of catastrophe losses, primarily related to severe wind and rainstorms in the northeastern United States experienced in the first quarter of 2010 and elsewhere in the United States in the second quarter of 2010. The increases were partially offset by a 1.9 point decrease in current accident year non-catastrophe losses, compared with the year ended December 31, 2010. The increase in the expense ratio was primarily due to an increase in policy acquisition expenses mainly due to Collector Cars and Boats.

Specialty Industries

Financial results for our Specialty Industries reportable segment for the years ended December 31, 2012, 2011 and 2010 were as follows:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Net written premiums	$548.3	$491.5	$431.2
Earned premiums	$528.0	$462.4	$421.3
Loss and LAE	(304.4)	(266.6)	(257.6)
Policy acquisition expenses	(99.1)	(92.1)	(88.6)
Other underwriting expenses	(109.0)	(85.2)	(87.3)
Total underwriting income (loss)	15.5	18.5	(12.2)
Net other revenues (expenses)	(0.8)	0.6	2.7
General and administrative expenses	(1.9)	(1.7)	(2.3)
Pre-tax income (loss) from continuing operations	$12.8	$17.4	$(11.8)

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The following table provides underwriting ratios for Specialty Industries for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,		
	2012	2011	2010
Underwriting ratios:			
Loss and LAE	57.7 %	57.7 %	61.1 %
Expense	39.4	38.3	41.8
Total combined ratio	97.1 %	96.0 %	102.9 %

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

	(Favorable) unfavorable impact		
	2012	2011	2010
Impact on loss and LAE ratio and combined ratio:			
Catastrophe losses, net of reinsurance	4.7	6.8	4.1
Prior year loss reserve development	(1.1)	(2.8)	0.5

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 the year ended December 31, 2012 from $491.5 million in the year ended December 31, 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 the year ended December 31, 2012 increased to 97.1% from 96.0% for the year ended December 31, 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 the year ended December 31, 2011. The year ended December 31, 2012 included 4.7 points of catastrophe losses, primarily related to hurricane 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 tornados 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.

Specialty Industries—Year ended December 31, 2011 versus year ended December 31, 2010

Net written premiums for Specialty Industries increased 14.0% to $491.5 million in the year ended December 31, 2011 from $431.2 million in the year ended December 31, 2010. The increase compared to the prior year was due to increases in net written premiums of $19.9 million from our Accident underwriting operating segment, $19.0 million from Technology, $17.5 million from Government Risks, $7.8 million from Energy, and $5.0 million from Entertainment. These increases were primarily due to new business as well as solid retention levels despite competition in the marketplace. The increases were partially offset by an $8.9 million decrease in net written premiums from IMU, which reflected the competitive marketplace.

The Specialty Industries combined ratio for the year ended December 31, 2011 decreased to 96.0% from 102.9% for the year ended December 31, 2010. The loss and LAE ratio decreased by 3.4 points to 57.7% while the expense ratio decreased by 3.5 points to 38.3%. The decrease in the loss and LAE ratio was primarily due to the impact of favorable loss reserve development. The year ended December 31, 2011 included 2.8 points of favorable loss reserve development primarily related to Technology, compared to 0.5 points of adverse loss reserve development primarily related to

Entertainment and Accident in the prior year. Current accident year losses decreased 0.1 points, compared with the year ended December 31, 2010. The year ended December 31, 2011 included 6.8 points of catastrophe losses, primarily related to hurricane Irene, storms and freezing weather in the northeastern and southwestern United States impacting primarily IMU, and tornados in the southeastern and

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midwestern United States most notably impacting IMU and Technology, as compared to 4.1 points of catastrophe losses in 2010, primarily related to severe wind and rainstorms in the northeastern United States impacting IMU. The decrease in the expense ratio was due to a 2.4 point decrease in other underwriting expenses, as well as a 1.1 point decrease in policy acquisition expenses primarily related to Entertainment.

Investing, Financing and Corporate

A summary of results from our Investing, Financing and Corporate reportable segment for the years ended December 31, 2012, 2011 and 2010 is as follows:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Net investment income	$53.6	$71.4	$96.6
Net realized and change in unrealized investment gains	55.7	10.6	74.6
General and administrative expenses	(11.5)	(8.1)	(10.6)
Interest expense	(16.9)	(20.5)	(29.6)
Net other expenses	(0.1)	(13.0)	(3.3)
Underwriting loss[1]	—	—	(16.0)
Pre-tax income from continuing operations	$80.8	$40.4	$111.7

(1) The underwriting loss for 2010 includes operations associated with personal lines business that we sold in 2010.

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 the year ended December 31, 2012, compared to $40.4 million in the year ended December 31, 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 further described below, net realized and change in unrealized investment gains increased to $55.7 million in the year ended December 31, 2012, compared to $10.6 million in the prior year period, and net investment income decreased to $53.6 million in the year ended December 31, 2012, compared to $71.4 million in the prior year period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Investment Results." The decrease in interest expense reflects our actions taken to reduce outstanding debt prior to refinancing the debt in the fourth quarter 2012. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing." Further, net other expenses included a $6.3 million loss on the redemption of our outstanding 2003 Senior Notes in the year ended December 31, 2012, compared to $12.0 million loss related to the redemption of a portion of our 2003 Senior Notes in the year ended December 31, 2011. General and administrative expenses increased to $11.5 million as compared with $8.1 million in the prior year due significantly to depreciation of property leased to a tenant which is included in general and administration expense in the year ended December 31, 2012 that, in the year ended December 31, 2011, was recognized in other underwriting expense.

Investing, Financing and Corporate—Year ended December 31, 2011 versus year ended December 31, 2010

Investing, Financing and Corporate reported pre-tax income from continuing operations of $40.4 million in the year ended December 31, 2011, compared to $111.7 million in the year ended December 31, 2010. The decrease was primarily related to a decrease in net realized and change in unrealized investment gains and net investment income. As further described below, net realized and change in unrealized investment gains decreased to $10.6 million in the year ended December 31, 2011, compared to $74.6 million in the prior year period, and net investment income decreased to $71.4 million in the year ended December 31, 2011, compared to $96.6 million in the prior year period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Investment Results". The decrease in interest expense reflects actions taken to reduce outstanding debt. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing." Further, net other expenses increased mainly due to a $12.0 million loss related to the purchase of a portion of our 2003 Senior Notes in the year ended December 31, 2011, compared to a $10.8 million loss in the prior year period. General and administrative expenses decreased to $8.1 million as compared with $10.6 million.

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Discontinued Operations

Discontinued Operations Results—Year ended December 31, 2012 versus year ended December 31, 2011

Our loss from discontinued operations, net of tax, was $24.3 million for the year ended December 31, 2012 compared to a loss of $29.6 million for the year ended December 31, 2011. The loss in the current year was driven by adverse development related to losses incurred on a legacy assumed reinsurance treaty, case incurred development on a small number of claims related to multiple peril liability lines and general liability lines and also the impact of an adverse ruling in Mississippi regarding a disputed assessment from an involuntary pool for hurricane Katrina claims. In addition, $9.0 million of after tax ($15.2 million of pre-tax) incurred loss and loss adjustment expense, reported as adverse loss development, was related to a change in the workers' compensation tabular discount rate. Consistent with prior years, management evaluated the interest rate used in calculating the workers' compensation discount. As a result of that analysis, the discount rate applied to the workers' compensation reserves was lowered from 4.5% to 3.5% during 2012, resulting in a decrease of $15.2 million to the reserves. The loss in the prior period was driven by adverse loss reserve development resulting from a detailed review of run-off expenses, which factored in the revised definition of run-off claims to include the non-specialty commercial lines business.

Discontinued Operations Results—Year ended December 31, 2011 versus year ended December 31, 2010

Our loss from discontinued operations, net of tax, was $29.6 million for the year ended December 31, 2011 compared to a loss of $30.4 million for the year ended December 31, 2010. The loss in 2011 period was driven by adverse loss reserve development resulting from a detailed review of run-off expenses, which factored in the revised definition of run-off claims to include the non-specialty commercial lines business. The loss in the 2010 period was driven by significant catastrophe activity, primarily related to severe wind and rainstorms in the northeastern United States and higher levels of large losses in the commercial lines businesses, which were partially offset by favorable loss reserve development generally due to lower than expected severity on non-catastrophe losses related to multiple peril liability lines and other general liability lines.

Loss and LAE reserve fair value adjustment

In connection with purchase accounting for the OneBeacon Acquisition, we were required to adjust to fair value our loss and LAE reserves and the related reinsurance recoverables. As of December 31, 2012, $150.1 million of this adjustment remains, which is included in assets held for sale and liabilities held for sale on the Consolidated Balance Sheet.

Summary of Investment Results

Investment Returns

A summary of our consolidated pre-tax investment results for the years ended December 31, 2012, 2011 and 2010 is as follows:

	Year ended December 31,		
Components of Investment Results	2012	2011	2010
	($ in millions)		
Net investment income	$53.6	$71.4	$96.6
Net realized investment gains	50.8	56.8	81.9
Change in net unrealized investment gains (losses)	4.9	(46.2)	(7.3)
Total pre-tax investment results	$109.3	$82.0	$171.2

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Gross investment returns versus typical benchmarks for the years ended December 31, 2012, 2011 and 2010 are as follows:

	Year ended December 31,[(1)]		
	2012	2011	2010
Fixed maturity investments	4.5 %	3.7 %	4.4 %
Short-term investments:	—	0.1	—
Total fixed income	4.0 %	3.4 %	3.5 %
Barclays U.S. Intermediate Aggregate Index	3.6 %	6.0 %	6.1 %
Common equity securities	7.5 %	(0.1)%	18.5 %
Convertible fixed maturity investments	6.2	(6.2)	12.4
Total common equity securities and convertible fixed maturity investments	7.2 %	(1.5)%	16.4 %
Other investments	4.8	7.0	6.0
Total common equity securities, convertible fixed maturity and other investments	6.4 %	1.1 %	13.2 %
S&P 500 Index	16.0 %	2.1 %	15.1 %
Total consolidated portfolio	4.4 %	3.0 %	4.9 %

(1) Gross investment returns exclude investment expenses of $6.6 million, $6.9 million and $8.9 million, respectively, for the years ended December 31, 2012, 2011 and 2010.

Investment Returns—Year ended December 31, 2012 versus year ended December 31, 2011

Overview

Our total pre-tax investment results were $109.3 million, a return of 4.4% for the year ended December 31, 2012, compared to $82.0 million, a return of 3.0% for the year ended December 31, 2011. Net investment income in the year ended December 31, 2012 was $53.6 million, a decrease of $17.8 million, compared to $71.4 million in the year ended December 31, 2011. The decrease was principally due to lower fixed maturity investment yields and a reduction in invested assets as a result of losses paid related to the Runoff Business, as well as the closing of AutoOne and return of capital to shareholders. Net realized investment gains were $50.8 million in the year ended December 31, 2012, a decrease of $6.0 million compared to $56.8 million in the year ended December 31, 2011. The change in net unrealized investment gains (losses) was an increase of $4.9 million in the year ended December 31, 2012, compared to a decrease in net unrealized investment gains (losses) of $46.2 million in the year ended December 31, 2011.

Fixed income

Our fixed income portfolio, which includes fixed maturity and short-term investments, returned 4.0% for the year ended December 31, 2012, compared to 3.4% for the year ended December 31, 2011. We maintained a high quality fixed maturity portfolio with a relatively short duration of approximately 3.2 years excluding short-term investments and approximately 2.8 years including short-term investments at December 31, 2012. Our fixed income portfolio outperformed the longer-duration Barclays U.S. Intermediate Aggregate Index benchmark by 40 basis points for the year ended December 31, 2012.

Common equity securities, convertible fixed maturity and other investments

Our total common equity securities, convertible fixed maturity and other investments portfolio returned 6.4% for the year ended December 31, 2012, compared to 1.1% for the year ended December 31, 2011. Our total common equity securities and convertible fixed maturity investments portfolio returned 7.2% and (1.5)% for the years ended December 31, 2012 and 2011, respectively, or underperformed by 880 basis points and outperformed by 360 basis points, respectively, the S&P 500 Index benchmark. Our total common equity securities and convertible fixed maturity investments portfolio has overweight positions in the gold mining sector compared to the S&P 500 Index and also contains convertible fixed maturity investments whose returns were hurt by rising credit spreads on the fixed maturity component of the instrument. In addition, other investments, which are composed principally of hedge funds and private equities, (underperformed) outperformed the S&P 500 Index by (1,120) basis points and 490 basis points for the years ended December 31, 2012 and 2011, respectively.

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Investment Returns—Year ended December 31, 2011 versus year ended December 31, 2010

Overview

Our total pre-tax investment results were $82.0 million, a return of 3.0% for the year ended December 31, 2011, compared to $171.2 million, a return of 4.9% for the year ended December 31, 2010. Net investment income in the year ended December 31, 2011 was $71.4 million, a decrease of $25.2 million, compared to $96.6 million in the year ended December 31, 2010. The decrease was principally due to lower investment yields, a reduction in invested assets as a result of the Personal Lines Transaction, return of capital to shareholders, repurchases of debt and the Commercial Lines Transaction, including the impact of claim payments related to non-specialty commercial lines reserves. Net realized investment gains were $56.8 million in the year ended December 31, 2011, a decrease of $25.1 million compared to $81.9 million in the year ended December 31, 2010. The change in net unrealized investment gains (losses) was a decrease of $46.2 million in the year ended December 31, 2011, compared to a decrease in net unrealized investment gains (losses) of $7.3 million in the year ended December 31, 2010.

Fixed income

Our fixed income portfolio, which includes fixed maturity and short-term investments, returned 3.4% for the year ended December 31, 2011, underperforming the Barclays U.S. Intermediate Aggregate Index returns of 6.0%. We maintained a high quality fixed maturity portfolio with a relatively short duration of approximately 2.5 years excluding short-term investments and approximately 2.2 years including short-term investments at December 31, 2011 which trailed the longer-duration benchmark as rates declined during 2011.

Common equity securities, convertible fixed maturity and other investments

Our total common equity securities, convertible fixed maturity and other investments portfolio returned 1.1% for the year ended December 31, 2011, compared to 13.2% for the year ended December 31, 2010. Our total common equity securities and convertible fixed maturity investments portfolio returned (1.5)% and 16.4% for the years ended December 31, 2011 and 2010, respectively, or 360 basis points worse and 130 basis points better, respectively, than the S&P 500 Index benchmark. Our total common equity securities and convertible fixed maturity investments portfolio has overweight positions in the gold mining sector compared to the S&P 500 Index and also contains convertible fixed maturity investments whose returns were hurt by rising credit spreads on the fixed maturity component of the instrument. In addition, other investments, which are composed principally of hedge funds and private equities, outperformed the S&P 500 Index by 490 basis points for the year ended December 31, 2011 and underperformed by 910 basis points for the year ended December 31, 2011.

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Portfolio Composition

The following three investment tables include carrying values of $338.1 million of fixed maturity investments which have been reclassified to assets held for sale in the consolidated balance sheet as part of the Runoff Transaction as of December 31, 2012 and $111.8 million of fixed maturity investments reclassified to assets held for sale in the consolidated balance sheet as part of the AutoOne Transaction as of December 31, 2011.

The following table presents the composition of our reported investment portfolio balances as of December 31, 2012 and 2011:

	As of December 31,					
	2012			2011		
Type of Investment	$ in millions	% of total		$ in millions	% of total	
Fixed maturity investments	$1,931.4	73.4	%	$1,998.0	70.9	%
Short-term investments	232.8	8.9		320.0	11.3	
Common equity securities	259.0	9.8		266.5	9.5	
Convertible fixed maturity investments	62.6	2.4		79.8	2.8	
Other investments	143.8	5.5		155.1	5.5	
Total	$2,629.6	100.0	%	$2,819.4	100.0	%

The breakdown of our fixed maturity portfolio, including convertible fixed maturity investments, at December 31, 2012 by credit class, based upon issue credit ratings provided by Standard & Poor's, or if unrated by Standard & Poor's, long-term obligation ratings provided by Moody's, is as follows:

	As of December 31, 2012					
Ratings	Amortized Cost	% of Total		Carrying value	% of Total	
	($ in millions)					
U.S. government and agency obligations	$203.1	10.5	%	$204.2	10.2	%
AAA/Aaa	287.8	14.8		291.2	14.6	
AA/Aa	643.4	33.2		650.6	32.7	
A/A	315.1	16.2		328.9	16.5	
BBB/Baa	358.0	18.4		381.1	19.1	
Other/not rated	134.0	6.9		138.0	6.9	
Total	$1,941.4	100.0	%	$1,994.0	100.0	%

The weighted average duration of our fixed maturity portfolio, including convertible fixed maturity investments, at December 31, 2012 is approximately 3.2 years. The maturity distribution for fixed maturity investments, including convertible fixed maturity investments, held at December 31, 2012 is as follows:

	As of December 31, 2012	
Maturity	Amortized Cost	Carrying Value(1)
	($ in millions)	
Due within one year	$158.2	$160.2
Due after one through five years	629.5	652.1
Due after five through ten years	141.9	151.9
Due after ten years	15.0	17.2
Asset-backed securities	918.5	927.9
Preferred stocks	78.3	84.7
Total	$1,941.4	$1,994.0

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Asset-backed Securities

We purchase commercial and residential mortgage-backed securities to maximize our risk adjusted returns in the context of a diversified portfolio. Our non-agency commercial mortgage-backed portfolio (CMBS) is generally short tenor and structurally senior, with more than 20 points of subordination on average for fixed rate CMBS and approximately 50 points of subordination on average for floating rate CMBS as of December 31, 2012. In general, subordination represents the percentage of principal loss on the underlying collateral that would have to occur before the security incurs a loss. These collateral losses, instead, are first absorbed by other securities lower in the capital structure. We believe this structural protection mitigates the risk of loss tied to refinancing challenges facing the commercial real estate market. As of December 31, 2012, on average less than 1% of the underlying loans were reported as non-performing for all CMBS held. We are not an originator of residential mortgage loans and did not hold any residential mortgage-backed securities (RMBS) categorized as sub-prime as of December 31, 2012. Our investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage-backed securities as of December 31, 2012. We consider sub-prime mortgage-backed securities to be those that have underlying loan pools that exhibit weak credit characteristics or are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., we consider investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics).

There are also mortgage backed securities that we categorize as "non-prime" (also called "Alt A" or "A-") that are backed by collateral that has overall credit quality between prime and sub-prime, as determined based on our review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. As of December 31, 2012, we held no mortgage-backed securities that were classified as non-prime. Our non-agency residential mortgage-backed portfolio is generally of moderate average life, fixed rate and structurally senior. We do not own any collateralized debt obligations, including residential mortgage-backed collateralized debt obligations.

The following table summarizes the carrying value of our asset-backed securities as of December 31, 2012 and 2011:

	As of December 31,					
	2012			2011		
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
	($ in millions)					
Mortgage-backed securities:						
Agency:						
GNMA	$551.2	$551.2	$—	$631.0	$631.0	$—
FNMA	13.9	13.9	—	166.8	166.8	—
FHLMC	10.5	10.5	—	4.9	4.9	—
Total agency[1]	575.6	575.6	—	802.7	802.7	—
Non-agency:						
Residential	38.1	38.1	—	13.7	11.4	2.3
Commercial	175.4	175.4	—	68.4	68.4	—
Total Non-agency	213.5	213.5	—	82.1	79.8	2.3
Total mortgage-backed securities	789.1	789.1	—	884.8	882.5	2.3
Other asset-backed securities:						
Credit card receivables	49.0	43.7	5.3	48.2	48.2	—
Vehicle receivables	81.5	81.5	—	5.3	5.3	—
Other	8.3	8.3	—	—	—	—
Total other asset-backed securities	138.8	133.5	5.3	53.5	53.5	—
Total asset-backed securities	$927.9	$922.6	$5.3	$938.3	$936.0	$2.3

(1) Represents publicly traded mortgage-backed securities which carry the full faith and credit guaranty of the U.S. government (i.e., GNMA) or are guaranteed by a government sponsored entity (i.e., FNMA, FHLMC).

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Non-agency Mortgage-backed Securities

The security issuance years of our investments in non-agency RMBS and non-agency CMBS securities as of December 31, 2012 are as follows:

	Fair Value	Security Issuance Year 2006	2007	2010	2011	2012
	($ in millions)					
Non-agency RMBS	$38.1	$5.5	$—	$17.1	$15.5	$—
Non-agency CMBS	175.4	—	3.9	6.7	37.6	127.2
Total	$213.5	$5.5	$3.9	$23.8	$53.1	$127.2

Non-agency Residential Mortgage-backed Securities (RMBS)

The classification of the underlying collateral quality and the tranche levels of our non-agency RMBS securities are as follows as of December 31, 2012:

	Fair Value	Super Senior[(1)]	Senior[(2)]	Subordinate[(3)]
	($ in millions)			
Prime	$38.1	$—	$38.1	$—
Non-prime	—	—	—	—
Total	$38.1	$—	$38.1	$—

(1) At issuance, Super Senior were rated AAA by Standard & Poor's or Aaa by Moody's and were senior to other AAA or Aaa bonds.

(2) At issuance, Senior were rated AAA by Standard & Poor's or Aaa by Moody's and were senior to non-AAA or non-Aaa bonds.

(3) At issuance, Subordinate were not rated AAA by Standard & Poor's or Aaa by Moody's and were junior to other bonds.

Non-agency Commercial Mortgage-backed Securities

The amount of fixed and floating rate securities and their tranche levels are as follows as of December 31, 2012:

	Fair Value	Super Senior[(1)]	Senior[(2)]	Subordinate[(3)]
	($ in millions)			
Fixed rate CMBS	$170.1	$132.0	$38.1	$—
Floating rate CMBS	5.3	3.9	—	1.4
Total	$175.4	$135.9	$38.1	$1.4

(1) At issuance, Super Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to other AAA or Aaa bonds.

(2) At issuance, Senior were rated AAA by Standard & Poor's or Aaa by Moody's and were senior to non-AAA or non-Aaa bonds.

(3) At issuance, Subordinate were not rated AAA by Standard & Poor's or Aaa by Moody's and were senior to other bonds.

Liquidity and Capital Resources

Operating cash and short-term investments

Our sources and uses of cash are as follows:

Holding company level. The primary sources of cash for OneBeacon Insurance Group, Ltd. and certain of our intermediate holding companies are expected to be distributions and tax sharing payments received from our insurance operating subsidiaries, capital raising activities, net investment income, and proceeds from sales and maturities of holding company investments. The primary uses of cash are expected to be interest payments on our debt obligations, repurchases and retirements of our debt obligations, dividend payments on our common shares, common share repurchases, purchases of investments, payments made to tax authorities, contributions to our operating subsidiaries, and holding company operating expenses.

Operating subsidiary level. The primary sources of cash for our operating subsidiaries are expected to be premium collections, net investment income, capital raising activities, contributions from our holding companies, and proceeds from sales and maturities of investments. The primary uses of cash are expected to be claim payments, policy acquisition and other underwriting expenses, interest payments on internal debt obligations, repurchases and retirements of debt obligations, purchases of investments, and distributions and tax sharing payments made to parent holding companies.

Insurance companies typically collect premiums on policies that they write prior to paying claims made under those policies. During periods of premium growth, insurance companies typically experience positive cash flow from operations, as premium receipts typically exceed claim payments. When this happens, positive cash flow from operations is usually offset by negative cash flow from investing activities, as the positive operating cash flow is used to purchase investments. Conversely, during periods of premium decline, insurance companies typically experience negative cash flow from operations, even during periods in which they report net income, as the claims that they pay exceed the premiums that they collect. When this happens, negative cash flow from operations is typically offset by positive cash flow from investing activities, as invested assets are sold to fund current claim payments. For businesses that are in run-off, cash flow should be neutral as held investments are used to pay claims, loss adjusting, and other operating expenses.

Both internal and external forces influence our financial condition, results of operations and cash flows. Claim settlements, premium levels and investment returns may be impacted by changing rates of inflation and other economic conditions. In many cases, significant periods of time, ranging up to several years or more, may lapse between the occurrence of an insured loss, the reporting of the loss to us and the settlement of the liability for that loss. The exact timing of the payment of claims and benefits cannot be predicted with certainty. Our operating subsidiaries maintain portfolios of invested assets with varying maturities and a substantial amount of cash and short-term investments to provide adequate liquidity for the payment of claims.

Management believes that our cash balances, cash flows from operations and cash flows from investments are adequate to meet expected cash requirements for the foreseeable future on both a holding company and operating subsidiary level.

Dividend Capacity

Under the insurance laws of the states and jurisdictions under which our operating 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. Accordingly, there can be no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future.

Generally, our top tier regulated insurance operating subsidiaries have the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the greater of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds.

OneBeacon Insurance Company (OBIC), our primary top tier regulated insurance operating subsidiary, has the ability to pay $329.9 million of dividends during 2013 without prior approval of regulatory authorities, subject to the availability of unassigned funds. The amount of dividends available to be paid by OBIC in any given year is also subject to cash flow and earnings generated by OBIC's business, which now just comprises the Runoff Business, as well as to dividends received from its subsidiaries, including Atlantic Specialty Insurance Company (ASIC). At December 31, 2012, OBIC had $0.7 billion of unassigned funds and $0.9 billion of statutory surplus.

As disclosed in Note 2—"Acquisitions and Dispositions" of the accompanying consolidated financial statements, during the fourth quarter of 2012, OneBeacon 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. As a result of the internal restructuring transactions, OBIC's 2012 statutory net income was significantly higher than that of our consolidated combined statutory net income as statutory net losses at lower-tiered subsidiaries more than offset the income recorded at OBIC. Notwithstanding these restructuring transactions, OneBeacon continues to manage its 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.

ASIC has the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. Given the changes in

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structure noted above, ASIC will likely require prior approval by regulatory authorities in order to pay dividends until it builds up a historical net investment income stream and earned surplus balance under its new structure. At December 31, 2012, ASIC had negative earned surplus and $0.7 billion of statutory surplus.

During 2012, our top tier regulated insurance operating subsidiaries distributed $173.1 million to their immediate parent, representing $114.7 million of dividends, which included the distribution of a regulated insurance subsidiary with a value of $34.0 million, and a return of capital to OneBeacon LLC of $58.4 million.

During 2012, our unregulated insurance operating subsidiaries paid $4.9 million of dividends to their immediate parent. At December 31, 2012, OneBeacon's unregulated insurance operating subsidiaries had $28.6 million of net unrestricted cash, short-term investments and fixed maturity investments.

During 2012, OneBeacon Ltd. paid $80.1 million of regular quarterly dividends to its common shareholders. At December 31, 2012, OneBeacon Ltd. and its intermediate holding companies had $272.4 million of net unrestricted cash, short-term investments and fixed maturity investments and $33.3 million of common equity securities and convertible fixed maturity investments outside of its regulated and unregulated insurance operating subsidiaries.

Insurance Float

Insurance float is an important aspect of our insurance operations. Insurance float represents funds that an insurance company holds for a limited time. In an insurance operation, float arises because premiums are collected before losses are paid. This interval can extend over many years. During that time, the insurer invests the funds. When the premiums that an insurer collects do not cover the losses and expenses it eventually must pay, the result is an underwriting loss, which is considered to be the cost of insurance float. We calculate our insurance float by taking our net invested assets and subtracting our total capital. Although insurance float can be calculated using numbers determined under GAAP, insurance float is not a GAAP concept and, therefore, there is no comparable GAAP measure.

Insurance float can increase in a number of ways, including through acquisitions of insurance operations, organic growth in existing insurance operations and recognition of losses that do not cause a corresponding reduction in investment assets. Conversely, insurance float can decrease in a number of other ways, including sales of insurance operations, shrinking or run-off of existing insurance operations, the acquisition of operations that do not have substantial investment assets (e.g., an agency) and the recognition of gains that do not cause a corresponding increase in investment assets. We have historically obtained our insurance float through both acquisitions and organic growth. We intend to generate low-cost float over time through a combination of acquisitions and organic growth in our ongoing insurance operations. However, we will seek to increase our insurance float organically only when market conditions allow for an expectation of generating underwriting profits.

Certain operational leverage metrics can be measured with ratios that are calculated using insurance float. There are many activities that do not change the amount of insurance float at an insurance company but can have a significant impact on the company's operational leverage metrics. For example, investment gains and losses, foreign currency gains and losses, debt issuances and repurchases/repayments, common share issuances and repurchases and dividends paid to shareholders are all activities that do not change insurance float but that can meaningfully impact operational leverage metrics.

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The following table illustrates our consolidated insurance float position and four operational leverage ratios based on insurance float and net invested assets as of December 31, 2012 and 2011.

	December 31, 2012	2011
	($ in millions)	
Total investments	$2,291.5	$2,707.6
Cash	43.9	54.9
Cash and investments classified within assets held for sale	338.1	117.3
Accounts receivable on unsettled investment sales	2.1	0.5
Accounts payable on unsettled investment purchases	(6.2)	(22.7)
Net invested assets	$2,669.4	$2,857.6
OneBeacon's common shareholders' equity	$1,014.5	$1,099.8
Debt	274.7	269.7
Total capital	$1,289.2	$1,369.5
Insurance float	$1,380.2	$1,488.1
Insurance float as a multiple of total capital	1.1x	1.1x
Net invested assets as a multiple of total capital	2.1x	2.1x
Insurance float as a multiple of OneBeacon's common shareholders' equity	1.4x	1.4x
Net invested assets as a multiple of OneBeacon's common shareholders' equity	2.6x	2.6x

Based on December 31, 2012 balances, insurance float is expected to decrease by approximately $338.1 million as a result of the sale of the Runoff business. During the year ended December 31, 2012, insurance float decreased by $110.5 million, due to the sale of AutoOne.

Financing

Debt

The following table summarizes our debt to capital ratio at December 31, 2012 and 2011:

	December 31, 2012	2011
	($ in millions)	
Senior Notes, carrying value	$274.7	$269.7
OneBeacon's common shareholders' equity	1,014.5	1,099.8
Total capital	$1,289.2	$1,369.5
Ratio of debt to total capital	21.3%	19.7%

We believe that we have the flexibility and capacity to obtain funds externally as needed through debt or equity financing on both a short-term and long-term basis. However, we can provide no assurance that, if needed, we would be able to obtain additional debt or equity financing on satisfactory terms, if at all.

In November 2012, OBH issued $275.0 million face value of senior unsecured debt (2012 Senior Notes) through a public offering, at an issue price of 99.9% and received $272.9 million of proceeds. The 2012 Senior Notes bear an annual interest rate of 4.60% payable semi-annually in arrears on May 9 and November 9, until maturity on November 9, 2022, and are fully and unconditionally guaranteed as to the payment of principal and interest by OneBeacon Insurance Group, Ltd. OBH incurred $2.8 million in expenses related to the issuance of the 2012 Senior Notes (including the $1.8 million underwriting discount), which have been deferred and are being recognized into interest expense over the life of the 2012 Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the 2012 Senior Notes have an effective yield to maturity of approximately 4.7% per annum. The proceeds from the 2012 Senior Notes notes were utilized to repurchase and retire the remaining $269.8 million of 2003 Senior Notes for $275.9 million, which resulted in a $6.3 million loss in the fourth quarter of 2012.

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On March 24, 2011, OBH commenced a cash tender offer for up to $150.0 million in aggregate principal amount of the 2003 Senior Notes at a price of $1,045 per $1,000 principal amount. The cash tender offer, which was not subject to the tender of any minimum principal amount of 2003 Senior Notes, expired on April 20, 2011. OBH accepted and retired $150.0 million aggregate principal amount of the Senior Notes for $161.6 million, which resulted in a $12.0 million pre-tax loss in 2011, including transaction fees.

On May 3, 2010, OBH commenced a cash tender offer for up to $200.0 million in aggregate principal amount of the 2003 Senior Notes at a price of $1,027.50 per $1,000 principal amount. The cash tender offer, which was not subject to the tender of any minimum principal amount of 2003 Senior Notes, expired on May 28, 2010. OBH accepted and retired $156.4 million aggregate principal amount of the 2003 Senior Notes, of which $155.2 million was tendered by the early tender deadline, for purchase for $165.4 million, which resulted in a $9.6 million pre-tax loss, including transaction fees.

During the year ended December 31, 2010, OBH repurchased and retired $29.7 million of outstanding 2003 Senior Notes for $30.8 million, which resulted in a $1.2 million loss. During the year ended December 31, 2010, OBIC purchased $1.1 million of outstanding 2003 Senior Notes for $1.1 million.

During the years ended December 31, 2012, 2011 and 2010, we paid $16.4 million, $20.4 million and $29.1 million, respectively, of interest on the 2012 Senior Notes and 2003 Senior Notes (collectively, Senior Notes).

Capital Lease

In December 2011, OBIC, an indirect wholly-owned insurance operating subsidiary of the Company, sold the majority of its fixed assets and capitalized software to OB Services, another indirect wholly-owned subsidiary of the Company. The fixed assets and capitalized software were sold at a cost equal to book value with no intercompany gain or loss recorded on the sale. Subsequent to purchasing the fixed assets and capitalized software from OBIC, OB Services entered into lease financing arrangements with US Bancorp and Fifth Third whereby OB Services sold its furniture and equipment and its capitalized software, respectively, to US Bancorp and Fifth Third. The assets were sold at a cost equal to net book value. OB Services then leased the fixed assets back from US Bancorp for a lease term of five years and leased the capitalized software back from Fifth Third for a lease term of four years. OB Services received cash proceeds of $23.1 million as a result of entering into the sale-leaseback transactions. At the end of the lease terms, OB Services will have the obligation to purchase the leased assets for a nominal fee, after which all rights, title and interest would transfer to OB Services. OBIC recorded the sale of the assets with no gain or loss recognized while OB Services has recorded a capital lease obligation and a capital lease asset. As of December 31, 2012 and 2011, OB Services had a capital lease obligation of $18 million and $23 million, respectively, included within other liabilities and a capital lease asset of $16 million and $23 million, respectively, included within other assets.

Contractual Obligations and Commitments

Below is a schedule of our material contractual obligations and commitments as of December 31, 2012:

	Due in Less Than One Year	Due in One to Three Years	Due in Three to Five Years	Due After Five Years	Total
	($ in millions)				
Debt	$—	$—	$—	$274.7	$274.7
Interest on debt	12.7	25.3	25.3	63.2	126.5
Loss and LAE reserves(1)	360.0	360.0	160.0	120.0	1,000.0
Long-term incentive compensation	7.4	19.6	3.7	5.1	35.8
Pension and other benefit plan obligations(2)	27.3	7.9	6.9	31.6	73.7
Capital leases	5.3	10.6	1.9	—	17.8
Operating leases	6.7	10.5	8.2	5.9	31.3
Total contractual obligations and commitments	$419.4	$433.9	$206.0	$500.5	$1,559.8

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(1) Represents expected future cash outflows resulting from loss and LAE payments. The amounts presented are gross of reinsurance recoverables on unpaid losses of $107.3 million and include the discount on our workers compensation loss and LAE reserves of $4.6 million as of December 31, 2012. These balances exclude amounts included in held for sale as of December 31, 2012 for reinsurance recoverables on unpaid losses of $1.8 billion and loss and LAE reserves of $2.1 billion.

(2) Includes expected future cash outflows under our non-qualified, non-contributory, defined benefit pension plan and our 401(k) savings and employee stock ownership plan. Our pension plans were curtailed in 2002. See Note 8—"Retirement Plans" of the accompanying consolidated financial statements.

Our loss and LAE reserves do not have contractual maturity dates. However, based on historical payment patterns, the preceding table includes an estimate of when management expects our loss and LAE reserves to be paid. The timing of claim payments is subject to significant uncertainty. We maintain a portfolio of marketable investments with varying maturities and a substantial amount of short-term investments to provide adequate cash flows for the payment of claims.

The balances included in the table above regarding our long-term incentive compensation plans include amounts payable for performance shares and units, as well as deferred compensation balances. Exact amounts to be paid cannot be predicted with certainty as the ultimate amounts of these liabilities are based on future performance. The estimated payments reflected in the table are based on current accrual factors (common share price and pay-out percentage) and assume that all outstanding balances were 100% vested as of December 31, 2012.

There are no provisions within our operating lease agreements that would trigger acceleration of future lease payments. As of December 31, 2012, we have accrued $0.1 million net of anticipated sub-lease income for leased space which we have ceased using. The capital lease entered into in conjunction with the sale-leaseback of certain of OneBeacon's fixed assets and capitalized software contains provisions that could trigger an event of default including a failure to pay when due payments under the capital lease. If an event of default were to occur, the lessor would have a number of remedies available including the acceleration of future lease payments or the possession of the property covered under the lease agreement.

We do not finance our operations through the securitization of trade receivables, special purpose entities or synthetic leases. Further, we have not entered into any material arrangement requiring us to guarantee payment of third-party debt, lease payments or to fund losses of an unconsolidated special purpose entity.

We also have future binding commitments to fund certain limited partnership investments. These commitments, which total $16.1 million as of December 31, 2012, do not have fixed funding dates and are therefore excluded from the table above. Our future binding commitment to fund an investment in a tax advantaged federal affordable housing development fund is $5.3 million for 2013.

Share Repurchase Authorization

On August 22, 2007, our Board authorized us to repurchase up to $200.0 million of OneBeacon's 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 authorization does not have a stated expiration date. Since the inception of this authorization, the Company has repurchased and retired 5.6 million of its Class A common shares. During the years ended December 31, 2012 and December 31, 2011, no shares were repurchased. During the year ended December 31, 2010, 0.7 million Class A common shares under this authorization were repurchased for $10.5 million and retired.

Cash Flows

Detailed information concerning our cash flows during the years ended December 31, 2012, 2011 and 2010 follows:

Cash flows from operations for the years ended December 31, 2012, 2011 and 2010

Net cash flows (used for) provided from operations were $(53.7) million, $(118.5) million, and $22.4 million, respectively, for the years ended December 31, 2012, 2011 and 2010. Net cash flows for operations in the years ended December 31, 2012, 2011 and 2010 were reduced by the run-off of reserves related to the Commercial Lines Transaction. Net cash flows for operations in the years ended December 31, 2012, 2011 and 2010 were reduced by declining net investment income, primarily due to lower overall portfolio yields, shifts in portfolio mix to lower risk, lower yield investments and a decrease in the overall invested asset base. In addition, cash flows from operations for the year ended December 31, 2010 reflects the impact of the Personal Lines Transaction.

Cash flows from investing and financing activities for the year ended December 31, 2012

During 2012, we declared and paid $80.1 million of regular quarterly cash dividends to holders of OneBeacon's common shares.

During 2012, we received cash proceeds, net of issuance costs, of $271.9 million in connection with the issuance of our 2012 Senior Notes.

During 2012, OBH repurchased and retired the remaining 2003 Senior Notes for $275.9 million, including $269.8 million of outstanding principal and $6.1 million of "make whole" premium.

Acquisitions and Dispositions

During 2012, we completed the sale of a shell company, Pennsylvania General Insurance Company, and received $15.0 million as consideration.

Other Liquidity and Capital Resource Activities

During 2012, we made payments with respect to our long-term incentive compensation plans totaling $14.8 million, in cash or by deferral into certain of our non-qualified compensation plans. These payments were made primarily with respect to 256,751 performance shares and 151,475 performance units for the 2009-2011 performance cycle.

Cash flows from investing and financing activities for the year ended December 31, 2011

During 2011, we declared and paid $79.7 million of regular quarterly cash dividends and $95.1 million of a special dividend to holders of OneBeacon's common shares.

During 2011, OneBeacon Services LLC received cash proceeds of $23.1 million as a result of entering into two sale-leaseback transactions.

During 2011, OBH repurchased and retired a portion of the 2003 Senior Notes for $161.6 million in a cash tender offer, including transaction fees.

Other Liquidity and Capital Resource Activities

During 2011, we made payments with respect to our long-term incentive compensation plans totaling $16.8 million, in cash or by deferral into certain of our non-qualified compensation plans. These payments were made primarily with respect to 929,849 performance shares for the 2008-2010 performance cycle.

Cash flows from investing and financing activities for the year ended December 31, 2010

Financing and Other Capital Activities

During 2010, we declared and paid $79.5 million of regular quarterly cash dividends and $236.1 million of a special dividend to holders of OneBeacon's common shares.

During 2010, we repurchased and retired 0.7 million of our Class A common shares for $10.5 million under our share repurchase authorization.

During 2010, OBIC purchased a portion of the 2003 Senior Notes for $1.1 million.

During 2010, OBH repurchased and retired a portion of the 2003 Senior Notes for $30.8 million.

During 2010, OBH repurchased and retired a portion of the 2003 Senior Notes for $165.4 million in a cash tender offer, including transaction fees.

During 2010, we repaid the $14.0 million outstanding balance on the note issued in connection with the acquisition of ASIC.

Acquisitions and Dispositions

During 2010, we completed the Personal Lines Transaction and received $166.6 million as consideration.

During 2010, we received $10.2 million of additional consideration related to the Commercial Lines Transaction.

Other Liquidity and Capital Resource Activities

During 2010, we reported net decreases in our loss and LAE reserves and reinsurance recoverables on paid and unpaid losses, primarily due to the decline of our business exposures related to the businesses we have exited.

During 2010, we made payments in cash with respect to our long-term incentive compensation plans totaling $6.8 million. These payments were made primarily with respect to 207,250 performance shares and 38,850 performance units for various performance cycles. As a result of the Commercial Lines Transaction and the Personal Lines Transaction, payments were made to certain former employees of OneBeacon prior to the end of the performance cycle on a pro rata basis.

During 2010, we made payments with respect to our long-term incentive compensation plans totaling $21.4 million, in cash or by deferral into certain of our non-qualified compensation plans. These payments were made primarily with respect to 682,344 performance shares for the 2007-2009 performance cycle.

Related Party Disclosures

See Note 15—"Related Party Disclosures" of the accompanying consolidated financial statements.

Critical Accounting Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements. The consolidated financial statements presented herein include all adjustments considered necessary by management to fairly present our financial position, results of operations and cash flows.

The preparation of financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the historical consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

On an ongoing basis, management evaluates its estimates, including those related to fair value measurements, loss and LAE reserves, and reinsurance transactions. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Management believes that certain of these estimates are considered critical in that they involve a higher degree of judgment and are subject to a significant degree of variability. The descriptions below summarize the more significant estimates used in the preparation of our historical consolidated financial statements.

1. Fair Value Considerations

We measure certain assets at estimated fair value in our consolidated financial statements, with changes therein recognized in current period earnings. In addition, we disclose estimated fair value for certain assets and liabilities measured at historical or amortized cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). Fair value measurements are categorized into a hierarchy that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs). Quoted prices in active markets for identical assets or liabilities have the highest priority (Level 1), followed by observable inputs other than quoted prices, including prices for similar but not identical assets or liabilities (Level 2) and unobservable inputs, including the reporting entity's estimates of the assumptions that market participants would use, having the lowest priority (Level 3).

Assets carried at fair value include fixed maturity investments, common equity securities, convertible fixed maturity investments and interests in hedge funds and private equity funds. Valuation of assets measured at fair value require us to make estimates and apply judgment to matters that may carry a significant degree of uncertainty. In determining our estimates of fair value, we use a variety of valuation approaches and inputs. Whenever possible, we estimate fair value using valuation methods that maximize the use of observable prices and other inputs.

For investments in active markets, we use quoted market prices to determine fair value. In circumstances where quoted market prices are unavailable, we utilize fair value estimates based upon reference to other observable inputs other than quoted prices, including matrix pricing, benchmark interest rates, market comparables, broker quotes and other relevant observable inputs. Where observable inputs are not available, the estimated fair value is based upon internal pricing models using assumptions that include inputs that may not be observable in the marketplace but which reflect our best judgment given the circumstances and consistent with what other market participants would use when pricing such instruments.

As of December 31, 2012 and 2011, approximately 92% and 93%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices or other observable inputs. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs comprise fixed maturity investments including corporate debt, state and other governmental debt, convertible fixed maturity investments and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include our investments in hedge funds and private equity funds, as well as certain investments in debt and equity securities, including asset-backed securities, where quoted market prices are unavailable.

We use brokers and outside pricing services to assist in determining fair values. The outside pricing services we use have indicated that they will only provide prices where observable inputs are available. If no observable inputs are available for a security, the pricing services will not provide a price. In those circumstances, we estimate the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating prepayment speeds and other relevant inputs.

Our process to assess the reasonableness of the market prices obtained from the outside pricing sources covers substantially all of our fixed maturity investments and includes, but is not limited to, evaluation of model pricing methodologies, review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from different independent pricing vendors on at least an annual basis, monthly analytical reviews of certain prices and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. We also perform back-testing of selected purchases and sales activity to determine whether there are any significant differences between the market price used to value the security prior to purchase or sale and the actual purchase or sale price on at least an annual basis. Prices provided by the pricing services that vary by more than 5% and $1.0 million from the expected price based on the procedures are considered outliers. In circumstances where the results of our review process does not appear to support the market price provided by the pricing services, we challenge the price. If we cannot gain satisfactory evidence to support the challenged price, we rely upon our own pricing methodologies to estimate the fair value of the security in question.

Other investments, which are primarily comprised of hedge funds and private equity funds for which the fair value option has been elected, are carried at fair value based upon our proportionate interest in the underlying fund's net asset value, which is deemed to approximate fair value. The fair value of our investments in hedge funds and private equity funds has been estimated using net asset value because it reflects the fair value of the funds' underlying investments. We employ a number of procedures to assess the reasonableness of the fair value measurements, including obtaining and reviewing each fund's audited financial statements and discussing each fund's pricing with the fund's manager. The fair values of our investments in hedge funds and private equity funds have been classified as Level 3 under the fair value hierarchy since the fund managers do not provide sufficient information to independently evaluate the pricing inputs and methods for each underlying investment, and therefore the inputs are considered to be unobservable.

In circumstances where the underlying investments are publicly traded, such as the investments made by hedge funds, the fair value of the underlying investments is determined using current market prices. In circumstances where the underlying investments are not publicly traded, such as the investments made by private equity funds, the private equity fund managers have considered the need for a liquidity discount on each of the underlying investments when determining the fund's net asset value. In circumstances where our portion of a fund's net asset value is deemed to differ from fair value due to illiquidity or other factors associated with our investment in the fund, including counterparty credit risk, the net asset value is adjusted accordingly. At December 31, 2012 and 2011, we did not record a liquidity adjustment to the net asset value related to our investments in hedge funds or private equity funds.

As of both December 31, 2012 and 2011, other investments reported at fair value represented approximately 5% of the investment portfolio recorded at fair value. Other investments accounted for at fair value as of December 31, 2012 and 2011 were comprised of $47.3 million and $53.5 million, respectively, in hedge funds, $61.3 million and $65.7 million, respectively, in private equity funds and $14.1 million for both periods of an investment in a community reinvestment vehicle. At December 31, 2012 and 2011, OneBeacon held investments in 8 and 9 hedge funds, respectively, and 17 and 14 private equity funds, respectively. The largest investment in a single fund was $12.9 million and $13.7 million, respectively, at December 31, 2012 and 2011. As of December 31, 2012 and 2011, other investments also included $21.1 million and $21.8 million, respectively, of an investment in a tax advantaged federal affordable housing development fund which is accounted for using the equity method.

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The fair value measurements at December 31, 2012 and 2011 for assets recorded in accordance with ASC 825 and any related Level 3 inputs are as follows:

	Fair value at December 31, 2012. ($ in millions)	Level 3 Inputs	Level 3 Percentage	
Fixed maturity investments:				
U.S. Government and agency obligations	$197.6	$—	—	%
Debt securities issued by corporations	711.5	—	—	
Municipal obligations	3.2	—	—	
Asset-backed securities	927.9	5.3	0.6	
Foreign government obligations	6.5	—	—	
Preferred stocks	84.7	70.8	83.6	
Fixed maturity investments	1,931.4	76.1	3.9	
Short-term investments	232.8	—	—	
Common equity securities	259.0	0.1	—	
Convertible fixed maturity investments	62.6	—	—	
Other investments(2)	122.7	122.7	100.0	
Total(2)	$2,608.5	$198.9	7.6	%

	Fair value at December 31, 2011[1] ($ in millions)	Level 3 Inputs	Level 3 Percentage	
Fixed maturity investments:				
U.S. Government and agency obligations	$215.4	$—	—	%
Debt securities issued by corporations	758.7	—	—	
Municipal obligations	2.2	—	—	
Asset-backed securities	938.3	2.3	0.2	
Foreign government obligations	8.1	—	—	
Preferred stocks	75.3	63.8	84.7	
Fixed maturity investments	1,998.0	66.1	3.3	
Short-term investments	320.0	—	—	
Common equity securities	266.5	0.8	0.3	
Convertible fixed maturity investments	79.8	—	—	
Other investments[2]	133.3	133.3	100.0	
Total[2]	$2,797.6	$200.2	7.2	%

(1) Includes $338.1 million and $111.8 million of fixed maturity investments reclassified to assets held for sale in the December 31, 2012 and 2011 consolidated balance sheets as part of the Runoff Transaction and AutoOne Transaction, respectively.

(2) Excludes the carrying value of $21.1 million and $21.8 million, respectively, associated with a tax advantaged federal affordable housing development fund accounted for using the equity method as of December 31, 2012 and 2011.

At December 31, 2012 and 2011, we held one private preferred stock that represented approximately 84% and 85%, respectively, of our preferred stock portfolio. We used quoted market prices for similar securities that were adjusted to reflect management's best estimate of fair value; this security is classified as a Level 3 measurement.

In addition to the investment portfolio described above, we had $36.9 million of liabilities recorded at fair value and included in other liabilities as of December 31, 2011. These liabilities relate to securities that were sold short by a limited partnership in which we invested and were required to consolidate in accordance with GAAP. As of December 31, 2011, all of

the liabilities included in the $36.9 million were classified as Level 1 measurements. These liabilities were no longer held at December 31, 2012 as the partnership was sold.

The changes in Level 3 fair value measurements for the year ended December 31, 2012 are as follows:

	Fixed maturity investments	Common equity securities	Convertible fixed maturity investments	Other investments[1]	Total[1]
	($ in millions)				
Balance at January 1, 2012	$66.1	$0.8	$—	$133.3	$200.2
Amortization/accretion	0.2	—	—	—	0.2
Total net realized and unrealized gains (losses)	7.1	(0.1)	—	7.7	14.7
Purchases	53.8	—	—	8.6	62.4
Sales	(42.5)	—	—	(26.9)	(69.4)
Transfers in	5.3	—	—	—	5.3
Transfers out	(13.9)	(0.6)	—	—	(14.5)
Balance at December 31, 2012	$76.1	$0.1	$—	$122.7	$198.9

(1) Excludes the carrying value of $21.1 million associated with a tax advantaged federal affordable housing development fund accounted for using the equity method.

“Transfer in” to Level 3 fixed maturity investments of $5.3 million for the year ended December 31, 2012 consists of one asset-backed security for which the estimated fair value was determined using a single broker quote.

"Transfers out" of Level 3 fixed maturity investments and common equity securities of $14.5 million for the year ended December 31, 2012 were comprised of securities which had been previously classified as a Level 3 measurement and were recategorized as a Level 2 measurement when quoted market prices for similar securities that were considered reliable and could be validated against an alternative source became available.

2. Loss and LAE

Reserves other than Asbestos and Environmental 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.

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, which include a provision for expected future development on case reserves. Case reserves are estimated based on the experience and knowledge of claims staff regarding the nature and potential cost of each claim and are adjusted as additional information becomes known or payments are made. IBNR reserves are derived by subtracting paid loss and LAE and case reserves from estimates of ultimate loss and LAE. Actuaries estimate ultimate loss and LAE using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made.

Ultimate loss and LAE are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. In forecasting ultimate loss and LAE with respect to any line of business, past experience with respect to that line of business is the primary resource, but cannot be relied upon in isolation. Our own experience, particularly claims development experience, such as trends in case reserves, payments on and closings of claims, as well as changes in business mix and coverage limits, is the most important information for estimating our reserves. External data, available from organizations such as statistical bureaus, consulting firms and reinsurance companies, is sometimes used to supplement or corroborate our own experience, and can be especially useful for estimating costs of new business. For some lines of business, such as "long-tail" coverages discussed below, claims data reported in the most recent accident year is often too limited to provide a meaningful basis for analysis due to the typical delay in reporting of claims. For this type of business, we use a selected loss ratio method for the initial accident year or years. This is a standard and accepted

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actuarial reserve estimation method in these circumstances in which the loss ratio is selected based upon information used in pricing policies for that line of business, as well as any publicly available industry data, such as industry pricing, experience and trends, for that line of business.

Uncertainties in estimating ultimate loss and LAE are magnified by the time lag between when a claim actually occurs and when it is reported and settled. This time lag is sometimes referred to as the "claim-tail". The claim-tail for most property coverages is typically short (usually a few days up to a few months). The claim-tail for liability/casualty coverages, such as automobile liability, general liability, products liability, multiple peril coverage, and workers compensation, can be especially long as claims are often reported and ultimately paid or settled years, even decades, after the related loss events occur. During the long claims reporting and settlement period, additional facts regarding coverages written in prior accident years, as well as about actual claims and trends may become known and, as a result, we may adjust our reserves. If management determines that an adjustment is appropriate, the adjustment is booked in the accounting period in which such determination is made. Accordingly, should reserves need to be increased or decreased in the future from amounts currently established, future results of operations would be negatively or positively impacted, respectively.

In determining ultimate loss and LAE, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. The factors influencing changes in claim costs are often difficult to isolate or quantify and developments in paid and incurred losses from historical trends are frequently subject to multiple and conflicting interpretations. Changes in coverage terms or claims handling practices may also cause future experience and/or development patterns to vary from the past. A key objective of actuaries in developing estimates of ultimate loss and LAE, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them so that the future can be projected reliably. Because of the factors previously discussed, this process requires the use of informed judgment and is inherently uncertain.

Our actuaries use several generally accepted actuarial methods to evaluate our loss and LAE reserves, each of which has its own strengths and weaknesses. We place more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- Historical paid loss development methods: These methods use historical loss payments over discrete periods of time to estimate future losses. Historical paid loss development methods assume that the ratio of losses paid in one period to losses paid in an earlier period will remain constant. These methods necessarily assume that factors that have affected paid losses in the past, such as inflation or the effects of litigation, will remain constant in the future. Because historical paid loss development methods do not use case reserves to estimate ultimate losses, they can be more reliable than the other methods discussed below that look to case reserves (such as actuarial methods that use incurred losses) in situations where there are significant changes in how case reserves are established by a company's claims adjusters. However, historical paid loss development methods are more leveraged, meaning that small changes in payments have a larger impact on estimates of ultimate losses, than actuarial methods that use incurred losses because cumulative loss payments take much longer to equal the expected ultimate losses than cumulative incurred amounts. In addition, and for similar reasons, historical paid loss development methods are often slow to react to situations when new or different factors arise than those that have affected paid losses in the past.
- Historical incurred loss development methods: These methods, like historical paid loss development methods, assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. However, instead of using paid losses, these methods use incurred losses (i.e., the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods can be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development

methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses can be less reliable than other methods.

- Expected loss ratio methods: These methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss ratios are typically developed based upon the information used in pricing, and are multiplied by the total amount of premiums written to calculate ultimate losses. Expected

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loss ratio methods are useful for estimating ultimate losses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available.

- Adjusted historical paid and incurred loss development methods: These methods take traditional historical paid and incurred loss development methods and adjust them for the estimated impact of changes from the past in factors such as inflation, the speed of claim payments or the adequacy of case reserves. Adjusted historical paid and incurred loss development methods are often more reliable methods of predicting ultimate losses in periods of significant change, provided the actuaries can develop methods to reasonably quantify the impact of changes.

We perform an actuarial review of our recorded reserves each quarter. Our actuaries compare the previous quarter's estimates of paid loss and LAE, case reserves and IBNR to amounts indicated by actual experience. Differences between previous estimates and actual experience are evaluated to determine whether a given actuarial method for estimating loss and LAE should be relied upon to a greater or lesser extent than it had been in the past. While some variance is expected each quarter due to the inherent uncertainty in loss and LAE, persistent or large variances would indicate that prior assumptions and/or reliance on certain reserving methods may need to be revised going forward.

Upon completion of each quarterly review, our actuaries select indicated reserve levels based on the results of the actuarial methods described previously, which are the primary consideration in determining management's best estimate of required reserves. However, in making its best estimate, management also considers other qualitative factors that may lead to a difference between held reserves and actuarially recommended levels in the future. Typically, these factors exist when management and our actuaries conclude that there is insufficient historical incurred and paid loss information or that trends included in the historical incurred and paid loss information are unlikely to repeat in the future. Such factors include, among others, recent entry into new markets or new products, improvements in the claims department that are expected to lessen future ultimate loss costs and legal and regulatory developments. At December 31, 2012 and 2011, total carried reserves, including reserves that are presented as liabilities held for sale in the December 31, 2012 balance sheet related to the Runoff Business, were 6% and 10%, respectively, above the actuarial point estimate.

Asbestos and Environmental (A&E) Reserves

Our reserves include provisions made for claims that assert damages from A&E related exposures. Asbestos claims relate primarily to injuries asserted by those who allegedly came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up cost obligations, particularly as mandated by federal and state environmental protection agencies. In addition to the factors described above under "Reserves other than Asbestos and Environmental Reserves" regarding the reserving process, we estimate our A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss and LAE reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

A large portion of our A&E losses resulted from the operations of the Employers Group, an entity acquired by one of the legacy companies in 1971. These operations, including business of Employers Surplus Lines Insurance Company and Employers Liability Assurance Corporation, provided primary and excess liability insurance for commercial insureds, including Fortune 500-sized accounts, some of whom subsequently experienced claims for A&E losses. We stopped writing such coverage in 1984.

Our liabilities for A&E losses from business underwritten in the recent past are substantially limited by the application of exclusionary clauses in the policy language that eliminated coverage for such claims. After 1987 for pollution and 1992 for asbestos, most liability policies contained industry-standard absolute exclusions of such claims. In earlier years, various exclusions were also applied, but the wording of those exclusions was less strict and subsequent court rulings have reduced their effectiveness.

We also incurred A&E losses via our participation in industry pools and associations. The most significant of these pools was Excess Casualty Reinsurance Association, or ECRA, which provided excess liability reinsurance to U.S. insurers from 1950 until the early 1980s. ECRA incurred significant liabilities for A&E, of which we bear approximately a 4.6% and 4.7% share, respectively, at December 31, 2012 and 2011, or $66.9 million and $77.1 million, respectively, at December 31, 2012 and 2011, which is fully reflected in our loss and LAE reserves.

More recently, since the 1990s, we have experienced an influx of claims from commercial insureds, including many non-Fortune 500-sized accounts written during the 1970s and 1980s, who are named as defendants in asbestos lawsuits. As a number of large well-known manufacturers of asbestos and asbestos-containing products have gone into bankruptcy, plaintiffs have sought recoveries from peripheral defendants, such as installers, transporters or sellers of such products, or from owners of premises on which the plaintiffs' exposure to asbestos allegedly occurred. At December 31, 2012, 481 policyholders had asbestos-related claims against us. In 2012, 106 new insureds with such peripheral involvement presented asbestos claims under prior policies we had written.

Historically, most asbestos claims have been asserted as product liability claims. Recently, insureds who have exhausted the available products liability limits of their insurance policies have sought from insurers such as us payment for asbestos claims under the premises and operations coverage of their liability policies, which may not be subject to similar aggregate limits. We expect this trend to continue. However, to date there have been fewer of these premises and operations coverage claims than product liability coverage claims. This may be due to a variety of factors, including that it may be more difficult for underlying plaintiffs to establish losses as stemming from premises and operations exposures, which requires proof of the defendant's negligence, rather than products liability under which strict legal liability applies. Premises and operations claims may vary significantly and policyholders may seek large amounts, although such claims frequently settle for a fraction of the initial alleged amount. Accordingly, there is a great deal of variation in damages awarded for the actual injuries. As of December 31, 2012, there were approximately 379 active claims by insureds against us without product liability coverage asserting operations or premises coverage, which may not be subject to aggregate limits under the policies.

Immediately preceding the OneBeacon Acquisition, we purchased a reinsurance contract with NICO under which we are entitled to recover from NICO up to $2.5 billion in the future for asbestos claims arising from business written by us in 1992 and prior, environmental claims arising from business written by us in 1987 and prior, and certain other exposures. Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables from certain of our third-party reinsurers in existence at the time the NICO Cover was executed, or Third-Party Recoverables. As a result, the Third-Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of us. Any amounts uncollectible from third-party reinsurers due to dispute or the reinsurers' financial inability to pay are covered by NICO under its agreement with us. Third-Party Recoverables are typically for the amount of loss in excess of a stated level each year. Of claim payments from 2000 through 2012, approximately 47% of A&E losses have been recovered under the historical third-party reinsurance.

During 2011, we completed a study of our legacy A&E exposures. Reasonable estimates of potential adverse scenarios continue to be within the $2.5 billion reinsurance cover issued by NICO. Based on the results of the study, we increased the point estimate of incurred losses ceded to NICO from $2.2 billion to $2.3 billion, an increase of $121.9 million, net of underlying reinsurance. Due to the NICO Cover, there was no impact to income or equity from the change in the estimate. As part of our previously described actuarial review process, we review A&E activity each quarter and compare that activity to what was assumed in the most recently completed study. As of December 31, 2012, we noted no change in the range of reasonable outcomes around our best estimate described above.

As noted above, we have ceded estimated incurred losses of approximately $2.3 billion to the NICO Cover at December 31, 2012. Since entering into the NICO Cover, approximately 9% of the $2.3 billion of utilized coverage relates to uncollectible Third-Party Recoverables and settlements on Third-Party Recoverables through December 31, 2012. Net losses paid totaled $1.5 billion as of December 31, 2012. To the extent that actual experience differs from our estimate of incurred A&E losses and Third-Party Recoverables, future losses could exceed the $198.3 million of protection remaining under the NICO Cover.

Our reserves for A&E losses, net of Third-Party Recoverables but prior to NICO recoveries, were $0.7 billion at December 31, 2012. An industry benchmark of reserve adequacy is the "survival ratio," computed as a company's reserves divided by its historical average yearly loss payments. This ratio indicates approximately how many more years of payments the reserves can support, assuming future yearly payments are equal to historical levels. Our survival ratio was 10.4 at December 31, 2012. This was computed as the ratio of A&E reserves, net of Third-Party Recoverables prior to the NICO Cover of $0.7 billion plus the remaining unused portion of the NICO Cover of $198.3 million, to the average A&E loss payments over the three-year period ended December 31, 2012, net of Third-Party Recoverables. Our survival ratio was 13.3 years at December 31, 2011. We believe that as a result of the NICO Cover and our historical third-party reinsurance programs, we should not experience material financial loss from A&E exposures under current coverage interpretations and that our survival ratio compares favorably to industry survival ratios. However, the survival ratio is a simplistic measure estimating the number of years it would be before the current ending loss reserves for these claims would be paid using recent annual average payments subject to adjustments for unusual items. Many factors, such as aggressive settlement procedures, mix of business and coverage provided, have a significant effect on the amount of A&E reserves and payments and the resultant survival ratio. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

Our reserves for A&E losses at December 31, 2012 represent management's best estimate of its ultimate liability based on information currently available. However, significant uncertainties, including but not limited to case law developments, medical and clean-up cost increases and industry settlement practices, limit our ability to accurately estimate ultimate liability and we may be subject to A&E losses beyond currently estimated amounts. In addition, we remain liable for risks reinsured in the event that a reinsurer does not honor its obligations under reinsurance contracts. See Note 3—"Reserves for Unpaid Loss and LAE—Asbestos and environmental loss and LAE reserve activity" of the accompanying consolidated financial statements for more information regarding our A&E reserves.

A&E Claims Activity

Our A&E claims activity, substantially all of which relates to Runoff Business, the operations of which have been included in discontinued operations and the loss and LAE reserves of which are included in liabilities held for sale on the December 31, 2012 consolidated balance sheet, is illustrated in the table below:

	Year ended December 31, 2012	2011
Asbestos		
Accounts with asbestos claims at the beginning of the year	460	478
Accounts reporting asbestos claims during the year	106	94
Accounts on which asbestos claims were closed during the year	(85)	(112)
Accounts with asbestos claims at the end of the year	481	460
Environmental		
Accounts with environmental claims at the beginning of the year	315	353
Accounts reporting environmental claims during the year	102	57
Accounts on which environmental claims were closed during the year	(111)	(95)
Accounts with environmental claims at the end of the year	306	315
Total		
Total accounts with A&E claims at the beginning of the year	775	831
Accounts reporting A&E claims during the year	208	151
Accounts on which A&E claims were closed during the year	(196)	(207)
Total accounts with A&E claims at the end of the year	787	775

Reserve Estimation by Line of Business

The process of establishing loss reserves is complex and imprecise as it must consider many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate exposure to losses are an integral component of our loss reserving process. We, like other insurance companies, categorize and track our insurance reserves by "line of business", such as automobile liability, multiple peril liability and workers compensation. Furthermore, we regularly review the appropriateness of reserve levels at the line of business level, considering the variety of trends that impact the ultimate settlement of claims for the subsets of claims in each particular line of business.

For loss and allocated loss adjustment expense reserves, excluding A&E, the key assumption as of December 31, 2012 was that the impact of the various reserving factors, as described below, on future paid losses would be similar to the impact of those factors on the historical loss data with the exception of severity trends. Severity trends have been relatively stable over the relevant historical period. The actuarial methods use would project losses assuming continued stability in severity trends. Management has considered future increases in loss severity trends including the impact of inflation in making its reserve selections.

The major causes of material uncertainty (reserving factors) generally will vary for each product line, as well as for each separately analyzed component of the product line. The following section details reserving factors by product line. There could be other reserving factors that may impact ultimate claim costs. Each reserving factor presented will have a different impact on estimated reserves. Also, reserving factors can have offsetting or compounding effects on estimated reserves. For example, in workers compensation, the use of expensive medical procedures that result in medical cost inflation may enable workers to return to work faster, thereby lowering indemnity costs. Thus, in almost all cases, it is impossible to discretely measure the

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effect of a single reserving factor and construct a meaningful sensitivity expectation. Actual results will likely vary from expectations for each of these assumptions, resulting in an ultimate claim liability that is different from that being estimated currently.

Workers compensation

Workers compensation covers an employer's liability for injuries, disability or death of employees, without regard to fault, as prescribed by state workers compensation law and other statutes. Workers compensation is generally considered a long-tail coverage, as it takes a relatively long period of time to finalize claims from a given accident year. While certain payments such as initial medical treatment or temporary wage replacement for the injured worker are made quickly, some other payments are made over the course of several years, such as awards for permanent partial injuries. In addition, some payments can run as long as the injured worker's life, such as permanent disability benefits and ongoing medical care. Despite the possibility of long payment tails, the reporting lags are generally short, settlements are generally not complex, and most of the liability can be considered high frequency with moderate severity. The largest reserve risk generally comes from the low frequency, high severity claims providing lifetime coverage for medical expense arising from a worker's injury.

Examples of common reserving factors that can change and, thus, affect the estimated workers compensation reserves include:

General workers compensation reserving factors

- Mortality trends of injured workers with lifetime benefits and medical treatment or dependents entitled to survivor benefits
- Degree of cost shifting between workers compensation and health insurance
- Changes in claim handling philosophies (e.g., case reserving standards)

Indemnity reserving factors

- Time required to recover from the injury
- Degree of available transitional jobs
- Degree of legal involvement
- Changes in the interpretations and processes of various workers compensation bureaus' oversight of claims
- Future wage inflation for states that index benefits
- Changes in the administrative policies of second injury funds
- Re-marriage rate for spouse in instances of death

Medical reserving factors

- Changes in the cost of medical treatments, including prescription drugs, and underlying fee schedules
- Frequency of visits to health providers
- Number of medical procedures given during visits to health providers
- Types of health providers used
- Type of medical treatments received
- Use of preferred provider networks and other medical cost containment practices
- Availability of new medical processes and equipment
- Changes in the use of pharmaceutical drugs
- Degree of patient responsiveness to treatment

Workers compensation book of business reserving factors

- Product mix
- Injury type mix
- Changes in underwriting standards

Multiple peril

Multiple peril represents a package policy sold to insureds or to members of trade associations or other groups that include general liability and property insurance. General liability covers businesses for any liability resulting from bodily injury and property damage arising from general business operations, accidents on a premises and the products manufactured or sold. Property covers losses to a business' premises, inventory and equipment as a result of weather, fire, theft and other causes. Because commercial multiple peril provides a combination of property and liability coverage typically for small businesses, it includes both short- and long-tail coverages. For property coverage, it generally takes a relatively short period of time to close claims, while for the other coverages, generally for the liability coverages, it takes a longer period of time to close claims. The

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reserving risk for this line is dominated by the liability coverage portion of this product, except occasionally in the event of catastrophic or large single losses.

Multiple peril liability reserves here are generally analyzed as two components: bodily injury and property damage. Bodily injury payments reimburse the claimant for damages pertaining to physical injury as a result of the policyholder's legal obligation arising from non-intentional acts such as negligence, subject to the insurance policy provisions. In some cases the damages can include future wage loss (which is a function of future earnings power and wage inflation) and future medical treatment costs. Property damage payments result from damages to the claimant's private property arising from the policyholder's legal obligation for non-intentional acts. In most cases, property damage losses are a function of costs as of the loss date, or soon thereafter. Defense costs are also a part of the insured costs covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims, though for some products this risk is mitigated by policy language such that the insured portion of defense costs erodes the amount of policy limit available to pay the claim.

Multiple peril liability is generally considered a long-tail line, as it takes a relatively long period of time to finalize and settle claims from a given accident year. The speed of claim reporting and claim settlement is a function of the specific coverage provided and the jurisdiction, among other factors. There are numerous components underlying the multiple peril liability product line. Some of these have relatively moderate payment patterns (with most of the claims for a given accident year closed within 5 to 7 years), while others can have extreme lags in both reporting and payment of claims (e.g., a reporting lag of a decade for "construction defect" claims).

Examples of common reserving factors that can change and, thus, affect the estimated multiple peril liability reserves include:

Multiple peril liability reserving factors

- Changes in claim handling philosophies (e.g., case reserving standards)
- Changes in policy provisions or court interpretations of such provisions
- New theories of liability
- Trends in jury awards
- Changes in the propensity to sue, in general with specificity to particular issues
- Changes in statutes of limitations
- Changes in the underlying court system
- Distortions from losses resulting from large single accounts or single issues
- Changes in tort law
- Shifts in lawsuit mix between federal and state courts
- Changes in settlement patterns

Multiple peril liability book of business reserving factors

- Changes in policy provisions (e.g., deductibles, policy limits, or endorsements)
- Changes in underwriting standards
- Product mix (e.g., size of account, industries insured, or jurisdiction mix)

Commercial automobile liability

The commercial automobile product line is a mix of property and liability coverages and, therefore, includes both short- and long-tail coverages. The payments that are made quickly typically pertain to automobile physical damage (property) claims and property damage (liability) claims. The payments that take longer to finalize and are more difficult to estimate relate to bodily injury claims. Commercial automobile reserves are typically analyzed in two components; liability and collision/comprehensive claims. This second component has minimum reserve risk and fast payouts and, accordingly, separate reserving factors are not presented. The liability component includes claims for both bodily injury and property damage. In general, claim reporting lags are minor, claim complexity is not a major issue, and the line is viewed as high frequency, low to moderate severity.

Examples of common reserving factors that can change and, thus, affect the estimated commercial automobile liability reserves include:

Bodily injury and property damage liability reserving factors

- Trends in jury awards
- Changes in the underlying court system
- Changes in case law
- Litigation trends
- Frequency of claims with payment capped by policy limits

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- Change in average severity of accidents, or proportion of severe accidents
- Subrogation opportunities
- Changes in claim handling philosophies (e.g., case reserving standards)
- Frequency of visits to health providers
- Number of medical procedures given during visits to health providers
- Types of health providers used
- Types of medical treatments received
- Changes in cost of medical treatments
- Degree of patient responsiveness to treatment

Commercial automobile liability book of business reserving factors

- Changes in policy provisions (e.g., deductibles, policy limits, or endorsements)
- Changes in mix of insured vehicles (e.g., long-haul trucks versus local and smaller vehicles, or fleet risks versus non-fleet risks)
- Changes in underwriting standards

General liability

See the above discussions under the liability product lines with regard to reserving factors for multiple peril, which are similar to the reserving factors used for general liability.

Prior Loss and LAE Development Discussions by Year – Ongoing Business

The prior loss and LAE development discussion by year below relate to ongoing business (Ongoing Business) that is included in the Specialty Products and Specialty Industries segments.

Loss and LAE development—2012

During the year ended December 31, 2012, OneBeacon experienced $7.4 million of favorable loss and LAE reserve development on prior accident year reserves. During 2010, management began separately reviewing loss reserves for some business which had been previously managed as a part of OneBeacon's former commercial lines underwriting unit. As of December 31, 2011, the reserves for these businesses had been selected based on expected emergence which was based in large part on the historic loss development of the former commercial lines underwriting unit. The favorable reserve development was primarily due to emergence which continued to be lower than expected for these businesses, particularly in the workers' compensation, multiple peril liability and general liability lines. This favorable development was offset somewhat by adverse development on a few excess property claims.

Loss and LAE development—2011

During the year ended December 31, 2011, OneBeacon experienced $29.8 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines.

With respect to the favorable loss reserve development, at December 31, 2010, management had revised its expectations downward for future loss emergence in the professional liability business, which had initially been based on market analysis when this business was initiated in 2002 and 2003. However, during the year ended December 31, 2011, losses continued to be lower than these revised expectations. As a result, management lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years' results. The impact of this revised estimate was a decrease to professional liability reserves of $11.5 million.

During 2010, management began separately reviewing loss reserves for some business which had been previously managed as a part of OneBeacon's former commercial lines underwriting unit. As of December 31, 2010, the reserves for these businesses had been selected based on expected emergence which was based on the historic loss development of the former commercial lines underwriting unit. However, during 2011 the actual emerged experience for these businesses was significantly lower than the expected emergence. As a result of this favorable emergence, management lowered the loss reserves for these businesses by $14.0 million, which also affect the Specialty Industries and Specialty Products segments.

In addition to the development described for the lines of business above, management also recorded a $4.3 million net decrease in reserves in other lines of business as a result of its review of loss reserves at December 31, 2011. The change in reserves for each other line of business was not individually significant.

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Loss and LAE development—2010

During the year ended December 31, 2010, OneBeacon experienced $36.0 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines, as well as development on personal lines business. The favorable development also included a $7.5 million release of commercial catastrophe reserves associated with storms occurring in 2004 and 2005.

Specifically, at December 31, 2009, management had revised its expectations downward with respect to future loss emergence in the professional liability business, which had initially been based on market analysis when this business was initiated in 2002 and 2003. However, during the year ended December 31, 2010, losses continued to be significantly lower than these revised expectations. As a result, management lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years' results. The impact of this revised estimate was a decrease to professional liability reserves of $19.3 million.

At December 31, 2009, management had recorded $7.5 million of reserves for certain claims related to catastrophes from accident years 2004 and 2005 related to excess property business. During the year ended December 31, 2010, these claims were resolved for amounts below OneBeacon's policy coverage therefore the reserves were no longer necessary. In addition to the development described for the lines of business above, management also recorded a $9.2 million net decrease in IBNR in other lines of business, primarily personal lines, as a result of its review of loss reserves at December 31, 2010. The change in reserves for each other line of business was not individually significant.

Prior Loss and LAE Development Discussions by Year – Runoff Business

Loss and LAE development—2012

During the year ended December 31, 2012, OneBeacon experienced $40.4 million of net unfavorable loss reserve development related to discontinued operations primarily driven by case incurred development on a small number of claims related to multiple peril liability lines and general liability lines and also the impact of an adverse court ruling in Mississippi regarding a disputed assessment from an involuntary pool for hurricane Katrina claims. In addition, there was a change in the workers' compensation tabular discount rate from 4.5% to 3.5% that resulted in net unfavorable loss reserve development of $15.2 million.

Loss and LAE development—2011

During the year ended December 31, 2011, OneBeacon experienced $26.7 million of net unfavorable loss reserve development from the runoff business. The net unfavorable loss reserve development resulted from a detailed review of runoff expenses, principally unallocated loss adjustment expenses (ULAE), completed during the fourth quarter of 2011. Specifically, OneBeacon completed a detailed review of loss and defense and cost containment expenses (allocated LAE, or ALAE) and other adjusting expenses (ULAE) during the fourth quarter of 2011. The analysis considered costs, based on current non-staff expenses and staffing projections for the runoff business, as OneBeacon continued efforts to segregate its claims operations between ongoing claims and runoff claims. The analysis also factored in the revised definition of runoff claims to include the non-specialty commercial lines business that was exited via the renewal rights agreement sale beginning with January 1, 2010 effective dates.

Loss and LAE development—2010

During the year ended December 31, 2010, OneBeacon experienced $23.1 million of net favorable loss reserve development from the runoff business. The net favorable loss reserve development was primarily due to lower than expected severity on multiple peril liability lines and other general liability lines, particularly for accident years 2004 through 2009. As a result of the lower than expected case incurred loss and ALAE, actuarial methods based on case incurred losses produced lower estimated ultimate losses, resulting in lower estimates of required IBNR. Additionally, during the year ended December 31, 2010, AutoOne experienced $6.0 million of adverse loss reserve development.

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Unpaid Loss and LAE Reserves by Line of Business

Unpaid loss and LAE reserves, net of reinsurance recoverable on unpaid losses, at December 31, 2012 and 2011 were as follows:

	December 31, 2012[1]			December 31, 2011		
	Case	IBNR	Total	Case	IBNR	Total
	($ in millions)					
Ongoing Business	$324.7	$568.0	$892.7	$296.5	$510.5	$807.0
Runoff Business	164.3	47.5	211.8	225.4	158.7	384.1
Total	$489.0	$615.5	$1,104.5	$521.9	$669.2	$1,191.1

(1) Amounts included in Runoff Business as of December 31, 2012 include case and IBNR reserves that have been reclassified to liabilities held for sale in the December 31, 2012 consolidated balance sheet.

Unpaid loss and LAE reserves, net of reinsurance recoverable on unpaid losses, for our Ongoing Business by line of business at December 31, 2012 and 2011 were as follows:

	December 31, 2012			December 31, 2011		
	Case	IBNR	Total	Case	IBNR	Total
	($ in millions)					
Automobile liability	$33.3	$27.5	$60.8	$28.2	$25.9	$54.1
General liability - occurrence	43.8	123.5	167.3	41.1	108.8	149.9
General liability - claims made	58.3	171.3	229.6	51.4	163.6	215.0
Medical malpractice	57.7	114.9	172.6	45.1	116.1	161.2
Other casualty	51.8	29.5	81.3	48.6	34.6	83.2
Workers compensation	33.3	37.9	71.2	26.0	30.0	56.0
Property	24.8	35.0	59.8	38.1	11.4	49.5
Other	21.7	28.4	50.1	18.0	20.1	38.1
Total	$324.7	$568.0	$892.7	$296.5	$510.5	$807.0

Range of Reserves

Our range of reserve estimates at December 31, 2012 was evaluated to consider the strengths and weaknesses of the actuarial methods applied against our historical claims experience data. The following table shows the recorded unpaid loss and LAE reserves, net of reinsurance recoverables on unpaid losses, and the high and low ends of our range of reasonable loss and LAE reserve estimates at December 31, 2012. The high and low ends of our range of reserve estimates in the table below are based on the results of various actuarial methods described above.

	December 31, 2012		
	Low	Recorded	High
	($ in millions)		
Ongoing Business	$740.4	$892.7	$974.8
Runoff Business	136.8	211.8	295.8

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The following table shows the recorded reserves and the high and low ends of our range of reasonable loss and LAE reserves, net of reinsurance recoverable on unpaid losses, estimates for our Ongoing Business by line of business at December 31, 2012.

	December 31, 2012		
	Low	Recorded	High
	($ in millions)		
Automobile liability	$55.1	$60.8	$63.4
General liability - occurrence	128.1	167.3	184.0
General liability - claims	183.8	229.6	264.1
Medical malpractice	137.5	172.6	195.8
Other casualty	75.4	81.3	82.8
Workers compensation	57.3	71.2	71.6
Property	57.2	59.8	62.6
Other	46.0	50.1	50.5
Total	$740.4	$892.7	$974.8

The recorded reserves represent management's best estimate of unpaid loss and LAE by line of business. We use the results of several different actuarial methods to develop our estimate of ultimate reserves. While we have not determined the statistical probability of actual ultimate paid losses falling within the range, management believes that it is reasonably likely that actual ultimate paid losses will fall within the ranges noted above because the ranges were developed by using several different generally accepted actuarial methods.

The probability that ultimate losses will fall outside of the ranges of estimates by line of business is higher for each line of business individually than it is for the sum of the estimates for all lines taken together due to the effects of diversification. The diversification effects result from the fact that losses across our different lines of business are not completely correlated. Although management believes our reserves are reasonably stated, ultimate losses may deviate, perhaps materially, from the recorded reserve amounts and could be above the high end of the range of actuarial projections. This is because ranges are developed based on known events as of the valuation date, whereas the ultimate disposition of losses is subject to the outcome of events and circumstances that may be unknown as of the valuation date.

The percentages shown in the following table represent the linear interpolation of where OneBeacon's recorded loss and LAE reserves, net of reinsurance recoverable on unpaid losses, are within the range of reserves estimates at December 31, 2012 and 2011, where the low end of the range equals zero, the middle of the range equals 50% and the high end of the range equals 100%. The middle of the range (50%) does not necessarily represent the actuarial indication within the range of possible outcomes. During 2012, we modeled the range of reserves for our Ongoing Business at a more refined line of business level than we had previously used; the prior period has been restated to reflect the more refined range.

	December 31,			
	2012		2011	
	(expressed as a percentage of the range)			
Ongoing Business	65	%	73	%
Runoff Business	47		57	
Total	58	%	66	%

In selecting its best estimate, management continues to monitor the impact of future increases in inflation, including adverse changes in tort liability. These types of changes could result in deterioration in the loss reserves. During 2012, inflation continued to emerge in the loss data for some lines of business which increased the actuarial indications and related estimated range of outcomes. Since these changes in inflation assumptions are now being partially reflected in the actuarial methods, management does not need to select reserves as high in the range of actuarial indications. This has had some impact on most lines but has a particular impact on general liability – claims made and medical malpractice within both OneBeacon's Ongoing Business and its Runoff Business. Additionally, as OneBeacon continues to pay down the obligations associated with its Runoff

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Business, the uncertainly and volatility associated with those reserves is also declining such that carried reserves, which continue to exceed actuarial indications, are expectedly closer to the middle of the range.

Also in 2012, as discussed above, management lowered held reserves in several businesses that had been previously managed as part of OneBeacon's former commercial lines underwriting group. This development was primarily workers compensation and general liability occurrence. This favorable development resulted in recorded reserves being lower in the range as of December 31, 2012 compared to December 31, 2011.

The percentages shown in the following table represent the linear interpolation of where our recorded loss and LAE reserves on our Ongoing Business, net of reinsurance recoverable on unpaid losses, are within the range of reserves estimates by line of business at December 31, 2012 and 2011. Similar to the preceding table, the low end of the range equals zero, the middle of the range equals 50% and the high end of the range equals 100%.

	December 31,			
	2012		2011	
	(expressed as a percentage of the range)			
Automobile liability	69	%	68	%
General liability - occurrence	70		84	
General liability - claims	57		64	
Medical malpractice	60		71	
Other casualty	80		82	
Workers compensation	97		100	
Property	49		88	
Other	92		35	
Total	65	%	73	%

Sensitivity Analysis

The following discussion includes disclosure of possible variations from current estimates of loss reserves in our Ongoing Business and Runoff Businesses due to a change in certain key assumptions. Each of the impacts described below is estimated individually, without consideration for any correlation among key assumptions or among lines of business. Therefore, it would be inappropriate to take each of the amounts described below and add them together in an attempt to estimate volatility for our reserves in total. It is important to note that the variations discussed are not meant to be a worst-case scenario, and therefore, it is possible that future variations may be more than amounts discussed below.

- Workers compensation: Recorded loss and LAE reserves, net of reinsurance recoverables, for Ongoing and Runoff Business workers compensation were $253.8 million at December 31, 2012. The two most important assumptions for workers compensation reserves are loss development factors and loss cost trends, particularly medical cost inflation. Loss development patterns are dependent on medical cost inflation. Approximately half of the workers compensation net reserves are related to future medical costs. Across the entire reserve base, a 0.5 point change in calendar year medical inflation would have changed the estimated net reserve by approximately $46 million at December 31, 2012, in either direction.
- Professional liability: Recorded loss and allocated loss adjustment expense reserves, net of reinsurance recoverables, for professional liability were $409.5 million at December 31, 2012. A key assumption for professional liability is the implicit loss cost trend, particularly the severity inflation trend component of loss costs. Across the entire reserve base, a 5.0 point change in assumed annual severity would have changed the estimated net reserve by approximately $68 million at December 31, 2012, in either direction.
- Multiple peril liability: Recorded loss and LAE reserves for the Ongoing and Runoff Businesses, net of reinsurance recoverables excluding the GRC Cover, for multiple peril were $142.3 million at December 31, 2012. Reported loss development patterns are a key assumption for these lines of business, particularly for more mature accident years. Historically, assumptions on reported loss development patterns have been impacted by, among other things, emergence of new types of claims (e.g. construction defect claims) or a shift in the mixture between smaller, more routine claims and larger, more complex claims. If case reserve adequacy for multiple peril claims changed by 10.0 points this would have changed the estimated net reserve by approximately $14 million at December 31, 2012, in either direction.

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3. Reinsurance Transactions

Our insurance subsidiaries purchase reinsurance from time to time to protect their businesses from losses due to exposure aggregation, to manage their operating leverage ratios and to limit ultimate losses arising from catastrophic events. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Amounts related to reinsurance contracts are recorded in accordance with ASC 944.

In connection with the OneBeacon Acquisition, Aviva caused us to purchase reinsurance contracts with two reinsurance companies rated "A++" ("Superior", the highest of sixteen financial strength ratings) by A.M. Best and "AA+" ("Very Strong", the second highest of twenty-one financial strength ratings) by Standard & Poor's. One is a reinsurance cover with NICO which entitles us to recover up to $2.5 billion in ultimate loss and LAE incurred related to asbestos claims arising from business written prior to 1992, environmental claims arising from business written prior to 1987 and certain other latent exposures. As of December 31, 2012, we have ceded estimated incurred losses of approximately $2.3 billion to NICO under the NICO Cover. The other contract is a reinsurance cover with GRC for up to $570 million of additional losses on all claims arising from accident years 2000 and prior. As of December 31, 2012, we have ceded estimated incurred losses of $562 million to GRC under the GRC Cover. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for as a seller guarantee under GAAP. NICO and GRC are wholly-owned subsidiaries of Berkshire Hathaway Inc. All of these balances relate to the Runoff Business, the operations of which are included in discontinued operations and the balances as of December 31, 2012 of which have been included in assets or liabilities held for sale on the consolidated balance sheet.

The collectibility of reinsurance recoverables is subject to the solvency and willingness to pay of the reinsurer. We are selective in choosing our reinsurers, placing reinsurance principally with those reinsurers with a strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of our reinsurers on an ongoing basis. See Note 4—"Reinsurance" and Note 19—"Discontinued Operations" of the accompanying consolidated financial statements for additional information on our reinsurance programs.

FORWARD-LOOKING STATEMENTS

The information contained in this report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or referenced in this report that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. The words "will," "believe," "intend," "expect," "anticipate," "project," "estimate," "predict" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements include, among others, statements with respect to our:

- change in book value per share or return on equity;
- business strategy;
- financial and operating targets or plans;
- incurred loss and loss adjustment expenses and the adequacy of our loss and loss adjustment expense reserves and related reinsurance;
- projections of revenues, income (or loss), earnings (or loss) per share, dividends, market share or other financial forecasts;
- expansion and growth of our business and operations; and
- future capital expenditures.

These statements are based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that could cause actual results to differ materially from expectations, including:

- the risks discussed beginning on page 24 of this Form 10-K;
- claims arising from catastrophic events, such as hurricanes, windstorms, earthquakes, floods or terrorist attacks;
- recorded loss and loss adjustment expense reserves subsequently proving to have been inadequate;

- the continued availability and cost of reinsurance coverage;
- the continued availability of capital and financing;
- general economic, market or business conditions;
- business opportunities (or lack thereof) that may be presented to us and pursued;
- competitive forces, including the conduct of other property and casualty insurers and agents;
- changes in domestic or foreign laws or regulations, or their interpretation, applicable to us, our competitors, our agents or our customers;
- an economic downturn or other economic conditions adversely affecting our financial position including stock market volatility;
- actions taken by rating agencies from time to time, such as financial strength or credit rating downgrades or placing ratings on negative watch; and
- other factors, most of which are beyond our control.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or operations. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our consolidated balance sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risk. The term market risk refers to the risk of loss arising from adverse changes in interest rates, credit spreads, equity market prices and other relevant market rates and prices. Due to our sizable investment portfolio, market risk can have a significant effect on OneBeacon's consolidated financial position.

Interest Rate Risk

Fixed Maturity and Convertible Fixed Maturity Portfolios. In connection with our consolidated insurance subsidiaries, we invest in interest rate sensitive securities, primarily debt securities. Our strategy is to purchase fixed maturity investments and convertible fixed maturity investments that are attractively priced in relation to perceived credit risks. Our portfolio of fixed maturity investments held for general investment purposes are classified as trading securities which are reported at fair value as of the balance sheet date as determined by quoted market prices when available. Realized and unrealized investment gains and losses on trading securities are reported pre-tax in revenues.

Our convertible fixed maturity investments are carried at fair value with changes therein recorded in revenues as unrealized investment gains or losses.

We generally manage the interest rate risk associated with our portfolio of fixed maturity investments and convertible fixed maturity investments by monitoring the average duration of the portfolio. Our fixed maturity and convertible fixed maturity portfolios are comprised of primarily investment grade corporate securities, U.S. government and agency securities, municipal obligations and mortgage-backed securities.

Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity and convertible fixed maturity investments, respectively. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other market factors.

The table below summarizes the estimated effects of hypothetical increases and decreases in market interest rates on our fixed maturity and convertible fixed maturity investments and pension fixed maturity and convertible fixed maturity investments:

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	Fair value at December 31, 2012 ($ in millions)	Assumed change in relevant interest rate	Estimated fair value after change in interest rate	After tax increase (decrease) in carrying value
Fixed maturity and convertible fixed maturity investments(1)	$1,994.0	100 bp decrease	$2,016.4	$15.0
		50 bp decrease	2,010.4	11.0
		50 bp increase	1,968.0	(17.4)
		100 bp increase	1,941.3	(35.4)
Qualified pension plan fixed maturity and convertible fixed maturity investments(2)	$36.4	100 bp decrease	$36.6	$0.1
		50 bp decrease	36.5	0.1
		50 bp increase	36.1	(0.1)
		100 bp increase	35.9	(0.3)

(1) Assumes no sensitivity to general interest rate movements for $3.4 million of defaulted bonds and $17.8 million of convertibles whose market values are significantly influenced by the underlying stock.

(2) Assumes no sensitivity to general interest rate movements for $1.9 million of defaulted bonds and $8.3 million of convertibles whose market values are significantly influenced by the underlying stock.

Long-term obligations. As of December 31, 2012, our interest and dividend bearing long-term obligations consisted of the 2012 Senior Notes which have a fixed interest rate. As a result, our exposure to interest rate risk resulting from variable interest rate obligations is insignificant.

The Senior Notes were issued in 2012 and mature on November 9, 2022. At December 31, 2012, the fair value of the Senior Notes was $282.4 million, which compared to a carrying value of $274.7 million. The fair value of this obligation was estimated by using quoted market prices.

Credit Spread Risk

Sensitivity analysis of spread risk

Our overall fixed maturity investment strategy is to purchase securities that are attractively priced in relation to their investment risks. Widening and tightening of spreads generally translate into decreases and increases in fair values of fixed maturity investments, respectively.

The table below summarizes the estimated effects of hypothetical widening and tightening of pre-tax credit spreads for different classes of our fixed maturity and convertible fixed maturity portfolios. In estimating the impact of hypothetical tightening of spreads, for fixed maturity investments yielding more than the 3 year Constant Maturity Treasury Index (CMT Index) as of December 31, 2012, to the extent their yields would have decreased to levels lower than the 3 year CMT Index as of December 31, 2012, we limited their price appreciation to a level equal to the yield of the 3 year CMT Index. For fixed maturity investments yielding less than the 3 year CMT Index as of December 31, 2012, we assumed no price appreciation.

	December 31, 2012 Fair Value ($ in millions)	Tighten 50	Tighten 25	Widen 25	Widen 50
U.S. Government and agency obligations	$197.6	$—	$—	$—	$—
Foreign government obligations	6.5	0.1	—	—	(0.1)

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	December 31, 2012 Fair Value ($ in millions)	Tighten 100	Tighten 50	Widen 50	Widen 100
Agency mortgage-backed securities	$575.6	$14.5	$9.0	$(9.2)	$(18.2)
Other asset-backed securities	138.8	1.1	0.8	(1.2)	(2.3)

	December 31, 2012 Fair Value	Tighten 200	Tighten 100	Widen 100	Widen 200
Debt securities issued by corporations(1)	$708.1	$28.1	$19.9	$(21.3)	$(41.7)
Municipal obligations	3.2	0.4	0.2	(0.2)	(0.3)
Convertible fixed maturity investments(1)	44.8	0.8	0.6	(0.8)	(1.6)

(1) Assumes no sensitivity to general credit spread movements for $3.4 million of defaulted bonds and $17.8 million of convertibles whose market values are significantly influenced by the underlying stock.

	December 31, 2012 Fair Value	Tighten 400	Tighten 200	Widen 200	Widen 400
Non-agency commercial mortgage-backed securities	$175.4	$2.1	$2.0	$(8.2)	$(15.9)

	December 31, 2012 Fair Value	Tighten 600	Tighten 300	Widen 300	Widen 600
Preferred stocks	$84.7	$7.4	$5.9	$(16.3)	$(32.3)
Non-agency residential mortgage-backed securities	38.1	1.4	1.0	(1.8)	(3.4)

The table below summarizes the estimated effects of hypothetical widening and tightening of spreads on our qualified pension plan fixed maturity investments.

	December 31, 2012 Fair Value ($ in millions)	Tighten 200	Tighten 100	Widen 100	Widen 200
Convertible fixed maturity investments(1)	$26.2	$0.5	$0.4	$(0.5)	$(1.0)
Debt securities issued by corporations(1)	—	—	—	—	—

(1) Assumes no sensitivity to general credit spread movements for $1.9 million of defaulted bonds and $8.3 million of convertibles whose market values are significantly influenced by the underlying stock.

Equity Price Risk

The carrying values of our common equity securities and other long-term equity investments are based on quoted market prices or management's estimates of fair value as of the balance sheet date. Market prices of common equity securities, in general, are subject to fluctuations. These fluctuations could cause the amount realized upon sale or exercise of these instruments to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the investment, the relative price of alternative investments, supply and demand imbalances for a particular security or other market factors.

Sensitivity analysis of likely changes in fair values of common equity securities, hedge fund and private equity fund investments

Our investment portfolio includes investments in common equity securities, hedge funds and private equity funds. The underlying investments of the hedge funds and private equity funds are typically publicly traded and private common equity investments, and, as such, are subject to market risks that are similar to those in our common equity portfolio.

The following illustrates the estimated pre-tax effect on December 31, 2012 fair values carried on the consolidated balance sheet, resulting from hypothetical changes in market value:

	Change in fair value			
	10% decline	10% increase	30% decline	30% increase
	($ in millions)			
Common equity securities	$(25.9)	$25.9	$(77.7)	$77.7
Hedge funds	(4.7)	4.7	(14.1)	14.1
Private equity funds	(6.1)	6.1	(18.3)	18.3

Returns on common equity securities are measured against the S&P 500 Index. Hedge funds and private equity funds returns are commonly measured against the benchmark returns of hedge fund indices, such as the HFRX Equal Weighted Strategies Index, and/or the S&P 500 Index. The historical returns for each index in the past 5 full years are listed below:

	Year ended December 31,				
	2012	2011	2010	2009	2008
HFRX Equal Weighted Strategies Index	250.0%	(6.2)%	5.3%	11.4%	(21.9)%
S&P 500 Index	16.0	2.1	15.1	26.5	(37.0)

Foreign Exposure Risk

Our investment portfolio consists of financial and non-financial fixed maturity, common equity and convertible fixed maturity investments issued by more than 11 countries worldwide. The United States represents the country of issue for approximately 90% of our fixed maturity, common equity and convertible fixed maturity portfolio and we have minimal sovereign risk exposure to European peripheral countries such as Ireland, Greece, Portugal, Spain and Italy. Our direct exposure to these countries is comprised solely of non-financial common equity securities and represents only 0.1% of our fixed maturity, common equity and convertible fixed maturity investments at December 31, 2012. In addition, we could have indirect exposure to European peripheral countries through securities issued from non-peripheral countries as issuers of those securities could have exposure to European peripheral countries.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required financial disclosure.

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The CEO and the CFO of OneBeacon (the principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of December 31, 2012. Based on this evaluation, the CEO and CFO have concluded that as of December 31, 2012, our disclosure controls and procedures are adequate and effective to provide reasonable assurance that material information required to be included in our periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in rules and forms.

The CEO and the CFO have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2012. Based on that evaluation, the CEO and CFO have concluded that our internal control over financial reporting is effective. Management's annual report on internal control over financial reporting is included on page F-84 of this report. The attestation report on the effectiveness of our internal control over financial reporting by PricewaterhouseCoopers LLP is included on page F-85 of this report.

There were no significant changes with respect to our internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended December 31, 2012.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

a. Directors

Reported under the caption "The Board of Directors" in the Company's 2013 Definitive Proxy Statement, and incorporated herein by reference.

b. Executive Officers

Executive Officers of the Registrant as of February 28, 2013:

Name	Age	Position(s)
T. Michael Miller	54	Director, President and Chief Executive Officer
Paul H. McDonough	48	Senior Vice President and Chief Financial Officer
Paul J. Brehm	52	Executive Vice President, Chief Risk Officer
Dennis A. Crosby	54	Executive Vice President
Maureen A. Phillips	58	Senior Vice President and General Counsel
Paul F. Romano	53	Executive Vice President
John C. Treacy	49	Chief Accounting Officer and Treasurer

Set forth below is information concerning our directors and executive officers as of the date of this filing:

T. Michael Miller has been President and Chief Executive Officer of the Company since October 2006. Mr. Miller joined OneBeacon in April 2005 to assume responsibility for OneBeacon's insurance operations. Throughout his tenure at OneBeacon, Mr. Miller has also held various chief executive positions with OneBeacon entities. Mr. Miller's experience prior to joining OneBeacon, includes 10 years at St. Paul Travelers, most recently as Co-Chief Operating Officer, and14 years with The Chubb Corporation.

Paul H. McDonough has been Senior Vice President and Chief Financial Officer of the Company since March 2009. Mr. McDonough was appointed Vice President and Chief Financial Officer of the Company in October 2006. Throughout his tenure at OneBeacon, Mr. McDonough has held various positions with OneBeacon entities. Prior to joining OneBeacon in December 2005, Mr. McDonough served as Executive Vice President and Chief Financial Officer of BJ's Wholesale Club, and as Treasurer for St. Paul Travelers, where he worked from 1999-2004. Prior to joining St. Paul Travelers, Mr. McDonough served in various finance roles with Sears and Chevron.

Paul J. Brehm has been Executive Vice President of OB Services since February 2013. Mr. Brehm has served as Chief Risk Officer of OneBeacon since March 2010. Mr. Brehm joined OneBeacon in 2008 as the Chief Actuary for the Specialty

Insurance operations and has held various positions with OneBeacon entities. Prior to joining OneBeacon, Mr. Brehm was a Managing Director at Guy Carpenter from 2005 to 2008. Prior to Guy Carpenter, he worked at St. Paul Travelers for 22 years, most recently as Chief Actuary.

Dennis A. Crosby has been Executive Vice President of OB Services since January 2012. Mr. Crosby joined OneBeacon in July 2010 and has served as the chief executive overseeing various OneBeacon specialty insurance businesses. Prior to joining OneBeacon, Mr. Crosby was with ACE from 2004 through 2010, serving as President and CEO of ACE Westchester and Chairman of ACE Commercial Risk Services. Prior to his 6 years at ACE, he spent 23 years with St. Paul Travelers in a variety of senior roles including commercial middle market, insurance operations and public sector services.

Maureen A. Phillips became Senior Vice President and General Counsel of the Company in February 2012. Ms. Phillips has held various positions with OneBeacon entities. Prior to joining OneBeacon, Ms. Phillips was Senior Vice President and Chief Legal Officer of Allianz Life Insurance Company of North America since 2008. Ms. Phillips served as Senior Counsel at Fairview Health Services from 2006 to 2008. Her prior experience includes senior legal positions at St. Paul Travelers where she spent 17 years.

Paul F. Romano has been Executive Vice President of OB Services since January 2012. Mr. Romano joined OneBeacon in March 2008 as President of OneBeacon Professional Insurance. Mr. Romano previously was responsible for underwriting, business development and marketing with Darwin Professional Underwriters from 2003 to 2008 His prior experience includes leading Chubb Specialty's health care underwriting division. Mr. Romano spent the early part of his career with Aetna in the group insurance and managed care business.

John C. Treacy became Chief Accounting Officer and Treasurer of the Company in February 2013 after joining OneBeacon in May of 2012. Mr. Treacy holds various positions with various OneBeacon entities. Prior to joining OneBeacon, Mr. Treacy served as Chief Financial Officer for Berkley Risk from 2009 to 2012 and for JB Collins from 2007 to 2009. Mr. Treacy also served as Senior Vice President and Corporate Controller at Zurich North America from 2005 to 2007 and, previously in the same role, at St. Paul Travelers where he worked for 16 years. Prior to joining St. Paul Travelers, he practiced public accounting with Ernst & Young.

c. Audit Committee Financial Expert

Reported under the caption "Corporate Governance—Committees of the Board—Audit Committee" of the Company's 2013 Definitive Proxy Statement, and incorporated herein by reference.

d. Compliance with Section 16(a) of the Exchange Act

Reported under the caption "Compliance with Section 16(a) of the Exchange Act" of the Company's 2013 Definitive Proxy Statement, and incorporated herein by reference.

e. Code of Ethics

The Company's Code of Business Conduct, which applies to all directors, officers and employees in carrying out their responsibilities to and on behalf of the Company, is posted on the Company's website at www.onebeacon.com.

f. Nominating Committee

There have been no material changes to the procedures by which shareholders may recommend nominees to the Company's Board of Directors. The procedures for shareholders to nominate directors may be found in the Company's 2013 Definitive Proxy Statement, and incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Reported under the captions "Compensation of Executive Officers", "Compensation Committee Report", "Compensation of Directors", and "Compensation Committee Interlocks and Insider Participation" of the Company's 2013 Definitive Proxy Statement, and incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Reported under the captions "Voting Securities and Principal Holders Thereof" and "Equity Compensation Plan Information" of the Company's 2013 Definitive Proxy Statement, and incorporated herein by reference.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Reported under the caption "Transactions with Related Person, Promoters and Certain Control Persons" and "Corporation Governance" of the Company's 2013 Definitive Proxy Statement, and incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Reported under the caption "Independent Registered Public Accountant Fees and Services" of the Company's 2013 Definitive Proxy Statement, and incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. Documents Filed as Part of the Report

The financial statements and financial statement schedules and reports of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page F-1 of this report. A listing of exhibits filed as part of the report appears below.

b. Exhibits

EXHIBIT INDEX

Exhibit No.		Description
1.1	**	Form of Underwriting Agreement incorporated by reference to Exhibit 1.1 to the Company's Registration Statement on Form S-1 Amendment No. 4 filed on November 3, 2006 (Commission File No. 333-136287).
1.1.1	**	Underwriting Agreement dated November 6, 2012, among OneBeacon U.S. Holdings, Inc., the Company, and Barclays Capital Inc., HSBC (USA) Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of the several underwriters incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on November 8, 2012.
2.1.1	**	Separation Agreement between White Mountains Insurance Group, Ltd. and OneBeacon Insurance Group, Ltd incorporated by reference to Exhibit 2.1 to the Company Registration Statement on Form S-4 Amendment No. 3 filed on October 20, 2006 (Commission File No. 333-136287).
3.1	**	Memorandum of Association of OneBeacon Insurance Group, Ltd incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 Amendment No. 2 filed on October 10, 2006 (Commission File No. 333-136287).
3.1.1	**	Certificate of Deposit of Memorandum of Increase of Share Capital dated October 31, 2006 incorporated by reference to Exhibit 3.1.1 to the Company's Registration Statement on Form S-1 Amendment No. 4 filed on November 3, 2006 (Commission File No. 333-136287).
3.2	**	Bye-laws of OneBeacon Insurance Group, Ltd. incorporated by reference to Exhibit 3.2 to the Company Registration Statement on Form S-4 Amendment No. 3 filed on October 20, 2006 (Commission File No. 333-136287).
4.1	**	Specimen Class A common share certificate incorporated by reference to Exhibit 4.1 to the Company Registration Statement on Form S-4 Amendment No. 3 filed on October 20, 2006 (Commission File No. 333-136287).
4.1.1	**	Indenture, dated as of November 9, 2012, among OneBeacon U.S. Holdings, Inc., the Company, and The Bank of New York Mellon Trust Company, N.A., as trustee incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 9, 2012.
4.2	**	First Supplemental Indenture, dated as of November 9, 2012, among OneBeacon U.S. Holdings, Inc., the Company and The Bank of New York Mellon Trust Company, N.A., as trustee incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 9, 2012.
4.3	**	Registration Rights Agreement between OneBeacon Insurance Group, Ltd. and White Mountains Insurance Group, Ltd. incorporated by reference to Exhibit 4.3 to the Company's Registration

		Statement on Form S-1 Amendment No. 2 filed on November 8, 2006 (Commission File No. 333-136287).
10.1.1	**	Separation Agreement between White Mountains Insurance Group, Ltd. and OneBeacon Insurance Group, Ltd. (See 2.1.1 of this index)
10.2.1	**	Stock Purchase Agreement by and among the Company, OneBeacon Insurance Group LLC, Trebuchet and Armour Group Holdings Limited dated as October 18, 2012 incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 18, 2012.

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10.3.1	**	Investment Management Agreement with White Mountains Advisors LLC dated as of October 1, 2010 is incorporated by reference to Exhibit 10.2.5 to the Company's Annual Report on Form 10K for the year ended December 31, 2010.
10.3.2	**	Amendment No. 1 to Investment Management Agreement with White Mountains Advisors LLC dated as of August 15, 2011 is incorporated by reference to Exhibit 10.2.2 to the Company's Annual Report on Form 10K for the year ended December 31, 2011.
10.3.3	**	Investment Management Agreement with Prospector Partners, LLC dated as of March 1, 2011 is incorporated by reference to Exhibit 10.3.1 to the Company's Annual Report on Form 10K for the year ended December 31, 2011.
10.3.4	**	Amendment No. 1 to Investment Management Agreement with Prospector Partners, LLC dated as of December 22, 2011 is incorporated by reference to Exhibit 10.3.2 to the Company's Annual Report on Form 10K for the year ended December 31, 2011.
10.4.1	**	OneBeacon 2007 Long-Term Incentive Plan incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement for the Annual General Meeting of Members filed with the Securities and Exchange Commission on April 13, 2012.
10.4.2	*	OneBeacon's 2012 Management Incentive Plan.
10.4.3	**	OneBeacon Deferred Compensation Plan incorporated by reference to Exhibit 10.4.6 to the Company's Registration Statement on Form S-1 Amendment No. 2 filed on November 8, 2006 (Commission File No. 333-136287).
10.4.4	**	Form of OneBeacon Insurance Group, Ltd. Long-Term Incentive Plan 2010-2012 Performance Share Grant is incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 1, 2010.
10.4.5	**	Form of OneBeacon Insurance Group, Ltd. Long-Term Incentive Plan 2010-2012 Performance Unit Grant is incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 1, 2010.
10.4.6	**	Form of OneBeacon Insurance Group, Ltd. Long-Term Incentive Plan 2011-2013 Performance Share Grant is incorporated by reference to Exhibit 10.4.12 to the Company's Quarterly Report on Form 10-Q filed on April 29, 2011.
10.4.7	**	Form of OneBeacon Insurance Group, Ltd. Long-Term Incentive Plan 2011-2013 Performance Unit Grant is incorporated by reference to Exhibit 10.4.13 to the Company's Quarterly Report on Form 10-Q filed on April 29, 2011.
10.4.8	**	Form of OneBeacon Insurance Group, Ltd. Long-Term Incentive Plan 2012-2014 Performance Share Grant incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 27, 2012.
10.4.9	**	Form of OneBeacon Insurance Group, Ltd. Long-Term Incentive Plan 2012-2014 Performance Unit Grant incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 27, 2012.

10.4.10	**	Form of Restricted Share Award Agreement is incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 27, 2012.
10.4.11	**	Restricted Share Award Agreement by and between OneBeacon Insurance Group, Ltd. and T. Michael Miller dated as of May 25, 2011 is incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 31, 2011.
10.4.12	**	Form of Company's Confidentiality and Non-Solicitation Agreement is incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 31, 2011.
10.5.1.1	**	Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance Company ("PIC") and General Re Corporation dated April 13, 2001 incorporated by reference to Exhibit 10.6.1.1 to the Company's Registration Statement on Form S-1 Amendment No. 1 filed on September 15, 2006 (Commission File No. 333-136287).
10.5.1.2	**	Adverse Development Agreement of Reinsurance between CGU Insurance Company (and certain of its affiliates) and PIC dated April 13, 2001 incorporated by reference to Exhibit 10.6.1.2 to the Company's Registration Statement on Form S-1 Amendment No. 1 filed on September 15, 2006 (Commission File No. 333-136287).

10.5.2.1	**	Aggregate Loss Portfolio Reinsurance Agreement between PIC and NICO dated March 15, 2001 incorporated by reference to Exhibit 10.6.2.1 to the Company's Registration Statement on Form S-1 Amendment No. 1 filed on September 15, 2006 (Commission File No. 333-136287).
10.5.2.2	**	Aggregate Loss Portfolio Reinsurance Agreement between CGU Insurance Company and PIC dated March 15, 2001 incorporated by reference to Exhibit 10.6.2.2 to the Company's Registration Statement on Form S-1 Amendment No. 1 filed on September 15, 2006 (Commission File No. 333-136287).
10.6	**	Amended and Restated Certificate of Designation of Series A Preferred Stock of Fund American Companies, Inc incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 Amendment No. 4 filed on November 3, 2006 (Commission File No. 333-136287).
12.1	*	Statement of Computation of Ratio of Earnings (Loss) to Fixed Charges.
21.1	*	List of Subsidiaries of OneBeacon Insurance Group, Ltd.
23.1	*	Consent of PricewaterhouseCoopers LLP.
24.1	*	Power of Attorney (included on signature page to the Form 10-K).
31.1	*	Certification of T. Michael Miller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	*	Certification of Paul H. McDonough pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	***	Certification of T. Michael Miller pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	***	Certification of Paul H. McDonough pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	***	The following financial information from OneBeacon Insurance Group, Ltd.'s Annual Report on Form 10-K for the year ended December 31, 2012 formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2012 and 2011; (ii) Consolidated Statements of Operations and Comprehensive Income for each of the years ended December 31, 2012, 2011 and 2010; (iii) Consolidated Statements of Common Shareholders' Equity for each of the years ended December 31, 2012, 2011 and 2010; (iv) Consolidated Statements of Cash Flows for each of the years ended December 31, 2012, 2011 and 2010; and (v) Notes to Consolidated Financial Statements.

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* Filed herewith
** Previously filed
*** Furnished herewith

c. Financial Statement Schedules

The financial statement schedules and report of independent registered public accounting firm have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Consolidated Financial Statements and Financial Statement Schedules appearing on page F-1 of this report.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

OneBeacon Insurance Group, Ltd.
By: /s/ T. MICHAEL MILLER
T. Michael Miller
President and Chief Executive Officer

Date: February 28, 2013

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that the undersigned does hereby make, constitute and appoint T. Michael Miller and Paul H. McDonough, and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver any and all amendments to the Annual Report on Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 28th day of February, 2013.

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons in the capacities and on the date indicated.

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Signature	Title	Date
/s/ T. MICHAEL MILLER T. Michael Miller	President and Chief Executive Officer (Principal Executive Officer) and Director	February 28, 2013
/s/ PAUL H. MCDONOUGH Paul H. McDonough	Chief Financial Officer (Principal Financial Officer)	February 28, 2013
/s/ JOHN C. TREACY John C. Treacy	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2013
/s/ LOWNDES A. SMITH Lowndes A. Smith	Director	February 28, 2013
/s/RAYMOND BARRETTE Raymond Barrette	Director	February 28, 2013
/s/ REID T. CAMPBELL Reid T. Campbell	Director	February 28, 2013
/s/ MORGAN W. DAVIS Morgan W. Davis	Director	February 28, 2013
/s/ DAVID T. FOY David T. Foy	Director	February 28, 2013
/s/ LOIS W. GRADY Lois W. Grady	Director	February 28, 2013
/s/ RICHARD P. HOWARD Richard P. Howard	Director	February 28, 2013
/s/ IRA H. MALIS Ira H. Malis	Director	February 28, 2013
/s/ KENT D. URNESS Kent D. Urness	Director	February 28, 2013

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ONEBEACON INSURANCE GROUP, LTD.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES

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ONEBEACON INSURANCE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	2011
	(in millions, except share and per share amounts)	
Assets		
Investment Securities:		
Fixed maturity investments, at fair value	$1,593.3	$1,886.2
Short-term investments, at amortized cost (which approximates fair value)	232.8	320.0
Common equity securities, at fair value	259.0	266.5
Convertible fixed maturity investments, at fair value	62.6	79.8
Other investments	143.8	155.1
Total investments	2,291.5	2,707.6
Cash	43.9	54.9
Reinsurance recoverable on unpaid losses	107.3	2,167.5
Reinsurance recoverable on paid losses	3.3	16.5
Premiums receivable	225.6	230.9
Deferred acquisition costs	123.9	123.5
Ceded unearned premiums	11.5	10.7
Net deferred tax asset	137.8	93.6
Investment income accrued	12.1	14.1
Accounts receivable on unsettled investment sales	2.1	0.5
Other assets	215.7	269.2
Assets held for sale	2,226.8	132.6
Total assets	$5,401.5	$5,821.6
Liabilities		
Unpaid loss and loss adjustment expense reserves	$1,000.0	$3,358.6
Unearned premiums	573.8	528.0
Debt	274.7	269.7
Ceded reinsurance payable	4.8	23.4
Accounts payable on unsettled investment purchases	6.2	22.7
Other liabilities	297.9	397.7
Liabilities held for sale	2,226.8	107.6
Total liabilities	4,384.2	4,707.7
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, 95,386,179 and 95,068,457 shares)	1,019.1	1,002.2
Retained earnings	9.2	108.5
Accumulated other comprehensive loss, after tax	(13.8)	(10.9)
Total OneBeacon's common shareholders' equity	1,014.5	1,099.8
Total noncontrolling interests, after tax	2.8	14.1
Total OneBeacon's common shareholders' equity and noncontrolling interests	1,017.3	1,113.9
Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests	$5,401.5	$5,821.6

See Notes to Consolidated Financial Statements including Note 16—"Commitments and Contingencies."

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

	Year ended December 31,		
	2012	2011	2010
	($ in millions, except per share amounts)		
Revenues			
Earned premiums	$1,132.0	$1,012.2	$1,181.1
Net investment income	53.6	71.4	96.6
Net realized and change in unrealized investment gains	55.7	10.6	74.6
Net other revenues (expenses)	(0.5)	(12.4)	(0.6)
Total revenues	1,240.8	1,081.8	1,351.7
Expenses			
Loss and loss adjustment expenses	650.0	548.3	685.6
Policy acquisition expenses	249.4	221.2	252.1
Other underwriting expenses	205.2	162.3	196.1
General and administrative expenses	13.4	9.8	12.9
Interest expense	16.9	20.5	29.6
Total expenses	1,134.9	962.1	1,176.3
Pre-tax income from continuing operations	105.9	119.7	175.4
Income tax expense	(8.4)	(14.8)	(25.1)
Net income from continuing operations	97.5	104.9	150.3
Loss from discontinued operations, net of tax	(24.3)	(29.6)	(30.4)
Loss from sale of discontinued operations, net of tax	(91.0)	(19.2)	—
Net income (loss), including noncontrolling interests	(17.8)	56.1	119.9
Less: Net income attributable to noncontrolling interests	(1.4)	(1.0)	(1.6)
Net income (loss) attributable to OneBeacon's common shareholders	(19.2)	55.1	118.3
Change in foreign currency translation, net of tax	—	—	0.7
Net change in benefit plan assets and obligations, net of tax	(2.9)	(11.2)	5.8
Comprehensive income (loss) attributable to OneBeacon's common shareholders	$(22.1)	$43.9	$124.8
Earnings (loss) per share attributable to OneBeacon's common shareholders—basic and diluted			
Net income from continuing operations, per share	$1.00	$1.08	$1.57
Loss from discontinued operations, net of tax, per share	(0.25)	(0.30)	(0.32)
Loss from sale of discontinued operations, net of tax, per share	(0.96)	(0.20)	—
Net income (loss) attributable to OneBeacon's common shareholders per share	$(0.21)	$0.58	$1.25
Dividends declared and paid per OneBeacon's common share	$0.84	$1.84	$3.34

See Notes to Consolidated Financial Statements.

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

	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)	Common shareholders' equity	Noncontrolling interests, after tax	
	($ in millions)					
Balances at January 1, 2010	$1,009.7	$425.5	$ (6.2)	$ 1,429.0	$19.1	$ 1,448.1
Comprehensive income:						
Net income	—	118.3	—	118.3	1.6	119.9
Other comprehensive income items, after tax:						
Change in foreign currency translation	—	—	0.7	0.7	—	0.7
Net change in benefit plan assets and obligations, net of tax	—	—	5.8	5.8	—	5.8
Total comprehensive income	—	118.3	6.5	124.8	1.6	126.4
Amortization of option awards	0.9	—	—	0.9	—	0.9
Issuance of common shares	0.4	—	—	0.4	0.3	0.7
Repurchases and retirements of common shares	(10.5)	—	—	(10.5)	—	(10.5)
Dividends	—	(315.6)	—	(315.6)	(0.7)	(316.3)
Contributions	—	—	—	—	0.6	0.6
Distributions	—	—	—	—	(1.0)	(1.0)
Balances at December 31, 2010	$1,000.5	$228.2	$ 0.3	$ 1,229.0	$19.9	$ 1,248.9
Comprehensive income (loss):						
Net income	—	55.1	—	55.1	1.0	56.1
Other comprehensive loss item, after tax:						
Net change in benefit plan assets and obligations, net of tax	—	—	(11.2)	(11.2)	—	(11.2)
Total comprehensive income (loss)	—	55.1	(11.2)	43.9	1.0	44.9
Amortization of restricted share and option awards	1.4	—	—	1.4	—	1.4
Issuance of common shares	0.3	—	—	0.3	0.3	0.6
Repurchases and retirements of common shares	—	—	—	—	(1.3)	(1.3)
Dividends	—	(174.8)	—	(174.8)	(0.9)	(175.7)
Contributions	—	—	—	—	0.1	0.1
Distributions	—	—	—	—	(5.0)	(5.0)
Balances at December 31, 2011	$1,002.2	$108.5	$ (10.9)	$ 1,099.8	$14.1	$ 1,113.9
Comprehensive income (loss):						
Net (loss) income	—	(19.2)	—	(19.2)	1.4	(17.8)
Other comprehensive loss item, after tax:						
	—	—	(2.9)	(2.9)	—	(2.9)

Net change in benefit plan assets and obligations, net of tax						
Total comprehensive income (loss)	—	(19.2)	(2.9)	(22.1)	1.4	(20.7)
Amortization of restricted share and option awards	2.6	—	—	2.6	—	2.6
Issuance of common shares	0.3	—	—	0.3	0.2	0.5
Dividends	—	(80.1)	—	(80.1)	(0.6)	(80.7)
Contributions	—	—	—	—	0.2	0.2
Gain on sale of OB Holdings Lux	14.0	—	—	14.0	—	14.0
Sale of investment with noncontrolling interest	—	—	—	—	(12.5)	(12.5)
Balances at December 31, 2012	$ 1,019.1	$ 9.2	$ (13.8)	$ 1,014.5	$ 2.8	$ 1,017.3

See Notes to Consolidated Financial Statements.

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ONEBEACON INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2012	2011	2010
	($ in millions)		
Cash flows from operations:			
Net income (loss) including noncontrolling interests	$(17.8)	$56.1	$119.9
Charges (credits) to reconcile net income to cash flows (used for) provided from operations:			
Net loss from discontinued operations	24.3	29.6	30.4
Net loss from sale of discontinued operations	91.0	19.2	—
Net realized and change in unrealized investment gains	(55.7)	(10.6)	(74.6)
Net realized gain on sale of business	(4.4)	—	(8.5)
Net other realized losses (gains)	6.3	11.7	10.8
Deferred income tax expense	16.4	31.6	72.9
Other operating items:			
Net change in loss and LAE reserves	87.5	69.2	20.9
Net change in unearned premiums	48.4	50.2	(23.5)
Net change in ceded reinsurance payable	1.1	(0.5)	1.5
Net change in ceded unearned premium	(0.9)	0.4	8.2
Net change in premiums receivable	(14.6)	(49.4)	(110.2)
Net change in reinsurance recoverable on paid and unpaid losses	(3.1)	(46.3)	78.8
Net change in other assets and liabilities	(35.8)	(79.1)	(88.2)
Net cash provided from operations—continuing operations	142.7	82.1	38.4
Net cash used for operations—discontinued operations	(196.4)	(200.6)	(16.0)
Net cash (used for) provided from operations	(53.7)	(118.5)	22.4
Cash flows from investing activities:			
Net maturities, purchases and sales of short-term investments	14.6	(19.9)	(279.0)
Maturities of fixed maturity investments	191.5	478.3	1,080.4
Sales of fixed maturity investments	1,717.2	1,414.8	1,197.9
Sales of common equity securities	112.5	101.9	64.5
Sales of convertible fixed maturity investments	29.3	37.1	127.5
Distributions and redemptions of other investments	63.9	38.6	33.5
Purchases of fixed maturity investments	(1,862.5)	(1,472.3)	(1,697.5)
Purchases of common equity securities	(91.5)	(88.5)	(121.3)
Purchases of convertible fixed maturity investments	(9.4)	(30.4)	(38.0)
Contributions for other investments	(44.9)	(10.8)	(49.3)
Proceeds from sale of business	15.0	—	166.6
Net change in unsettled investment purchases and sales	(18.2)	13.5	25.3
Net acquisitions of property and equipment	(1.8)	(3.7)	(6.8)
Net cash provided from investing activities—continuing operations	115.7	458.6	503.8
Net cash provided from investing activities—discontinued operations	—	—	—
Net cash provided from investing activities	115.7	458.6	503.8
Cash flows from financing activities:			
Issuance of debt, net of debt issuance costs	271.9	—	—
Repayment of debt	—	—	(14.0)
Repurchases of debt	(275.9)	(161.6)	(197.3)
Cash dividends paid to common shareholders	(80.1)	(174.8)	(315.6)
Proceeds on sale of OB Holdings Lux	14.0	—	—

Capital lease obligation	(4.9)	23.1	—
Repurchases and retirements of Class A common shares	—	—	(10.5)
Net cash used for financing activities—continuing operations	(75.0)	(313.3)	(537.4)
Net cash used for financing activities—discontinued operations	—	—	—
Net cash used for financing activities	(75.0)	(313.3)	(537.4)
Net increase (decrease) in cash during year	(13.0)	26.8	(11.2)
Cash reclassified from (to) assets held for sale	5.5	(5.5)	—
Cash transferred with sale of business	(3.5)	—	—
Net increase (decrease) after reclassification of cash to assets held for sale	(11.0)	21.3	(11.2)
Cash balance at beginning of year	54.9	33.6	44.8
Cash balance at end of year	$43.9	$54.9	$33.6

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of OneBeacon Insurance Group, Ltd. (the "Company" or the "Registrant") and its subsidiaries (collectively, "OneBeacon") and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company is an exempted Bermuda limited liability company. The OneBeacon operating companies are U.S.-based property and casualty insurance writers, most of which historically have operated in a multi-company pool or have participated in 100% quota share reinsurance agreements. OneBeacon offers a wide range of specialty insurance products and services through independent agencies, regional and national brokers, wholesalers and managing general agencies.

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 the Company's common shares in an initial public offering. As of December 31, 2012, White Mountains owned 75.2% of the Company's common shares. Within this report, the term "OneBeacon" is used to refer to one or more entities within the consolidated organization, as the context requires. The Company's headquarters are located at 14 Wesley Street, 5th Floor, Hamilton HM 11, Bermuda. The Company's U.S. corporate headquarters are located at 601 Carlson Parkway, Minnetonka, Minnesota 55305 and its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

On October 17, 2012, one of OneBeacon's indirect wholly-owned subsidiaries, OneBeacon Insurance Group LLC ("OneBeacon LLC"), entered into a definitive agreement (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 its run-off business. See Note 2 and Note 19. OneBeacon's run-off business includes the results of OneBeacon's remaining non-specialty commercial lines business and certain other run-off business, including the vast majority of asbestos and environmental reserves, as well as certain purchase accounting adjustments related to the run-off business and OneBeacon Acquisition (the “Runoff Business,” the sale of which is referred to as the “Runoff Transaction”). The assets and liabilities associated with the Runoff Business as of December 31, 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 prior year balance sheet has not been reclassified to conform to the current period's presentation. 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. 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. Pursuant to the terms of the Stock Purchase Agreement, the legal entities included in the sale and expected to be transferred to Armour will hold an agreed upon level of invested assets and capital at closing.

In anticipation of the Runoff Transaction, and as means to separate the Runoff Business from the ongoing specialty business, OneBeacon sought and received various regulatory approvals to terminate, incept or amend various intercompany reinsurance agreements which took affect on October 1, 2012.

On February 22, 2012, OneBeacon completed the sale of its AutoOne Insurance business ("AutoOne") to Interboro Holdings, Inc. ("Interboro") (the "AutoOne Transaction"). See Note 2 and Note 19. 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. The assets and liabilities associated with the AutoOne business as of December 31, 2011 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 December 31, 2011.

As a result of recent transactions (including the Runoff Transaction, AutoOne Transaction and agreement to sell Essentia Insurance Company, as described in Note 2), the Company revised its reporting segment structure in the fourth quarter of 2012 into Specialty Products, Specialty Industries and Investing, Financing and Corporate. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

The Specialty Products segment is comprised of seven 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 its intermediate subsidiaries, as well as operations associated with personal lines business that it sold in 2010 (see Note 2—"Acquisitions and Dispositions").

All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As described above, certain amounts in the prior period financial statements have been reclassified to conform to the current presentation.

Significant Accounting Policies

Investment Securities

OneBeacon records its investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 825, which allows companies to make an election, on an individual instrument basis, to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. OneBeacon believes that reporting its investment results under ASC 825 is consistent with one of its operating principles, namely to manage investments for total return.

OneBeacon classifies its portfolio of fixed maturity investments and common equity securities, including convertible fixed maturity investments, held for general investment purposes as trading securities. Trading securities are reported at fair value as of the balance sheet date as determined by quoted market prices when available. Realized and changes in unrealized investment gains and losses on trading securities are reported, on a pre-tax basis, in revenues as net realized and change in unrealized investment gains (losses).

Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of December 31, 2012 and 2011.

Other investments primarily include hedge funds and private equity funds. OneBeacon measures its investments in hedge funds and private equity funds at fair value with changes therein reported in total revenues as net realized and change in unrealized investment gains (losses). Other investments also includes an investment in a community reinvestment vehicle which is accounted for at fair value and a tax advantaged federal affordable housing development fund which is accounted for under the equity method.

OneBeacon records its investments in accordance with ASC 820 which defines fair value, establishes a framework for measuring fair value and identifies financial statement disclosure requirements for fair value information. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an "exit price"). Fair value measurements are categorized into a hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). Quoted prices in active markets for identical assets or liabilities have the highest priority ("Level 1"), followed by observable inputs other than quoted prices, including prices for similar but not identical assets or liabilities ("Level 2") and unobservable inputs, including the reporting entity's estimates of the assumptions that market participants would use, having the lowest priority ("Level 3").

As of December 31, 2012 and 2011, approximately 92% and 93%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices or other observable inputs. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs comprise fixed maturity investments including corporate debt, state and other governmental debt, convertible fixed maturity investments and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include OneBeacon's

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

investments in hedge funds and private equity funds, as well as certain investments in debt and equity securities, including asset-backed securities, where quoted market prices are unavailable or are not considered reasonable.

OneBeacon uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, OneBeacon uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services OneBeacon uses have indicated that they will only provide prices where observable inputs are available. In circumstances where quoted market prices are unavailable or are not considered reasonable, OneBeacon estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating prepayment speeds and other relevant inputs.

OneBeacon's process to assess the reasonableness of the market prices obtained from the outside pricing sources covers substantially all of its fixed maturity investments and includes, but is not limited to, evaluation of model pricing methodologies, review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from different independent pricing vendors on at least an annual basis, monthly analytical reviews of certain prices and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. OneBeacon also performs back-testing of selected purchases and sales activity to determine whether there are any significant differences between the market price used to value the security prior to purchase or sale and the actual purchase or sale price on at least an annual basis. Prices provided by the pricing services that vary by more than 5% and $1.0 million from the expected price based on the procedures are considered outliers. In circumstances where the results of OneBeacon's review process does not appear to support the market price provided by the pricing services, OneBeacon challenges the price. During the past year, approximately 10 securities fell outside OneBeacon's expected results, thereby triggering the challenge with the pricing service. If OneBeacon cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question.

OneBeacon's investments in debt securities, including asset-backed securities, are generally valued using matrix and other pricing models. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life.

Other investments, which are primarily comprised of hedge funds and private equity funds for which the fair value option has been elected, are carried at fair value based upon OneBeacon's proportionate interest in the underlying fund's net asset value, which is deemed to approximate fair value. The fair value of OneBeacon's investments in hedge funds and private equity funds has been estimated using net asset value because it reflects the fair value of the funds' underlying investments in accordance with ASC 820. OneBeacon employs a number of procedures to assess the reasonableness of the fair value measurements, including obtaining and reviewing each fund's audited financial statements and discussing each fund's pricing with the fund's manager.

In circumstances where the underlying investments are publicly traded, such as the investments made by hedge funds, the fair value of the underlying investments is determined using current market prices. In circumstances where the underlying investments are not publicly traded, such as the investments made by private equity funds, the private equity fund managers have considered the need for a liquidity discount on each of the underlying investments when determining the fund's net asset value in accordance with ASC 820. In circumstances where OneBeacon's portion of a fund's net asset value is deemed to differ from fair value due to illiquidity or other factors associated with OneBeacon's investment in the fund, including counterparty credit risk, the net asset value is adjusted accordingly. See Note 5.

Cash

Cash includes amounts on hand and demand deposits with banks and other financial institutions. Amounts presented in the statements of cash flows are shown net of balances acquired and sold in the purchase or sale of the Company's consolidated subsidiaries.

Insurance Operations

OneBeacon accounts for insurance policies that it writes in accordance with ASC 944. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

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 loss adjustment expenses ("LAE"), 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.

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.

OneBeacon discounts certain of its long-term workers compensation loss and LAE reserves when such liabilities constitute unpaid but settled claims under which the payment pattern and ultimate costs are fixed and determinable on an individual claim basis. OneBeacon discounts these reserves using an average discount rate which is determined based on various assumptions including consideration of when the claims will be settled (3.5% and 4.5% at December 31, 2012 and 2011, respectively). As of December 31, 2012 and 2011, the discount on OneBeacon's workers' compensation loss and LAE reserves amounted to $4.6 million (excluding $77.9 million which relates to reserves that have been reclassified to liabilities held for sale on the December 31, 2012 balance sheet) and $108.3 million, respectively.

OneBeacon's 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. OneBeacon has also entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria are covered on a pro rata basis. The amount of each risk ceded by OneBeacon is subject to maximum limits which vary by line of business and type of coverage. Amounts related to reinsurance contracts are recorded in accordance with ASC 944, as applicable.

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. OneBeacon is selective in regard to its 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 its 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. Funds held by ceding companies represent amounts due to OneBeacon in connection with certain assumed reinsurance agreements in which the ceding company retains a portion of the premium to provide security against future loss payments. The funds held by ceding companies are generally invested by the ceding company and interest is credited to OneBeacon and recognized as investment income. Funds held under reinsurance treaties represent contractual payments due to the reinsurer that OneBeacon has retained to secure obligations of the reinsurer. Such amounts are recorded as liabilities in the consolidated financial statements.

Accounting for Mandatory Shared Market Mechanisms

As a condition of its licenses to do business in certain states, OneBeacon's insurance operations are required to participate in various mandatory shared market mechanisms commonly referred to as "residual" or "involuntary" markets. These markets

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

generally consist of risks considered to be undesirable from a standard or routine underwriting perspective. Each state dictates the levels of insurance coverage that are mandatorily assigned to participating insurers within these markets. The total amount of such business an insurer must accept in a particular state is generally based on that insurer's market share of voluntary business written within that state. In certain cases, OneBeacon is obligated to write business from shared market mechanisms at a future date based on its historical market share of all voluntary policies written within that state. Involuntary business generated from mandatory shared market mechanisms, which may be treated as assumed reinsurance depending on the structure of the mechanism, is accounted for in accordance with ASC 944.

OneBeacon's market assignments are typically required to be written in the current period, although, in certain cases OneBeacon is required to accept policy assignments at a future date. Anticipated losses associated with future market assignments are recognized in accordance with ASC 450 when the amount of such anticipated losses is determined to be probable and can be reasonably estimated.

Accounting for Insurance Related Assessments

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. In accordance with ASC 405, OneBeacon's insurance subsidiaries record guaranty fund assessments when such assessments are billed by the respective guaranty funds. In addition, each insurance subsidiary's policy is to accrue for any significant insolvencies when the loss is probable and the assessment amount can be reasonably estimated.

Capital Lease

In December 2011, OneBeacon Insurance Company ("OBIC"), a wholly-owned insurance operating subsidiary, sold the majority of its fixed assets and capitalized software to OneBeacon Services LLC ("OB Services"), an indirect wholly-owned subsidiary of the Company. The fixed assets and capitalized software were sold at a cost equal to book value with no gain or loss recorded on the sale. Subsequent to purchasing the fixed assets and capitalized software from OBIC, OB Services entered into lease financing arrangements with US Bancorp Equipment Finance, Inc. ("US Bancorp") and Fifth Third Equipment Finance Company ("Fifth Third") whereby OB Services sold its furniture and equipment and its capitalized software, respectively, to US Bancorp and Fifth Third. The assets were sold at a cost equal to net book value. OB Services then leased the assets back from US Bancorp for a lease term of five years and leased the capitalized software back from Fifth Third for a lease term of four years. OBIC recorded the sale of the assets with no gain or loss recognized while OB Services has recorded a capital lease obligation. See Note 16—"Commitments and Contingencies."

Deferred Software Costs

OneBeacon capitalizes costs related to computer software developed for internal use during the application development stage of software development projects in accordance with ASC 350. These costs generally consist of certain external, payroll and payroll related costs. OneBeacon begins amortization of these costs once the project or the respective phase of the project is completed and ready for its intended use. Amortization is on a straight line basis and over the useful life which generally ranges from three to five years. At December 31, 2012 and 2011, OneBeacon had unamortized deferred software costs of $7.3 million and $15.0 million, respectively. Unamortized deferred software costs subject to the sale-leaseback described above were $3.8 million and $13.7 million at December 31, 2012 and 2011, respectively.

Federal and Foreign Income Taxes

The majority of the Company's subsidiaries file consolidated tax returns in the United States. Income earned or losses generated by companies outside the United States are generally subject to an overall effective tax rate lower than that imposed by the United States.

Deferred tax assets and liabilities are recorded when a difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes exists, and for other temporary differences as defined by ASC 740. The deferred tax asset or liability is recorded based on tax rates expected to be in effect when the difference reverses. The deferred tax asset is recognized when it is more likely than not that it will be realized.

Foreign Currency Exchange

The U.S. dollar is the functional currency for all of OneBeacon's businesses. OneBeacon is subject to foreign currency fluctuations associated with foreign investment securities and also certain reinsurance arrangements. Assets and liabilities

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recorded in foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are converted using the average exchange rates for the period. In accordance with ASC 825, net foreign exchange gains and losses arising from the translation are generally reported as a component of net income in the period in which they arise.

Variable Interest Entities

OneBeacon consolidates a reciprocal insurance exchange ("reciprocal") as a variable interest entity ("VIE"), which is an entity in which the equity investors do not have the characteristics of a controlling interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The primary beneficiary of a VIE is required to consolidate the VIE in its financial statements. The primary beneficiary is an entity that has the controlling financial interest in the VIE when it has both of the following: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. A reporting entity must assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining if it has the power to direct the activities of the VIE that most significantly affect the entity’s economic performance. Ongoing reassessments of whether a reporting entity is the primary beneficiary of a VIE are required. See Note 13 for more information VIEs.

Defined Benefit Plans

Under ASC 715, an employer that sponsors a defined benefit plan is required to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation (for defined benefit pension plans) or the accumulated benefit obligation (for other postretirement benefit plans) in its statement of financial position. ASC 715 also requires recognition of amounts previously deferred and amortized in other comprehensive income in the period in which they occur. Under ASC 715, plan assets and obligations must be measured as of the fiscal year end. See Note 8.

Recently Adopted Changes in Accounting Principles

Policy Acquisition Costs

On January 1, 2012, OneBeacon adopted Accounting Standards Update (“ASU”) 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (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.

OneBeacon adopted ASU 2010-26 prospectively. As a result of adopting ASU 2010-26, $5.6 million of unamortized deferred acquisition costs as of January 1, 2012, primarily relating to a portion of profit sharing commission that had been deferred under prior guidance, were determined to no longer be deferrable and were recognized in expense over the original amortization period. During the year ended December 31, 2012, all of the $5.6 million of unamortized acquisitions costs as of January 1, 2012 were recognized in expense. If OneBeacon had followed ASU 2010-26 in 2011, $5.6 million of acquisition costs that were deferred would have been recognized in expense during the year ended December 31, 2011.

Fair Value Measurements and Disclosures

On January 1, 2012, OneBeacon adopted ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS (ASC 820). ASU 2011-04 clarifies existing guidance with respect to the concepts of highest and best use and valuation premise and measuring instruments classified within a reporting entity's shareholders' equity. ASU 2011-04 also clarifies disclosure requirements, requiring disclosure of quantitative information about unobservable inputs used in Level 3 fair value measurements. ASU 2011-04 also amends existing guidance. In circumstances where a reporting entity manages a portfolio of financial assets and liabilities based on the net market and counterparty credit risk exposures, ASU 2011-04 permits determination of the fair value of those instruments to be based on the net risk exposure. In addition, ASU 2011-04 permits the application of premiums or discounts to be applied in a fair value measurement to the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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extent that market participants would consider them in valuing the financial instruments. ASU 2011-04 also expands the required disclosures for Level 3 measurements, requiring that reporting entities provide a narrative description of the sensitivity of Level 3 fair value measurements to changes in unobservable inputs and the interrelationships between those inputs, if any. As a result of adopting ASU 2011-04, OneBeacon expanded its fair value disclosures. See Note 5.

Comprehensive Income

On January 1, 2012, OneBeacon adopted ASU 2011-05, Comprehensive Income (ASC 220). ASU 2011-05 requires all components of comprehensive income to be reported in a continuous financial statement or in consecutive statements displaying the components of net income and the components of other comprehensive income. Since OneBeacon already presents comprehensive income in a continuous financial statement, adoption of ASU 2011-05 had no effect on OneBeacon's financial statement presentation.

Recently Issued Accounting Pronouncements

There were no recently issued accounting pronouncements that were expected to have a material effect on OneBeacon.

NOTE 2. Acquisitions and Dispositions

Effective January 1, 2013, OneBeacon completed the sale of Essentia Insurance Company ("Essentia"), an indirect wholly-owned subsidiary which wrote the collector car and boat business, to Markel Corporation. Concurrently therewith, OneBeacon and Hagerty Insurance Agency ("Hagerty") terminated their underwriting arrangement with respect to the collector car and boat business. OneBeacon anticipates recognizing a pre-tax gain on sale of approximately $23.0 million ($15.0 million after tax) in the first quarter of 2013. The business associated with this agreement generated net written premiums of $179.7 million, $166.6 million and $153.3 million, or 15.2%, 15.7% and 13.1%, respectively, of consolidated net written premiums, for the years ended December 31, 2012, 2011 and 2010, respectively.

As described in Note 1, on October 17, 2012, OneBeacon entered into the Stock Purchase Agreement with respect to the sale of its Runoff Business to Armour. Pursuant to the terms of the Stock Purchase Agreement, at closing, OneBeacon 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, OneBeacon may provide, under certain scenarios, financing in the form of surplus notes. The Runoff Transaction is expected to close in the second half of 2013.

In anticipation of the Runoff Transaction, and as means to separate the Runoff Business from the ongoing specialty business, OneBeacon sought and received various regulatory approvals to terminate, incept or amend various intercompany reinsurance agreements which took effect on October 1, 2012.

The Runoff Transaction is subject to various closing conditions, primarily the receipt of regulatory approvals. 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 OneBeacon will provide certain transition services to Armour during the term of the TSA, which has an initial term of one year. OneBeacon has concluded that continuing involvement after the closing of the transaction is insignificant relative to the business being sold.

As described in Note 1, the Runoff Business is presented as held for sale as of December 31, 2012 and as discontinued operations for the years ended December 31, 2012, 2011 and 2010. See Note 19 for further information regarding balances classified as held for sale and activity reported as discontinued operations. During 2012, OneBeacon recorded a $91.5 million after tax estimated loss on sale of the Runoff Business and $24.0 million in after tax losses from discontinued operations, which included $9.0 million of after tax incurred loss and loss adjustment expenses relating to an adjustment to the workers compensation discount rate applied to the loss reserves being transferred, as well as $6.5

million of after tax underwriting losses primarily related to adverse prior year loss reserve development related to a legacy assumed reinsurance treaty.

On October 1, 2012, OneBeacon completed the sale of a shell insurance company, Pennsylvania General Insurance Company, which resulted in a pre-tax gain on sale of $4.2 million, which is included in net other revenues (expenses).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 2. Acquisitions and Dispositions

On February 22, 2012, OneBeacon completed the sale of the AutoOne business to Interboro. Pursuant to the terms of the sale, at closing, OneBeacon transferred to Interboro all of the issued and outstanding shares of common stock of AutoOne Insurance Company (“AOIC”) and AutoOne Select Insurance Company (“AOSIC”), through which substantially all of the AutoOne business was written on a direct basis. At closing, OneBeacon also transferred the assets, liabilities (including loss reserves and unearned premiums) and capital of the business as well as substantially all of the AutoOne infrastructure including systems and office space as well as certain staff. The AutoOne Transaction also included the execution of a reinsurance agreement with certain subsidiaries of the Company pursuant to which OneBeacon cedes, on a 100% quota share basis, AutoOne business not directly written by AOIC and AOSIC. As described in Note 1, the assets and liabilities associated with the AutoOne business as of December 31, 2011 have been presented as held for sale and underwriting results for AutoOne, net of tax, have been reported as discontinued operations for all periods presented. See Note 19 for further information regarding balances classified as held for sale and activity reported as discontinued operations. During the year ended December 31, 2011, OneBeacon recorded an after tax net charge of approximately $19.2 million in discontinued operations reflecting the estimated loss on sale of the AutoOne business. During 2012, OneBeacon and Interboro reached conclusion on post-closing adjustments to the closing balance sheet, resulting in OneBeacon recording an after tax net charge of $0.3 million relating to underwriting activity and an after tax net gain of $0.5 million to true up the estimated loss on sale.

As part of the AutoOne Transaction, Interboro LLC, the parent company of Interboro, issued a $3.0 million promissory note to OBIC. Interboro LLC is required to repay the note in $1.0 million increments on each of the third, fourth and fifth anniversaries of the closing date, or February 22, 2015, 2016 and 2017. In addition, Interboro LLC is required to pre-pay principal in an amount equal to 100% of any dividend or distribution received from its subsidiaries, net of taxes and less $0.2 million on the same anniversary dates. Interest accrues and is payable quarterly at a rate of LIBOR plus 550 basis points.

On January 24, 2012, OneBeacon sold all of the issued and outstanding shares of common stock of OneBeacon Holdings (Luxembourg) S.à r.l. (“OB Lux”) to White Sands Holdings (Luxembourg) S.à r.l (“White Sands”), a subsidiary of White Mountains, for $24.7 million. As a result of the sale, OneBeacon recorded a gain of $14.0 million as additional paid in capital. Net of transaction costs expensed through the statement of operations, the gain was $13.6 million.

On July 1, 2010, OneBeacon completed the sale of its traditional personal lines business (the "Personal Lines Transaction") to Tower Group, Inc. ("Tower"). As consideration, based upon the carrying value of the traditional personal lines business as of July 1, 2010, OneBeacon received $166.6 million. For the year ended December 31, 2010, OneBeacon recorded a total after tax net gain on the sale of $24.6 million that is comprised of $8.5 million included in net other revenues and $16.1 million included in the tax provision. During the year ended December 31, 2011, OneBeacon and Tower reached agreement on post-closing adjustments resulting in no material change to the $24.6 million after tax net gain on sale that OneBeacon had recorded during 2010.

As part of the Personal Lines Transaction, OneBeacon and Tower also entered into a TSA pursuant to which OneBeacon is providing certain services to Tower. Tower reimburses OneBeacon for all expenses incurred to provide these services. Reimbursement for these services is netted against the expense incurred. The Personal Lines Transaction did not meet the criteria for discontinued operations accounting because of significant continuing cash flows between OneBeacon and the business sold relating to TSA services and reinsurance activities.

Except as described above, during the years ended December 31, 2012, 2011 and 2010, there were no significant acquisitions or dispositions.

NOTE 3. Unpaid Loss and Loss Adjustment Expense (LAE) Reserves

OneBeacon's insurance subsidiaries 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.

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 incurred but not reported ("IBNR") reserves, which include a provision for expected future development on case reserves. Case reserves are estimated based on the experience and knowledge of claims staff regarding the nature and potential cost of each claim and are adjusted as additional information becomes known or payments are made. IBNR reserves are derived by subtracting paid loss and LAE and case reserves from estimates of ultimate loss and LAE. Actuaries estimate ultimate loss and LAE using various generally accepted actuarial

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 3. Unpaid Loss and Loss Adjustment Expense (LAE) Reserves

methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made.

Ultimate loss and LAE are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. In forecasting ultimate loss and LAE with respect to any line of business, past experience with respect to that line of business is the primary resource, but cannot be relied upon in isolation. OneBeacon's own experience, particularly claims development experience, such as trends in case reserves, payments on and closings of claims, as well as changes in business mix and coverage limits, is the most important information for estimating its reserves. External data, available from organizations such as statistical bureaus, consulting firms and reinsurance companies, is sometimes used to supplement or corroborate OneBeacon's own experience, and can be especially useful for estimating costs of new business. For some lines of business, such as "long-tail" coverages discussed below, claims data reported in the most recent accident year is often too limited to provide a meaningful basis for analysis due to the typical delay in reporting of claims. For this type of business, OneBeacon uses a selected loss ratio method for the initial accident year or years. This is a standard and accepted actuarial reserve estimation method in these circumstances in which the loss ratio is selected based upon information used in pricing policies for that line of business, as well as any publicly available industry data, such as industry pricing, experience and trends, for that line of business.

Uncertainties in estimating ultimate loss and LAE are magnified by the time lag between when a claim actually occurs and when it is reported and settled. This time lag is sometimes referred to as the "claim-tail." The claim-tail for most property coverages is typically short (usually a few days up to a few months). The claim-tail for liability/casualty coverages, such as automobile liability, general liability, products liability, multiple peril coverage, and workers compensation, can be especially long as claims are often reported and ultimately paid or settled years, even decades, after the related loss events occur. During the long claims reporting and settlement period, additional facts regarding coverages written in prior accident years, as well as about actual claims and trends may become known and, as a result, OneBeacon may adjust its reserves. If management determines that an adjustment is appropriate, the adjustment is booked in the accounting period in which such determination is made. Accordingly, should reserves need to be increased or decreased in the future from amounts currently established, future results of operations would be negatively or positively impacted, respectively.

In determining ultimate loss and LAE, the cost to indemnify claimants, provide needed legal defense and other services for insureds and administer the investigation and adjustment of claims are considered. These claim costs are influenced by many factors that change over time, such as expanded coverage definitions as a result of new court decisions, inflation in costs to repair or replace damaged property, inflation in the cost of medical services and legislated changes in statutory benefits, as well as by the particular, unique facts that pertain to each claim. As a result, the rate at which claims arose in the past and the costs to settle them may not always be representative of what will occur in the future. The factors influencing changes in claim costs are often difficult to isolate or quantify and developments in paid and incurred losses from historical trends are frequently subject to multiple and conflicting interpretations. Changes in coverage terms or claims handling practices may also cause future experience and/or development patterns to vary from the past. A key objective of actuaries in developing estimates of ultimate loss and LAE, and resulting IBNR reserves, is to identify aberrations and systemic changes occurring within historical experience and accurately adjust for them so that the future can be projected reliably. Because of the factors previously discussed, this process requires the use of informed judgment and is inherently uncertain.

OneBeacon's actuaries use several generally accepted actuarial methods to evaluate its loss reserves, each of which has its own strengths and weaknesses. OneBeacon places more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- Historical paid loss development methods: These methods use historical loss payments over discrete periods of time to estimate future losses. Historical paid loss development methods assume that the ratio of losses paid in one period to losses paid in an earlier period will remain constant. These methods necessarily assume that factors that have affected paid losses in the past, such as inflation or the effects of litigation, will remain constant in the future. Because historical paid loss development methods do not use case reserves to estimate ultimate losses, they can be more reliable than the other methods discussed below that look to case reserves (such as actuarial methods that use incurred losses) in situations where there are significant changes in how case reserves are established by a company's claims adjusters. However, historical paid loss development methods are more leveraged, meaning that small changes in payments have a larger impact on estimates of ultimate losses, than actuarial methods that use incurred losses because cumulative loss payments take much longer to equal the expected ultimate losses than cumulative incurred amounts. In addition, and for similar

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 3. Unpaid Loss and Loss Adjustment Expense (LAE) Reserves

reasons, historical paid loss development methods are often slow to react to situations when new or different factors arise than those that have affected paid losses in the past.

- Historical incurred loss development methods: These methods, like historical paid loss development methods, assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. However, instead of using paid losses, these methods use incurred losses (i.e., the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods can be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses can be less reliable than other methods.
- Expected loss ratio methods: These methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss ratios are typically developed based upon the information used in pricing, and are multiplied by the total amount of premiums written to calculate ultimate losses. Expected loss ratio methods are useful for estimating ultimate losses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available.
- Adjusted historical paid and incurred loss development methods: These methods take traditional historical paid and incurred loss development methods and adjust them for the estimated impact of changes from the past in factors such as inflation, the speed of claim payments or the adequacy of case reserves. Adjusted historical paid and incurred loss development methods are often more reliable methods of predicting ultimate losses in periods of significant change, provided the actuaries can develop methods to reasonably quantify the impact of changes.

OneBeacon performs an actuarial review of its recorded reserves each quarter. OneBeacon's actuaries compare the previous quarter's estimates of paid loss and LAE, case reserves and IBNR to amounts indicated by actual experience. Differences between previous estimates and actual experience are evaluated to determine whether a given actuarial method for estimating loss and LAE should be relied upon to a greater or lesser extent than it had been in the past. While some variance is expected each quarter due to the inherent uncertainty in loss and LAE, persistent or large variances would indicate that prior assumptions and/or reliance on certain reserving methods may need to be revised going forward.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 3. Unpaid Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE reserve summary - Ongoing Business
The following table summarizes the loss and LAE reserve activities of OneBeacon's insurance subsidiaries for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Gross beginning balance	$3,358.6	$3,295.5	$3,934.8
Less beginning reinsurance recoverable on unpaid losses	(2,167.5)	(1,893.2)	(2,192.9)
Net beginning loss and LAE reserves	1,191.1	1,402.3	1,741.9
Loss and LAE incurred relating to:			
Current year losses	657.4	578.1	721.6
Prior year losses	(7.4)	(29.8)	(36.0)
Total incurred loss and LAE from continuing operations	650.0	548.3	685.6
Loss and LAE paid relating to:			
Current year losses	(224.6)	(216.9)	(285.2)
Prior year losses	(340.5)	(306.3)	(369.6)
Total loss and LAE payments from continuing operations	(565.1)	(523.2)	(654.8)
Net loss and LAE reserves	1,276.0	1,427.4	1,772.7
Total incurred loss and LAE from discontinued operations	48.4	89.5	244.6
Total loss and LAE payments from discontinued operations	(220.8)	(261.1)	(384.0)
Net loss and LAE reserves	1,103.6	1,255.8	1,633.3
Net loss and LAE reserves reclassified to held for sale(1)	(147.1)	(64.7)	—
Net loss and LAE reserves sold(2)	(63.8)	—	(231.0)
Net ending loss and LAE reserves	892.7	1,191.1	1,402.3
Plus ending reinsurance recoverable on unpaid losses	107.3	2,167.5	1,893.2
Gross ending loss and LAE reserves	$1,000.0	$3,358.6	$3,295.5

(1) During the year ended December 31, 2012, $211.8 million of net loss and LAE reserves related to the Runoff Business were reclassified to held for sale and $64.7 million of net loss and LAE reserves related to the AutoOne Transaction were reclassified from held for sale. In the year ended December 31, 2011, $64.7 million of net loss and LAE reserves related to the AutoOne Transaction were reclassified to held for sale.

(2) During the year ended December 31, 2012, $63.8 million of net loss and LAE reserves related to the AutoOne Transaction were sold. During the year ended December 31, 2010, $231.0 million of net loss and LAE reserves related to the Personal Lines Transaction were sold.

Loss and LAE development - Ongoing Business

Loss and LAE development—2012

During the year ended December 31, 2012, OneBeacon experienced $7.4 million of favorable loss and LAE reserve development on prior accident year reserves. During 2010, management began separately reviewing loss reserves for some business which had been previously managed as a part of OneBeacon's former commercial lines underwriting unit. As of December 31, 2011, the reserves for these businesses had been selected based on expected emergence which was based in large part on the historic loss development of the former commercial lines underwriting unit. The favorable reserve development was primarily due to emergence which continued to be lower than expected for these businesses, particularly in the workers' compensation, multiple peril liability and general liability lines. This favorable development was partially offset by adverse development on excess property claims.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 3. Unpaid Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE development—2011

During the year ended December 31, 2011, OneBeacon experienced $29.8 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines.

With respect to the favorable loss reserve development, at December 31, 2010, management had revised its expectations downward for future loss emergence in the professional liability business, which had initially been based on market analysis when this business was initiated in 2002 and 2003. However, during the year ended December 31, 2011, losses continued to be lower than these revised expectations. As a result, management lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years' results. The impact of this revised estimate was a decrease to professional liability reserves of $11.5 million.

During 2010, management began separately reviewing loss reserves for some business which had been previously managed as a part of OneBeacon's former commercial lines underwriting unit. As of December 31, 2010, the reserves for these businesses had been selected based on expected emergence which was based on the historic loss development of the former commercial lines underwriting unit. However, during 2011 the actual emerged experience for these businesses was significantly lower than the expected emergence. As a result of this favorable emergence, management lowered the loss reserves for these businesses by $14.0 million, which also affected the Specialty Industries and Specialty Products segments.

In addition to the development described for the lines of business above, management also recorded a $4.3 million net decrease in reserves in other lines of business as a result of its review of loss reserves at December 31, 2011. The change in reserves for each other line of business was not individually significant.

Loss and LAE development—2010

During the year ended December 31, 2010, OneBeacon experienced $36.0 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, multiple peril liability lines and other general liability lines, as well as development on personal lines business.

The favorable development also included a $7.5 million release of commercial catastrophe reserves associated with storms occurring in 2004 and 2005 related to excess property business. During the year ended December 31, 2010, these claims were resolved for amounts below OneBeacon's policy coverage therefore the reserves were no longer necessary. Specifically, at December 31, 2009, management had revised its expectations downward with respect to future loss emergence in the professional liability business, which had initially been based on market analysis when this business was initiated in 2002 and 2003. However, during the year ended December 31, 2010, losses continued to be significantly lower than these revised expectations. As a result, management lowered its selected reserves on the earliest years which affected more recent years as total loss expectations for those years are based in part on prior years' results. The impact of this revised estimate was a decrease to professional liability reserves of $19.3 million. In addition to the development described for the lines of business above, management also recorded a $9.2 million net decrease in IBNR in other lines of business, primarily personal lines, as a result of its review of loss reserves at December 31, 2010. The change in reserves for each other line of business was not individually significant.

Discontinued Operations

See Note 19—"Discontinued Operations" for a discussion of impacts to reserves for unpaid losses and LAE related to discontinued operations.

Asbestos and Environmental

Substantially all of OneBeacon's unpaid loss and LAE reserves for Asbestos and Environmental ("A&E") relates to operations that have been discontinued. See Note 19—"Discontinued Operations" for more detail on this exposure. The remaining unpaid loss and LAE reserves for Asbestos and Environmental related to continuing operations is less than $1.0 million on both a gross and net basis as of December 31, 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4. Reinsurance

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. See Note 19—"Discontinued Operations" for amounts related to the Runoff Business.

The effects of reinsurance on OneBeacon's insurance subsidiaries' written and earned premiums and on loss and LAE, excluding the Runoff Business, were as follows:

	Year ended December 31,		
	2012	2011	2010[1]
	($ in millions)		
Written premiums:			
Direct	$1,204.0	$1,079.2	$1,236.7
Assumed	55.2	49.1	55.8
Ceded	(80.0)	(65.6)	(124.8)
Net written premiums	$1,179.2	$1,062.7	$1,167.7
Earned premiums:			
Direct	$1,158.3	$1,035.9	$1,242.5
Assumed	52.8	42.3	60.7
Ceded	(79.1)	(66.0)	(122.1)
Net earned premiums	$1,132.0	$1,012.2	$1,181.1
Loss and LAE:			
Direct	$687.5	$551.8	$677.1
Assumed	29.6	9.2	45.1
Ceded	(67.1)	(12.7)	(36.6)
Net loss and LAE	$650.0	$548.3	$685.6

(1) Amounts shown for 2010 includes impact of activity prior to the close of the Personal Lines Transaction.

In the normal course of its business, OneBeacon purchases reinsurance from high-quality, highly rated, third-party reinsurers in order to minimize loss from large losses or catastrophic events.

The timing and size of catastrophe losses are unpredictable and the level of losses experienced in any year could be material to OneBeacon's operating results and financial position. 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 an area affected by the event as well as the severity of the event. OneBeacon continually assesses and implements programs to manage its exposure to catastrophe losses through individual risk selection and by limiting its concentration of insurance written in catastrophe-prone areas such as coastal regions. In addition, OneBeacon imposes wind deductibles on existing coastal windstorm exposures. OneBeacon uses probable maximum loss ("PML") forecasting to quantify its exposure to catastrophic losses. PML is a statistical modeling technique that measures a company's catastrophic exposure as the maximum probable loss in a given time period. OneBeacon seeks to further reduce its potential loss from catastrophe exposures through the purchase of catastrophe reinsurance. Effective May 1, 2012, OneBeacon renewed its property catastrophe reinsurance program through April 30, 2013. The program provides coverage for OneBeacon's property business as well as certain acts of terrorism. Under the program, the first $25.0 million of losses resulting from any single catastrophe are retained and the next $155.0 million of losses resulting from the catastrophe are reinsured in three layers, although OneBeacon retains a co-participation of 55% of losses from $25.0 million to $40.0 million, 15% of losses from $40.0 million to $80.0 million, and 10% of losses from $80.0 million to $180.0 million. Any loss above $180.0 million would be retained in full. In the event of a catastrophe, OneBeacon's 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. As a result of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

hurricane Sandy in October 2012, OneBeacon recorded ceded losses of $15.6 million and reinstatement premiums of $1.9 million related to property catastrophe reinsurance program treaty.

OneBeacon's property catastrophe reinsurance program does not cover property losses resulting from any nuclear events or biological, chemical or radiological terrorist attacks or losses resulting from acts of terrorism as defined under the Terrorism Act, as amended, committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as well as domestic acts of terrorism.

Since the terrorist attacks of September 11, 2001, OneBeacon has 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 Risk Insurance Act (the "Terrorism Act") until December 31, 2014. The Terrorism Act, originally enacted in 2002, 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 "back-stop," 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.

In addition to the corporate catastrophe reinsurance protection, OneBeacon may also purchase dedicated reinsurance protection for specific businesses. In 2012, OneBeacon purchased insurance to protect the collector car and boat business from catastrophic losses. This treaty covered losses in excess of $2.5 million up to $25 million in two layers. The first layer, $2.5 million in excess of $2.5 million carried a 5% co-participation. OneBeacon held a 20% co-participation on the second layer, $20 million in excess of $5 million. Catastrophe losses above $25 million are retained by the company in full. Reinstatement premiums are paid if the coverage is attached. As a result of hurricane Sandy in October 2012, OneBeacon recorded ceded losses of $11.8 million and reinstatement premiums of $1.3 million related to this treaty.

OneBeacon also purchased a per occurrence treaty for its International Marine Underwriters ("IMU") business that protects against large occurrences, whether a single large claim or a catastrophe. The IMU treaty attaches at $2 million per occurrence. Coverage is provided up to $60 million. The first layer of the marine treaty is $5 million in excess of $2 million, with an annual aggregate deductible of $1.5 million for large losses and $5 million for catastrophes losses. For losses in the layer $10 million excess of $50 million, the company retains half of the loss. The portion of loss above $60 million is retained in full by the company. Reinstatement premiums are paid in full or in part depending on the layer and the occurrence if the coverage is attached. Losses retained under both the collector car and marine reinsurance treaties are subject to the corporate catastrophe treaty. As a result of hurricane Sandy in October 2012, OneBeacon recorded ceded loss of $41.0 million and reinstatement premiums of $5.4 million related to this treaty.

OneBeacon estimates its individual retention level for commercial policies subject to the Terrorism Act to be approximately $100 million in 2013. The federal government will pay 85% of covered terrorism losses that exceed OneBeacon's or the industry's retention levels in 2013, up to a total of $100 billion.

OneBeacon also purchases 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 may be purchased above $100.0 million where OneBeacon deems it appropriate. OneBeacon retains a co-participation of 10% for losses in excess of $20.0 million up to $50.0 million and a co-participation of 20% for losses in excess of $50.0 million. The property-per-risk treaty also 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.

OneBeacon also maintains a casualty reinsurance program that provides protection for individual policies involving general liability, automobile liability, professional liability or umbrella liability. OneBeacon's healthcare professional liability treaty covers losses in excess of $5.0 million up to $20 million in two layers. The first layer, $5.0 million excess of $5 million has a 20% co-participation. All other casualty business is covered in a separate treaty covering losses in excess of $5.0 million

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

up to $21.0 million. The casualty treaty has a 22.5% co-participation in the first layer ($6 million excess of $5 million) and a 10% co-participation in the second layer of $10.0 million excess of $11.0 million. OneBeacon purchases a treaty to protect against large workers compensation losses that covers 100% of the loss in excess of $1.0 million up to $10.0 million per person. In addition, for casualty losses involving more than one insured, OneBeacon maintains a dedicated treaty that covers up to $40.0 million in excess of a $10.0 million retention.

At December 31, 2012, OneBeacon had reinsurance recoverable on paid losses of $3.3 million and reinsurance recoverables on unpaid losses of $107.3 million. Reinsurance contracts do not relieve OneBeacon of its obligations. Therefore, collectibility of balances due from reinsurers is critical to OneBeacon's financial strength. The following table provides a listing of OneBeacon's top reinsurers for its continuing insurance operations, excluding industry pools and associations and affiliates of OneBeacon, based upon recoverable amounts, the percentage of total reinsurance recoverable and the reinsurer's A.M. Best Company, Inc. ("A.M. Best") ratings.

($ in millions)	Balance at December 31, 2012	% of total	A.M. Best Rating[1]
Hannover Ruckversich	$10.1	9%	A++
Everest Reinsurance	9.0	8%	A+
Munich Reinsurance America	9.0	8%	A++
Swiss Reinsurance America Corp	5.8	5%	A+
Hartford Steam Boiler	4.7	4%	A

(1) A.M. Best ratings as detailed above are: "A++" (Superior, which is the highest of fifteen financial strength ratings), "A+" (Superior, which is the second highest of fifteen financial strength ratings) and "A" (Excellent, which is the third highest of fifteen financial strength ratings).

Greater than 90% of reinsurance recoverables on unpaid and paid losses are from reinsurers rated A or better.

NOTE 5. Investment Securities

OneBeacon's net investment income is comprised primarily of interest income associated with OneBeacon's fixed maturity investments, dividend income from its equity investments, and interest income from its short-term investments. Other investments primarily include hedge funds and private equity funds. Net investment income for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Fixed maturity investments	$49.1	$69.7	$94.5
Short-term investments	0.1	0.1	0.8
Common equity securities	6.8	5.3	4.2
Convertible fixed maturity investments	4.6	3.5	5.2
Other investments	(0.4)	(0.3)	0.8
Gross investment income	60.2	78.3	105.5
Less investment expenses	(6.6)	(6.9)	(8.9)
Net investment income	$53.6	$71.4	$96.6

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

The composition of net realized investment gains (losses) consisted of the following:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Fixed maturity investments	$27.1	$32.1	$56.2
Short-term investments	—	—	—
Common equity securities	2.1	16.7	4.2
Convertible fixed maturity investments	0.4	(0.4)	16.2
Other investments	21.2	8.4	5.3
Net realized investment gains (losses), pre-tax	50.8	56.8	81.9
Income taxes	(17.2)	(19.9)	(28.7)
Net realized investment gains (losses), after tax	$33.6	$36.9	$53.2

OneBeacon recognized gross realized investment gains of $68.4 million, $77.9 million and $101.0 million and gross realized investment losses of $17.6 million, $21.1 million and $19.1 million on sales and other-than-temporary impairment charges on investment securities during the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012 and 2011, OneBeacon reported $6.2 million and $22.7 million, respectively, in accounts payable on unsettled investment purchases and $2.1 million and $0.5 million, respectively, in accounts receivable on unsettled investment sales.

The net changes in fair value for the years ended December 31, 2012, 2011 and 2010 are as follows:

	Year ended December 31, 2012		
	Changes in net unrealized investment gains (losses)(1)	Changes in net foreign currency translation gains (losses)(1)	Total net changes in fair value reflected in revenues(1)
	($ in millions)		
Fixed maturity investments	$7.2	$0.1	$7.3
Short-term investments	—	—	—
Common equity securities	11.5	—	11.5
Convertible fixed maturity investments	(0.4)	—	(0.4)
Other investments(2)	(13.5)	—	(13.5)
Total	$4.8	$0.1	$4.9

	Year ended December 31, 2011		
	Changes in net unrealized investment gains (losses)(1)	Changes in net foreign currency translation gains (losses)(1)	Total net changes in fair value reflected in revenues(1)
	($ in millions)		
Fixed maturity investments	$(18.7)	$(0.1)	$(18.8)
Short-term investments	—	0.1	0.1
Common equity securities	(22.1)	(0.1)	(22.2)
Convertible fixed maturity investments	(8.4)	—	(8.4)
Other investments	3.1	—	3.1
Total	$(46.1)	$(0.1)	$(46.2)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

	Year ended December 31, 2010		
	Changes in net unrealized investment gains (losses)[1]	Changes in net foreign currency translation gains (losses)[1]	Total net changes in fair value reflected in revenues[1]
	($ in millions)		
Fixed maturity investments	$(40.9)	$(1.5)	$(42.4)
Short-term investments	—	(0.9)	(0.9)
Common equity securities	36.6	0.1	36.7
Convertible fixed maturity investments	(4.7)	—	(4.7)
Other investments	4.0	—	4.0
Total	$(5.0)	$(2.3)	$(7.3)

(1) Includes changes in net deferred gains and losses on sales of investments between OneBeacon and entities under White Mountains' common control of $(0.2) million, $(5.2) million and $(4.3) million, pre-tax, for the years ended December 31, 2012, 2011 and 2010, respectively. Changes in net deferred gains and losses for the year ended December 31, 2010 includes $(0.2) million related to net deferred foreign currency gains and losses.

(2) The year ended December 31, 2012, includes a change in net unrealized gains and losses of $(11.6) million related to the sale of a limited partnership that had been consolidated into OneBeacon's results. See Note 15.

The components of OneBeacon's ending net unrealized investment gains and losses, excluding the impact of net unrealized foreign currency translation gains and losses, on its trading investment portfolio as of December 31, 2012 and 2011 were as follows:

	December 31, 2012	2011
	($ in millions)	
Investment securities:		
Gross unrealized investment gains	$127.4	$123.5
Gross unrealized investment losses	(8.7)	(21.6)
Net unrealized gains from investment securities	118.7	101.9
Income taxes	(39.4)	(33.9)
Total net unrealized investment gains, after tax	$79.3	$68.0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency losses and carrying values of OneBeacon's fixed maturity investments as of December 31, 2012 and 2011 were as follows:

	December 31, 2012[1]				
	Cost or amortized cost ($ in millions)	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
U.S. Government and agency obligations	$197.1	$0.5	$—	$—	$197.6
Debt securities issued by industrial corporations	678.7	32.8	—	—	711.5
Municipal obligations	3.3	—	(0.1)	—	3.2
Asset-backed securities	918.5	9.7	(0.3)	—	927.9
Foreign government obligations	6.0	0.5	—	—	6.5
Preferred stocks	78.3	6.4	—	—	84.7
Total fixed maturity investments	$1,881.9	$49.9	$(0.4)	$—	$1,931.4
	December 31, 2011[2]				
	Cost or amortized cost ($ in millions)	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government and agency obligations	$213.6	$1.8	$—	$—	$215.4
Debt securities issued by industrial corporations	725.8	34.9	(1.9)	(0.1)	758.7
Municipal obligations	2.2	—	—	—	2.2
Asset-backed securities	928.5	10.6	(0.8)	—	938.3
Foreign government obligations	7.7	0.5	(0.1)	—	8.1
Preferred stocks	78.3	3.2	(6.2)	—	75.3
Total fixed maturity investments	$1,956.1	$51.0	$(9.0)	$(0.1)	$1,998.0

(1) Includes carrying value of $338.1 million of fixed maturity investments reclassified to assets held for sale in the consolidated balance sheet as part of the Runoff Transaction as of December 31, 2012.
(2) Includes carrying value of $111.8 million of fixed maturity investments reclassified to assets held for sale in the consolidated balance sheet as part of the AutoOne Transaction as of December 31, 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

The cost or amortized cost and carrying value of OneBeacon's fixed maturity investments and convertible fixed maturity investments at December 31, 2012 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	December 31, 2012[(1)]	
	Cost or amortized cost	Carrying value
	($ in millions)	
Due in one year or less	$158.2	$160.2
Due after one year through five years	629.5	652.1
Due after five years through ten years	141.9	151.9
Due after ten years	15.0	17.2
Asset-backed securities	918.5	927.9
Preferred stocks	78.3	84.7
Total	$1,941.4	$1,994.0

(1) Includes carrying value of $338.1 million of fixed maturity investments reclassified to assets held for sale in the consolidated balance sheet as part of the Runoff Transaction as of December 31, 2012.

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and carrying values of OneBeacon's common equity securities, convertible fixed maturity investments and other investments as of December 31, 2012 and 2011 were as follows:

	December 31, 2012				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
	($ in millions)				
Common equity securities	$221.6	$39.8	$(2.4)	$—	$259.0
Convertible fixed maturity investments	59.5	3.2	(0.1)	—	62.6
Other investments	115.1	34.5	(5.8)	—	143.8
Total common equity securities, convertible fixed maturity investments and other investments	$396.2	$77.5	$(8.3)	$—	$465.4

	December 31, 2011				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
	($ in millions)				
Common equity securities	$240.6	$30.3	$(4.4)	$—	$266.5
Convertible fixed maturity investments	76.3	4.4	(0.9)	—	79.8
Other investments	124.6	37.8	(7.3)	—	155.1
Total common equity securities, convertible fixed maturity investments and other investments	$441.5	$72.5	$(12.6)	$—	$501.4

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

Sales and maturities of investments, excluding short-term investments and other investments, totaled $2,050.5 million, $2,032.1 million and $2,470.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. There were no non-cash exchanges or involuntary sales of investment securities during the years ended December 31, 2012, 2011 and 2010.

OneBeacon's consolidated insurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses. The fair value of such deposits totaled $174.3 million and $182.7 million, respectively, as of December 31, 2012 and 2011.

As of December 31, 2012 and 2011, investments of $50.7 million and $62.0 million, respectively, were held in trusts required to be maintained in relation to various reinsurance agreements and will be transferred to Armour upon the closing of the Runoff Transaction. Trust balances as of December 31, 2012 and 2011 include $15.3 million and $20.8 million, respectively, related to investments held in a trust established in conjunction with the Personal Lines Transaction. As of December 31, 2012 and 2012, the trust balance also included $25.9 million and $34.3 million related to investments held in a trust established in conjunction with White Mountains' sale of Esurance Holdings, Inc. ("Esurance Holdings") and its subsidiaries (collectively, "Esurance Insurance"). See Note 15.

Fair value measurements

As of December 31, 2012 and 2011, approximately 92% and 93%, respectively, of the investment portfolio recorded at fair value was priced based upon observable inputs.

The fair values of OneBeacon's investments in hedge funds and private equity funds have been classified as Level 3 under the fair value hierarchy since the fund managers do not provide sufficient information to independently evaluate the pricing inputs and methods for each underlying investment, and therefore the inputs are considered to be unobservable. At December 31, 2012 and 2011, OneBeacon did not record a liquidity adjustment to the net asset value related to its investments in hedge funds or private equity funds.

As of both December 31, 2012 and 2011, other investments reported at fair value represented approximately 5% of the investment portfolio recorded at fair value. Other investments accounted for at fair value as of December 31, 2012 and 2011 were comprised of $47.3 million and $53.5 million, respectively, in hedge funds, $61.3 million and $65.7 million, respectively, in private equity funds and $14.1 million for both periods of an investment in a community reinvestment vehicle. At December 31, 2012 and 2011, OneBeacon held investments in 8 and 9 hedge funds, respectively, and 17 and 14 private equity funds, respectively. The largest investment in a single fund was $12.9 million and $13.7 million, respectively, at December 31, 2012 and 2011. As of December 31, 2012 and 2011, other investments also included $21.1 million and $21.8 million, respectively, of an investment in a tax advantaged federal affordable housing development fund which is accounted for using the equity method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

The fair value measurements at December 31, 2012 and 2011 and their related inputs are as follows:

	Fair value at December 31, 2012[2] ($ in millions)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
U.S. Government and agency obligations	$197.6	$197.6	$—	$—
Debt securities issued by corporations:				
Consumer	249.9	—	249.9	—
Industrial	103.5	—	103.5	—
Financial	92.3	—	92.3	—
Communications	70.0	—	70.0	—
Energy	57.1	—	57.1	—
Basic materials	77.8	—	77.8	—
Utilities	46.5	—	46.5	—
Technology	14.4	—	14.4	—
Debt securities issued by corporations	711.5	—	711.5	—
Municipal obligations	3.2	—	3.2	—
Asset-backed securities	927.9	—	922.6	5.3
Foreign government obligations	6.5	5.8	0.7	—
Preferred stocks	84.7	—	13.9	70.8
Fixed maturity investments	1,931.4	203.4	1,651.9	76.1
Short-term investments	232.8	232.8	—	—
Common equity securities:				
Financials	48.4	48.3	—	0.1
Basic Materials	42.9	42.9	—	—
Consumer	80.5	80.5	—	—
Energy	38.1	38.1	—	—
Utilities	17.0	17.0	—	—
Other	32.1	32.1	—	—
Common equity securities	259.0	258.9	—	0.1
Convertible fixed maturity investments	62.6	—	62.6	—
Other investments[1]	122.7	—	—	122.7
Total[1]	$2,608.5	$695.1	$1,714.5	$198.9

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

	Fair value at December 31, 2011[2] ($ in millions)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
U.S. Government and agency obligations	$215.4	$215.4	$—	$—
Debt securities issued by corporations:				
Consumer	299.7	—	299.7	—
Industrial	140.1	—	140.1	—
Financial	66.4	—	66.4	—
Communications	53.3	—	53.3	—
Energy	60.5	—	60.5	—
Basic materials	81.5	—	81.5	—
Utilities	42.5	—	42.5	—
Technology	14.7	—	14.7	—
Debt securities issued by corporations	758.7	—	758.7	—
Municipal obligations	2.2	—	2.2	—
Asset-backed securities	938.3	—	936.0	2.3
Foreign government obligations	8.1	7.4	0.7	—
Preferred stocks	75.3	—	11.5	63.8
Fixed maturity investments	1,998.0	222.8	1,709.1	66.1
Short-term investments	320.0	320.0	—	—
Common equity securities:				
Financials	69.9	69.1	—	0.8
Basic Materials	56.2	56.2	—	—
Consumer	71.3	71.2	0.1	—
Energy	32.5	32.5	—	—
Utilities	17.9	17.9	—	—
Other	18.7	18.7	—	—
Common equity securities	266.5	265.6	0.1	0.8
Convertible fixed maturity investments	79.8	—	79.8	—
Other investments[1]	133.3	—	—	133.3
Total[1]	$2,797.6	$808.4	$1,789.0	$200.2

(1) Excludes the carrying value of $21.1 million and $21.8 million, respectively, associated with a tax advantaged federal affordable housing development fund accounted for using the equity method as of December 31, 2012 and 2011.

(2) Fair value includes $338.1 million and $111.8 million of fixed maturity investments reclassified to assets held for sale in the December 31, 2012 and 2011 consolidated balance sheets as part of the Runoff Transaction and AutoOne Transaction, respectively.

At December 31, 2012 and 2011, OneBeacon held one private preferred stock that represented approximately 84% and 85%, respectively, of its preferred stock portfolio. OneBeacon used quoted market prices for similar securities that were adjusted to reflect management's best estimate of fair value; this security is classified as a Level 3 measurement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

In addition to the investment portfolio described above, OneBeacon had $36.9 million of liabilities recorded at fair value and included in other liabilities as of December 31, 2011. These liabilities related to securities that were sold short by a limited partnership that OneBeacon invested in and was required to consolidate. As of December 31, 2011, all of the liabilities included in the $36.9 million were classified as Level 1 measurements. These liabilities were no longer held at December 31, 2012 as the partnership was sold. See Note 15.

The following table summarizes the ratings of OneBeacon's corporate debt securities as of December 31, 2012 and 2011:

	December 31, 2012	2011
	($ in millions)	
AA	$37.0	$61.9
A	301.6	307.3
BBB	362.5	378.2
BB	7.0	6.2
Other	3.4	5.1
Debt securities issued by corporations	$711.5	$758.7

Rollforwards of Fair Value Measurements by Level

The changes in Level 1 fair value measurements for the year ended December 31, 2012 are as follows:

	Fixed maturity investments	Common equity securities	Convertible fixed maturity investments	Other investments	Total[(1)]
	($ in millions)				
Balance at January 1, 2012	$222.8	$265.6	$—	$—	$488.4
Amortization/accretion	—	—	—	—	—
Total net realized and unrealized gains (losses)	(0.6)	13.2	—	—	12.6
Purchases	110.3	94.2	—	—	204.5
Sales	(129.1)	(114.1)	—	—	(243.2)
Transfers in	—	—	—	—	—
Transfers out	—	—	—	—	—
Balance at December 31, 2012	$203.4	$258.9	$—	$—	$462.3

(1) Excludes short-term investments which are deemed to have a Level 1 designation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

The changes in Level 2 fair value measurements for the year ended December 31, 2012 are as follows:

	Fixed maturity investments	Common equity securities	Convertible fixed maturity investments	Other investments	Total
	($ in millions)				
Balance at January 1, 2012	$1,709.1	$0.1	$79.8	$—	$1,789.0
Amortization/accretion	(11.4)	—	2.5	—	(8.9)
Total net realized and unrealized gains (losses)	30.2	(0.1)	—	—	30.1
Purchases	1,295.3	0.1	9.5	—	1,304.9
Sales	(1,379.9)	(0.7)	(29.2)	—	(1,409.8)
Transfers in	13.9	0.6	—	—	14.5
Transfer out	(5.3)	—	—	—	(5.3)
Balance at December 31, 2012	$1,651.9	$—	$62.6	$—	$1,714.5

The changes in Level 3 fair value measurements for the year ended December 31, 2012 are as follows:

	Fixed maturity investments	Common equity securities	Convertible fixed maturity investments	Other investments(1)	Total(1)
	($ in millions)				
Balance at January 1, 2012	$66.1	$0.8	$—	$133.3	$200.2
Amortization/accretion	0.2	—	—	—	0.2
Total net realized and unrealized gains (losses)	7.1	(0.1)	—	7.7	14.7
Purchases	53.8	—	—	8.6	62.4
Sales	(42.5)	—	—	(26.9)	(69.4)
Transfer in	5.3	—	—	—	5.3
Transfers out	(13.9)	(0.6)	—	—	(14.5)
Balance at December 31, 2012	$76.1	$0.1	$—	$122.7	$198.9

(1) Excludes the carrying value of $21.1 million associated with a tax advantaged federal affordable housing development fund accounted for using the equity method.

“Transfer in” to Level 3 fixed maturity investments of $5.3 million for the year ended December 31, 2012 consists of one asset-backed security for which the estimated fair value was determined using a single broker quote.

"Transfers out" of Level 3 fixed maturity investments and common equity securities of $14.5 million for the year ended December 31, 2012 were comprised of securities which had been previously classified as Level 3 and were recategorized as Level 2 when quoted market prices for similar securities that were considered reliable and could be validated against an alternative source became available.

Significant Unobservable Inputs

As described above, in certain circumstances, OneBeacon estimates the fair value of investments using industry standard pricing models and both observable and unobservable inputs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

The following summarizes significant unobservable inputs used in estimating the fair value of investment securities classified within Level 3 at December 31, 2012:

Description	Fair Value	Ratings Range[(1)]	Valuation Technique	Unobservable Inputs	Input Range (1)
Asset-backed securities	$5.3	AA+	Broker pricing	Prepayment rate	N/A
Preferred stock	$70.8	NR	Discounted cash flow	Discount yield	7.6%

(1) As of December 31, 2012, each asset type consists of one security.

The following table summarizes the change in net unrealized gains or losses for assets designated as Level 3 for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31, 2012	2011	2010
	($ in millions)		
Fixed maturity investments	$6.7	$(7.5)	$1.3
Short-term investments	—	—	—
Common equity securities	—	—	6.3
Convertible fixed maturity investments	—	—	—
Other investments	(13.5)	3.1	4.0
Total	$(6.8)	$(4.4)	$11.6

Asset-backed Securities

OneBeacon purchases commercial and residential mortgage-backed securities to maximize its risk adjusted returns in the context of a diversified portfolio. OneBeacon's non-agency commercial mortgage-backed portfolio ("CMBS") is generally short tenor and structurally senior, with more than 20 points of subordination on average for fixed rate CMBS and approximately 50 points of subordination on average for floating rate CMBS as of December 31, 2012. In general, subordination represents the percentage of principal loss on the underlying collateral that would have to occur before the security incurs a loss. These collateral losses, instead, are first absorbed by other securities lower in the capital structure. OneBeacon believes this structural protection mitigates the risk of loss tied to refinancing challenges facing the commercial real estate market. As of December 31, 2012, on average less than 1% of the underlying loans were reported as non-performing for all CMBS held by OneBeacon. OneBeacon is not an originator of residential mortgage loans and did not hold any residential mortgage-backed securities ("RMBS") categorized as sub-prime as of December 31, 2012. OneBeacon's investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage-backed securities as of December 31, 2012. OneBeacon considers sub-prime mortgage-backed securities to be those that have underlying loan pools that exhibit weak credit characteristics or are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., OneBeacon considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics).

There are also mortgage backed securities that OneBeacon categorizes as "non-prime" (also called "Alt A" or "A-") that are backed by collateral that has overall credit quality between prime and sub-prime, as determined based on OneBeacon's review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. As of December 31, 2012, OneBeacon held no mortgage-backed securities that were classified as non-prime. OneBeacon's non-agency residential mortgage-backed portfolio is generally of moderate average life, fixed rate and structurally senior. OneBeacon does not own any collateralized debt obligations, including residential mortgage-backed collateralized debt obligations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

The following table summarizes the carrying value of OneBeacon's asset-backed securities as of December 31, 2012 and 2011:

	December 31, 2012			2011		
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
	($ in millions)					
Mortgage-backed securities:						
Agency:						
GNMA	$551.2	$551.2	$—	$631.0	$631.0	$—
FNMA	13.9	13.9	—	166.8	166.8	—
FHLMC	10.5	10.5	—	4.9	4.9	—
Total agency[(1)]	575.6	575.6	—	802.7	802.7	—
Non-agency:						
Residential	38.1	38.1	—	13.7	11.4	2.3
Commercial	175.4	175.4	—	68.4	68.4	—
Total Non-agency	213.5	213.5	—	82.1	79.8	2.3
Total mortgage-backed securities	789.1	789.1	—	884.8	882.5	2.3
Other asset-backed securities:						
Credit card receivables	49.0	43.7	5.3	48.2	48.2	—
Vehicle receivables	81.5	81.5	—	5.3	5.3	—
Other	8.3	8.3	—	—	—	—
Total other asset-backed securities	138.8	133.5	5.3	53.5	53.5	—
Total asset-backed securities	$927.9	$922.6	$5.3	$938.3	$936.0	$2.3

(1) Represents publicly traded mortgage-backed securities which carry the full faith and credit guaranty of the U.S. government (i.e., GNMA) or are guaranteed by a government sponsored entity (i.e., FNMA, FHLMC).

Non-agency Mortgage-backed Securities

The security issuance years of OneBeacon's investments in non-agency RMBS and non-agency CMBS securities as of December 31, 2012 are as follows:

		Security Issuance Year				
	Fair Value	2006	2007	2010	2011	2012
	($ in millions)					
Non-agency RMBS	$38.1	$5.5	$—	$17.1	$15.5	$—
Non-agency CMBS	175.4	—	3.9	6.7	37.6	127.2
Total	$213.5	$5.5	$3.9	$23.8	$53.1	$127.2

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

Non-agency Residential Mortgage-backed Securities
The classification of the underlying collateral quality and the tranche levels of OneBeacon's non-agency RMBS securities are as follows as of December 31, 2012:

	Fair Value ($ in millions)	Super Senior[(1)]	Senior[(2)]	Subordinate[(3)]
Prime	$38.1	$—	$38.1	$—
Non-prime	—	—	—	—
Total	$38.1	$—	$38.1	$—

(1) At issuance, Super Senior were rated AAA by Standard & Poor's Financial Services LLC ("Standard & Poor's") or Aaa by Moody's Investors Service, Inc. ("Moody's") and were senior to other AAA or Aaa bonds.
(2) At issuance, Senior were rated AAA by Standard & Poor's or Aaa by Moody's and were senior to non-AAA or non-Aaa bonds.
(3) At issuance, Subordinate were not rated AAA by Standard & Poor's or Aaa by Moody's and were junior to other bonds.

Non-agency Commercial Mortgage-backed Securities
The amount of fixed and floating rate securities and their tranche levels are as follows as of December 31, 2012:

	Fair Value ($ in millions)	Super Senior[(1)]	Senior[(2)]	Subordinate[(3)]
Fixed rate CMBS	$170.1	$132.0	$38.1	$—
Floating rate CMBS	5.3	3.9	—	1.4
Total	$175.4	$135.9	$38.1	$1.4

(1) At issuance, Super Senior were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch Ratings and were senior to other AAA or Aaa bonds.
(2) At issuance, Senior were rated AAA by Standard & Poor's or Aaa by Moody's and were senior to non-AAA or non-Aaa bonds.
(3) At issuance, Subordinate were not rated AAA by Standard & Poor's or Aaa by Moody's and were senior to other bonds.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

Other Investments
OneBeacon holds investments in hedge funds and private equity funds which are included in other investments. The fair value of these investments has been estimated using the net asset value of the funds. The decrease in the fair value of hedge funds and private equity funds is due to net redemptions during the period. The following table summarizes investments in hedge funds and private equity funds at December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Fair Value ($ in millions)	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short credit and distressed	$ 8.4	$ —	$ 15.1	$ —
Long bank loan	0.1	—	0.2	—
Long/short equity	36.8	—	36.1	—
Long/short equity activist	2.0	—	2.1	—
Total hedge funds	47.3	—	53.5	—
Private equity funds				
Insurance	3.1	0.1	3.3	0.1
Distressed residential real estate	7.9	—	13.7	—
Energy infrastructure and services	20.7	7.5	16.3	4.6
Healthcare	2.1	2.7	1.1	3.5
Multi-sector	14.9	3.7	19.3	5.2
Private equity secondaries	7.0	2.0	7.6	2.6
Real estate	5.6	0.1	4.4	0.1
Total private equity funds	61.3	16.1	65.7	16.1
Total hedge funds and private equity funds[1]	$ 108.6	$ 16.1	$ 119.2	$ 16.1

(1) Other investments also includes $14.1 million of an investment in a community reinvestment vehicle as of December 31, 2012 and 2011 and $21.1 million and $21.8 million, respectively, of an investment in a tax advantaged federal affordable housing development fund as of December 31, 2012 and 2011.

Redemptions of investments in certain funds are subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period. The following summarizes the December 31, 2012 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

	Hedge Funds—Active Funds				
	30 - 59 days notice ($ in millions)	60 - 89 days notice	90 - 119 days notice	120+ days notice	Total
Redemption frequency					
Monthly	$—	$—	$—	$6.7	$6.7
Quarterly	25.4	8.4	4.7	—	38.5
Annual	—	—	2.0	0.1	2.1
Total	$25.4	$8.4	$6.7	$6.8	$47.3

Certain of the hedge fund investments are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 5. Investment Securities

December 31, 2012, $1.6 million of hedge funds were in liquidation. The actual amount of the final distribution is subject to market fluctuations. The date at which such distributions will be received is not determinable at December 31, 2012. OneBeacon has also submitted redemption requests for certain of its investments in active hedge funds. At December 31, 2012, redemptions of $2.0 million were outstanding. The date at which such redemptions will be received is not determinable at December 31, 2012. Redemptions are recorded as receivables when approved by the hedge funds and when no longer subject to market fluctuations.

Investments in private equity funds are generally subject to "lock-up" periods during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund's underlying investment. In addition, certain private equity funds provide an option to extend the lock-up period at either the sole discretion of the fund manager or upon agreement between the fund and the investors. At December 31, 2012, investments in private equity funds were subject to lock-up periods as follows:

	1 - 3 years	3 - 5 years	5 - 10 years	>10 years	Total
	($ in millions)				
Private Equity Funds—expected lock-up period remaining	$10.9	$8.3	$42.1	$—	$61.3

Securities Lending

As of December 31, 2011, all loaned securities under the OneBeacon legacy securities lending program had been returned except for two illiquid instruments for which OneBeacon held $1.7 million in collateral. No balance remained as of December 31, 2012 as these securities were returned in 2012 and the collateral was used to settle the outstanding liability.

NOTE 6. Debt

OneBeacon's debt outstanding as of December 31, 2012 and 2011 consisted of the following:

	December 31, 2012	2011
	($ in millions)	
Senior unsecured notes, at face value	$275.0	$269.9
Unamortized original issue discount	(0.3)	(0.2)
Senior unsecured notes, carrying value	$274.7	$269.7

Contractual repayments of $275.0 million for OneBeacon's outstanding debt are due more than five years after December 31, 2012.

2012 Senior Notes

In November 2012, OBH issued $275.0 million face value of senior unsecured debt ("2012 Senior Notes") through a public offering, at an issue price of 99.9% and received $272.9 million of proceeds. The 2012 Senior Notes bear an annual interest rate of 4.60% payable semi-annually in arrears on May 9 and November 9, until maturity on November 9, 2022, and are fully and unconditionally guaranteed as to the payment of principal and interest by the Company. OBH incurred $2.8 million in expenses related to the issuance of the 2012 Senior Notes (including the $1.8 million underwriting discount), which have been deferred and are being recognized into interest expense over the life of the 2012 Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the 2012 Senior Notes have an effective yield to maturity of approximately 4.7% per annum. The proceeds from the 2012 Senior Notes notes were utilized to repurchase and retire the remaining $269.8 million of 2003 Senior Notes for $275.9 million, which resulted in a $6.3 million loss in the fourth quarter of 2012.

2003 Senior Notes

In May 2003, OBH issued $700.0 million face value of senior unsecured debt ("2003 Senior Notes") through a public offering, at an issue price of 99.7% and received $693.4 million of proceeds. The 2003 Senior Notes had an annual interest rate

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 6. Debt

of 5.875%, payable semi-annually in arrears on May 15 and November 15, and were scheduled to mature on May 15, 2013. The 2003 Senior Notes were fully and unconditionally guaranteed as to the payment of principal and interest by White Mountains. See Note 15. OBH incurred $7.3 million in expenses related to the issuance of the 2003 Senior Notes (including the $4.5 million underwriting discount), which was deferred and was being recognized into interest expense over the life of the 2003 Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the 2003 Senior Notes had an effective yield to maturity of approximately 6.0% per annum. In December 2012, OBH repurchased and retired the remaining $269.8 million of 2003 Senior Notes for $275.9 million, which resulted in a $6.3 million loss, including transaction fees and the write-off of the remaining $0.2 million in unamortized deferred costs and original issue discount at the time of repurchase, in the year ended December 31, 2012.

On March 24, 2011, OBH commenced a cash tender offer for up to $150.0 million in aggregate principal amount of the 2003 Senior Notes at a price of $1,045 per $1,000 principal amount. The cash tender offer, which was not subject to the tender of any minimum principal amount of 2003 Senior Notes, expired on April 20, 2011. Holders of 2003 Senior Notes who tendered on or before April 6, 2011 received an early tender payment of $30 for every $1,000 principal amount of 2003 Senior Notes validly tendered. Payment for the 2003 Senior Notes included accrued and unpaid interest up to the settlement date. OBH accepted and retired $150.0 million aggregate principal amount of the 2003 Senior Notes for $161.6 million, which resulted in a $12.0 million pre-tax loss, including transaction fees.

On May 3, 2010, OBH commenced a cash tender offer for up to $200.0 million in aggregate principal amount of the 2003 Senior Notes at a price of $1,027.50 per $1,000 principal amount. The cash tender offer, which was not subject to the tender of any minimum principal amount of 2003 Senior Notes, expired on May 28, 2010. Holders of 2003 Senior Notes who tendered on or before May 14, 2010 received an early tender payment of $30 for every $1,000 principal amount of 2003 Senior Notes validly tendered. Payment for the 2003 Senior Notes included accrued and unpaid interest up to the settlement date. OBH accepted and retired $156.4 million aggregate principal amount of the 2003 Senior Notes, of which $155.2 million was tendered by the early tender deadline, for purchase for $165.4 million, which resulted in a $9.6 million pre-tax loss, including transaction fees.

During the year ended December 31, 2010, OBH repurchased and retired $29.7 million of outstanding 2003 Senior Notes for $30.8 million, which resulted in a $1.2 million loss. During the year ended December 31, 2010, OBIC purchased $1.1 million of outstanding 2003 Senior Notes for $1.1 million.

Other Debt of Operating Subsidiaries

In connection with the acquisition of Atlantic Specialty Insurance Company on March 31, 2004, OneBeacon issued a $20.0 million 10-year note to the seller (the "Atlantic Specialty Note"). The Atlantic Specialty Note accrued interest at a rate of 5.2% except that the outstanding principal amount in excess of $15.0 million accrued interest at a rate of 3.6%. During the three months ended March 31, 2010, OneBeacon repaid $14.0 million on the Atlantic Specialty Note, representing the outstanding principal on the note.

Interest

Total interest expense incurred by OneBeacon for its indebtedness was $16.9 million, $20.5 million and $29.6 million, respectively, during the years ended December 31, 2012, 2011 and 2010. Total cash interest paid by OneBeacon for its indebtedness was $16.4 million, $20.4 million and $29.4 million, respectively, during the years ended December 31, 2012, 2011 and 2010.

NOTE 7. Income Taxes

OneBeacon and its Bermuda-domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event that there is a change in the current law such that taxes are imposed, OneBeacon and its Bermuda-domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. OneBeacon also has subsidiaries that operate in Gibraltar, Luxembourg and the United States. U.S. operations are financed with a combination of debt and equity and the financing income currently accounts for the majority of non-U.S. income.

OneBeacon's U.S. subsidiaries join in the filing of a federal consolidated tax return. The consolidated parent is OneBeacon U.S. Financial Services, Inc. ("OBFS"). For all years, the companies included within the U.S. consolidated tax return are parties to a tax sharing agreement which provides that each company pays the amount of income taxes or estimated

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 7. Income Taxes

tax or receives refunds that it would have to make or be entitled to if it filed its own separate tax return. As a result, certain companies have made payments, and received refunds from the consolidated parent that are different than amounts payable to the Internal Revenue Service ("IRS"). The companies that are domiciled outside of the United States file separate returns for the appropriate jurisdictions.
The total income tax (expense) benefit from continuing operations for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Current tax benefit (expense):			
Federal	$10.1	$18.5	$49.2
State	(1.5)	(1.6)	(1.0)
Non-U.S.	(0.6)	(0.1)	(0.4)
Total current tax benefit (expense)	8.0	16.8	47.8
Deferred tax expense:			
Federal	(16.4)	(31.6)	(72.9)
State	—	—	—
Non-U.S.	—	—	—
Total deferred tax expense	(16.4)	(31.6)	(72.9)
Total income tax expense	$(8.4)	$(14.8)	$(25.1)

A reconciliation of taxes calculated using the 35% U.S. statutory rate (the tax rate at which the majority of OneBeacon's worldwide operations are taxed) to the income tax (expense) benefit on pre-tax income from continuing operations follows:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Tax expense at the U.S. statutory rate	$(37.1)	$(41.9)	$(61.4)
Differences in taxes resulting from:			
Non-U.S. earnings, net of foreign taxes	26.0	25.5	29.0
Tax reserve adjustments	(1.2)	(1.9)	(1.6)
Tax exempt interest and dividends	2.3	2.1	1.8
Change in valuation allowance	(0.7)	(0.7)	3.6
Sale of subsidiaries	—	—	4.3
Other, net	2.3	2.1	(0.8)
Total income tax expense on pre-tax income from continuing operations	$(8.4)	$(14.8)	$(25.1)

The non-U.S. component of pre-tax income from continuing operations which, as described above, primarily relates to interest income, was $75.6 million, $73.3 million and $77.3 million, respectively, for the years ended December 31, 2012, 2011 and 2010. The income tax expense related to pre-tax income from continuing operations for the years ended December 31, 2012, 2011 and 2010 represented net effective tax rates of 7.9%, 12.4% and 14.3%, respectively. The effective tax rate on non-U.S. income was 0.6%, 0.3% and 0.5%, respectively, and the effective tax rate on U.S. income was 26.1%, 31.6% and 25.2%, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 7. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes. An outline of the significant components of OneBeacon's deferred tax assets and liabilities follows:

	December 31, 2012	2011
	($ in millions)	
Deferred income tax assets related to:		
Sale of Runoff Business	$49.2	$—
Sale of AutoOne	—	10.4
U.S. net operating loss carryforwards	42.6	15.8
Discounting of loss and LAE reserves	41.6	54.6
Unearned premiums	39.8	36.6
Compensation and bonus accruals	15.6	18.0
Deferred compensation plans	8.4	9.5
Pension and benefit accruals	8.0	5.6
Tax credit carryforwards	6.2	3.4
Investment basis differences	4.6	12.6
Accrued rent	3.7	4.1
Fixed assets	3.0	0.1
Allowance for doubtful accounts	1.2	1.3
Other accrued compensation	0.7	1.2
Non-U.S. net operating loss carryforwards	0.2	297.1
Involuntary pool and guaranty fund accruals	0.1	0.2
Other items	9.2	9.0
Total gross deferred income tax assets	234.1	479.5
Less valuation allowance	(7.8)	(304.0)
Total net deferred income tax assets	226.3	175.5
Deferred income tax liabilities related to:		
Deferred acquisition costs	43.4	43.2
Net unrealized investment gains	39.4	33.9
Other items	5.7	4.8
Total deferred income tax liabilities	88.5	81.9
Net deferred tax asset	$137.8	$93.6

OneBeacon's deferred tax assets are net of federal and non-U.S. valuation allowances and, to the extent they relate to non-U.S. jurisdictions, they are shown at year-end exchange rates. Of the $7.8 million valuation allowance at December 31, 2012, $0.2 million relates to deferred tax assets on net operating losses ("NOLs") in Luxembourg subsidiaries that are not expected to have significant income in the future, and $7.6 million relates to deferred tax assets of Houston General Insurance Exchange, which files its own tax return. At December 31, 2011, the valuation allowance was $304.0 million of which $297.1 million related to deferred tax assets on NOLs in Luxembourg and $6.9 million related to deferred tax assets of Houston General Insurance Exchange.

On January 24, 2012, OneBeacon sold the issued and outstanding shares of common stock of OneBeacon Holdings (Luxembourg) S.à r.l. ("OB Lux") to White Sands Holdings (Luxembourg) S.à r.l ("White Sands"), a subsidiary of White Mountains, for $24.7 million. As a result of this sale, the Luxembourg NOL carryovers from OB Lux will no longer be available for use by OneBeacon. See Note 15—"Related Party Disclosures."

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 7. Income Taxes

OneBeacon believes that, based upon its prior earnings history, expected future earnings, reversing temporary differences and capacity for carry-back of losses, it is more likely than not that the net deferred tax asset balances (net of valuation allowance) carried at December 31, 2012 and 2011 will be realized. It is possible that projected earnings may not be sufficient to utilize the entire deferred tax asset, which could result in material changes to OneBeacon's valuation allowance on deferred tax assets and tax expense.

Net operating loss carryforwards as of December 31, 2012 and the expiration dates are as follows:

	December 31, 2012		
	United States	Luxembourg	Total
	($ in millions)		
2013	$—	$—	$—
From years 2014 to 2022	0.4	—	0.4
From years 2023 to 2032	121.4	—	121.4
No expiration date	—	0.6	0.6
Totals	$121.8	$0.6	$122.4
Gross deferred tax asset	$42.6	$0.2	$42.8
Valuation allowance	(1.5)	(0.2)	(1.7)
Net deferred tax asset	$41.1	$—	$41.1

OneBeacon does not anticipate future taxable income in Luxembourg. Therefore, OneBeacon does not believe that it is more likely than not that these losses will be realized and has recorded a full valuation allowance against the tax benefits associated with these NOLs. Effective January 1, 2013, the Luxembourg statutory tax rate increased from 28.80% to 29.22%.

At December 31, 2012, there were U.S. net operating loss carryforwards of approximately $121.8 million, which begin to expire in 2021. Included in these tax losses are losses of $0.5 million subject to an annual limitation on utilization under Internal Revenue Code Section 382. Also included in these losses are NOLs of $4.4 million related to Houston General Insurance Exchange, a reciprocal, which files its own tax return. In addition, at December 31, 2012, OBFS had Low Income Housing Credit carryovers of $4.8 million, which expire in 2031 and 2032, and alternative minimum tax credit carryovers of $1.4 million, which do not expire.

Under ASC 740-10, recognition of the benefit of a given tax position is based upon whether or not a company determines that it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. In evaluating the more-likely-than-not recognition threshold, OneBeacon must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 7. Income Taxes

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Permanent differences[1]	Temporary differences[2]	Interest and penalties[3]	Total
	($ in millions)			
January 1, 2010	$7.6	$67.1	$3.1	$77.8
Changes in prior year tax positions	—	(8.6)	1.6	(7.0)
Tax positions taken during the current year	—	—	—	—
Lapse in statute of limitations	—	—	—	—
Settlements with tax authorities	—	—	—	—
December 31, 2010	$7.6	$58.5	$4.7	$70.8
Changes in prior year tax positions	—	—	1.9	1.9
Tax positions taken during the current year	—	(21.0)	—	(21.0)
Lapse in statute of limitations	—	—	—	—
Settlements with tax authorities	—	—	—	—
December 31, 2011	$7.6	$37.5	$6.6	$51.7
Changes in prior year tax positions	—	—	1.2	1.2
Tax positions taken during the current year	—	(13.9)	—	(13.9)
Lapse in statute of limitations	—	—	—	—
Settlements with tax authorities	—	—	—	—
December 31, 2012	$7.6	$23.6	$7.8	$39.0

(1) Represents the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate.
(2) Represents the amount of unrecognized tax benefits that, if recognized, would create a temporary difference between the reported amount of an item in OneBeacon's Consolidated Balance Sheet and its tax basis.
(3) Net of tax benefit.

If recognized, $15.4 million (tax plus interest and penalties) would be recorded as a reduction to income tax expense. Also included in the balance at December 31, 2012 are $23.6 million of tax positions for which ultimate deductibility is highly certain but the timing of deductibility is uncertain. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

OneBeacon classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. During the years ended December 31, 2012, 2011 and 2010, OneBeacon recognized $1.2 million, $1.9 million and $1.6 million, respectively, in interest expense (benefit), net of federal benefit. The balance of accrued interest at December 31, 2012 and 2011 is $7.8 million and $6.6 million, respectively, net of any tax benefit.

With few exceptions, OneBeacon is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2005. In October 2008, the IRS commenced examination of OneBeacon's U.S. income tax returns for 2005 and 2006. On January 5, 2011, OneBeacon received a revised Form 4549-A (Income Tax Discrepancy Adjustments) from the IRS relating to the examination of tax years 2005 and 2006. The estimated total assessment, including interest and utilization of alternative minimum and foreign tax credit carryovers, is $20.8 million. OneBeacon disagrees with the adjustments proposed by the IRS and intends to defend its position. The timing of the resolution of these issues is uncertain, however, it is reasonably possible that the resolution could occur within the next twelve months. An estimate of the range of potential outcomes cannot be made at this time. When ultimately settled, OneBeacon does not expect the resolution of this examination to result in a material change to its financial position.

On July 28, 2011, the IRS commenced an examination of OneBeacon’s U.S. income tax returns for 2007, 2008 and 2009. OneBeacon has received proposed adjustments but does not expect the resolution of this examination to result in a material change to its financial position.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 7. Income Taxes

Upon completion of the Runoff Transaction, it is expected that the unrecognized tax benefits associated with tax positions where the deductibility is certain but the timing is uncertain, will decrease by approximately $3.2 million. OneBeacon does not expect the decrease to result in a material change to its financial position.

Net cash (refunds) payments for federal, state and non-U.S. income taxes, including tax sharing payments to related companies, totaled $0.8 million, $(1.6) million and $(56.5) million for the years ended December 31, 2012, 2011 and 2010, respectively.

NOTE 8. Retirement Plans

OneBeacon sponsors qualified and non-qualified, non-contributory, defined benefit pension plans covering substantially all employees who were employed as of December 31, 2001 and former employees who had met the eligibility requirements, as well as retirees. Current plans include the OneBeacon qualified pension plan (the "Qualified Plan") and the OneBeacon non-qualified pension plan (the "Non-qualified Plan") (collectively the "Plans").

OneBeacon's Plans were frozen and curtailed in 2002 and, as a result, the projected benefit obligation is equal to the accumulated benefit obligation. The benefits for the Plans are based primarily on years of service and employees' compensation through December 31, 2002. OneBeacon's funding policy is consistent with the funding requirements of U.S. federal laws and regulations.

The following tables set forth the obligations and funded status, assumptions, plan assets and cash flows associated with the Plans at December 31, 2012 and 2011:

	December 31, 2012	2011
	($ in millions)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$113.0	$110.2
Service cost	0.7	0.8
Interest cost	4.7	5.2
Settlement gain	(0.7)	(0.6)
Special termination benefits expense	0.6	0.8
Assumption changes	11.2	7.7
Actuarial gain	(0.2)	(0.3)
Benefits and expenses paid with plan assets, net of participant contributions	(7.5)	(8.4)
Benefits paid directly by OneBeacon	(2.3)	(2.4)
Projected benefit obligation at end of year	$119.5	$113.0
Change in plan assets:		
Fair value of plan assets at beginning of year	$120.8	$133.0
Actual return on plan assets	11.4	(3.8)
Employer contributions	—	—
Benefits and expenses paid, net of participant contributions	(7.5)	(8.4)
Fair value of plan assets at end of year	$124.7	$120.8
Funded status at end of year	$5.2	$7.8

The funded status of the consolidated pension plans at December 31, 2012 was $5.2 million, which represents an over-funding of $32.8 million related to the Qualified Plan and an under-funding of $27.6 million related to the Non-qualified Plan. The Non-qualified Plan, which is unfunded, does not hold any assets. OneBeacon has set aside $13.4 million in an irrevocable

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 8. Retirement Plans

rabbi trust for the benefit of Non-qualified Plan participants. Assets held in the rabbi trust are not reflected in the funded status of the consolidated pension plans as presented.

Amounts recognized in the financial statements as of December 31, 2012 and 2011 consist of:

	December 31, 2012	2011
	($ in millions)	
Net balance sheet asset recorded in other assets	$32.8	$34.3
Net balance sheet liability recorded in other liabilities	(27.6)	(26.5)
Net amount recognized in the financial statements	$5.2	$7.8

Information for the Non-qualified Plan, which had accumulated benefit obligations in excess of plan assets, was as follows:

	December 31, 2012	2011
	($ in millions)	
Projected benefit obligation	$27.6	$26.5
Accumulated benefit obligation	$27.6	$26.5
Fair value of plan assets	$—	$—

Information for the Qualified Plan, which had accumulated benefit obligations less than plan assets, was as follows:

	December 31, 2012	2011
	($ in millions)	
Projected benefit obligation	$91.9	$86.5
Accumulated benefit obligation	$91.9	$86.5
Fair value of plan net assets	$124.7	$120.8

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 8. Retirement Plans

The amounts recognized in accumulated other comprehensive income (loss) on a before tax basis for the years ended December 31, 2012 and 2011 were as follows:

	December 31, 2012	2011
	($ in millions)	
Accumulated other comprehensive income (loss) at beginning of year	$(16.7)	$0.5
Increase (decrease) in accumulated other comprehensive income (loss):		
Amortization of net actuarial losses recognized during the year	0.8	0.5
Net actuarial losses occurring during the year[1]	(5.9)	(18.2)
Other adjustments	0.6	0.5
Accumulated other comprehensive (loss) income at end of year	$(21.2)	$(16.7)

(1) Net actuarial losses resulted from a decrease in investment returns on plan assets in the year ended December 31, 2011 and changes in assumptions in estimating the projected benefit obligation in the years ended December 31, 2012 and 2011.

The amount in accumulated other comprehensive loss, on a pre-tax basis, that has not yet been recognized as a component of net periodic benefit cost for the year ended December 31, 2012 is attributable to net losses. During the year ended December 31, 2013, OneBeacon expects $0.9 million will be amortized from accumulated other comprehensive loss into net periodic benefit cost.

The components of net periodic benefit cost for the years ended December 31, 2012, 2011 and 2010 were as follows:

	December 31, 2012	2011	2010
	($ in millions)		
Service cost	$0.7	$0.8	$0.8
Interest cost	4.7	5.2	6.0
Expected return on plan assets	(6.9)	(7.6)	(7.3)
Amortization of prior service benefit	—	—	—
Amortization of unrecognized loss	0.8	0.5	0.6
Net periodic pension (income) cost before settlements, curtailments and special termination benefits	(0.7)	(1.1)	0.1
Settlement loss (gain)	0.6	0.5	(0.1)
Special termination benefits expense[1]	0.6	0.8	1.9
Total net periodic benefit cost	$0.5	$0.2	$1.9

(1) Special termination benefits represent additional payments made from the Qualified Plan to certain vested participants when their employment was terminated due to a reduction in force.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 8. Retirement Plans

Assumptions
The weighted average assumptions used to determine benefit obligations at December 31, 2012 and 2011 were as follows:

	December 31,			
	2012		2011	
Discount rate	3.64	%	4.38	%

The weighted average assumptions used to determine net periodic benefit cost for the years ended December 31, 2012 and 2011 were as follows:

	December 31,			
	2012		2011	
Discount rate	4.38	%	4.94	%
Expected long-term rate of return on plan assets	5.75	%	5.75	%

OneBeacon's discount rate assumptions used to account for the Plans reflect the rates at which the benefit obligations could be effectively settled. In addition to consideration of published yields for high quality long-term corporate bonds, U.S. Treasuries and insurance company annuity contract pricings, consideration was given to cash flow matching analyses.

OneBeacon performed an analysis of expected long-term rates of return based on the allocation of its Qualified Plan assets at December 31, 2011 and 2010 to develop expected rates of return for 2012 and 2011 for each significant asset class or economic indicator. A range of returns was developed based both on forecasts and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class.

Plan Assets
The majority of the Qualified Plan's assets are managed by Prospector Partners, LLC ("Prospector"), a related party (see Note 15). The investment policy places an emphasis on preserving invested assets through a diversified portfolio of high-quality income producing investments and equity investments.

The investment management process integrates the risks and returns available in the investment arena with the risks and returns available to the Qualified Plan in establishing the proper allocation of invested assets. The asset classes may include fixed maturity, equity, convertible fixed maturity investments, and cash and short-term investments. The factors examined in establishing the appropriate investment mix include the outlook for risk and return in the various investment markets and sectors, and the long-term need for capital growth.

The Qualified Plan's investments are stated at fair value. Many factors are considered in arriving at fair market value. In general, fixed maturity investments such as corporate bonds and government securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Shares of common and preferred stock are valued at quoted market prices when available. Convertible fixed maturity investments are valued based on quoted market prices, analysis of listed markets and use of sensitivity analyses. Registered investment companies are valued at the net asset value as reported by the fund at year-end.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 8. Retirement Plans

The fair value of the Qualified Plan's assets and their related inputs at December 31, 2012 and 2011 by asset category were as follows:

	Fair value at December 31, 2012	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
Utilities	$1.9	$—	$1.9	$—
Fixed maturity investments	1.9	—	1.9	—
Short-term investments	8.1	8.1	—	—
Common equity securities:				
Financials	10.7	10.7	—	—
Basic Materials	10.7	10.7	—	—
Consumer	26.6	26.6	—	—
Energy	12.0	12.0	—	—
Utilities	1.9	1.9	—	—
Other	17.6	17.6	—	—
Common equity securities	79.5	79.5	—	—
Convertible fixed maturity investments:				
Financials	0.9	—	0.9	—
Basic Materials	10.6	—	10.6	—
Consumer	16.7	—	16.7	—
Energy	0.1	—	0.1	—
Utilities	—	—	—	—
Other	6.2	—	6.2	—
Convertible fixed maturity investments	34.5	—	34.5	—
Total	$124.0	$87.6	$36.4	$—

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 8. Retirement Plans

	Fair value at December 31, 2011	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturity investments:				
Utilities	$2.4	$—	$2.4	$—
Fixed maturity investments	2.4	—	2.4	—
Short-term investments	3.1	3.1	—	—
Common equity securities:				
Financials	9.5	9.5	—	—
Basic Materials	13.3	13.3	—	—
Consumer	19.4	19.4	—	—
Energy	8.8	8.8	—	—
Utilities	3.2	3.2	—	—
Other	18.0	18.0	—	—
Common equity securities	72.2	72.2	—	—
Convertible fixed maturity investments:				
Financials	0.9	—	0.9	—
Basic Materials	4.7	—	4.7	—
Consumer	4.8	—	4.8	—
Energy	5.2	—	5.2	—
Utilities	1.5	—	1.5	—
Other	25.7	—	25.7	—
Convertible fixed maturity investments	42.8	—	42.8	—
Total	$120.5	$75.3	$45.2	$—

There were no transfers between Levels 1, 2 or 3 during the years ended December 31, 2012 and 2011.

The Qualified Plan's asset allocations at December 31, 2012 and 2011 by asset category were as follows:

Asset Category	Plan Assets at December 31, 2012		2011	
Fixed maturity investments	1.5	%	2.0	%
Common equity securities	64.2		59.9	
Convertible fixed maturity investments	27.8		35.5	
Cash and short-term investments	6.5		2.6	
Total	100.0	%	100.0	%

As described above, the Qualified Plan's investment securities are exposed to various risks such as interest rate, market, and credit risks. Market prices of common equity securities, in general, are subject to fluctuations which would cause the amount to be realized upon sale or exercise of the instruments to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, general market conditions and supply and demand imbalances for a particular security. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity and convertible fixed maturity investments, respectively. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 8. Retirement Plans

Cash Flows
OneBeacon does not expect to make a contribution to its Qualified Plan in 2013. OneBeacon anticipates contributing $2.4 million to the Non-qualified Plan in 2013, for which OneBeacon has assets held in a rabbi trust.
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Expected Benefit Payments ($ in millions)
2013	$5.2
2014	5.5
2015	5.8
2016	6.0
2017	6.2
2018 - 2022	35.0

Other Benefit Plans
OneBeacon sponsors an employee savings plan (defined contribution plan) covering the majority of employees. The contributory plan provides qualifying employees with matching contributions of 50% of the first 6% of salary (subject to federal limits on allowable contributions in a given year). Total expense for the plan was $2.8 million, $3.0 million and $3.8 million, respectively, in the years ended December 31, 2012, 2011 and 2010, respectively. The employee savings plan includes an employee stock ownership component. See Note 9.
OneBeacon had a post-employment benefit liability related to disability and health benefits available to former employees that are no longer employed by the Company, of $7.1 million and $6.7 million at December 31, 2012 and 2011, respectively.
NOTE 9. Employee Share-Based Incentive Compensation Plans
The OneBeacon Long-Term Incentive Plan (the "Incentive Plan") provides for granting various types of share-based incentive awards including performance shares, performance units, options, share appreciation rights and restricted shares to certain key employees of OneBeacon. The Incentive Plan was adopted by the Board of Directors (the "Board") in October 2006. In 2007, the Board and shareholders approved the 2007 OneBeacon Long-Term Incentive Plan (the "2007 Incentive Plan"). The 2007 Incentive Plan provides for all of the awards referenced above as well as restricted stock units. Awards are granted under the 2007 Incentive Plan.
OneBeacon's share-based compensation plans consist of performance shares, stock options granted in connection with the initial public offering, restricted stock units and restricted shares. OneBeacon's share-based compensation plans are designed to maximize shareholder value over long periods of time by aligning the financial interests of its management with those of its owners. Performance shares are payable only upon achievement of pre-defined business goals and are valued based on the market value of OneBeacon's common shares at the time awards are earned. See "Performance Shares" below. Performance shares are typically paid in cash, though, in some instances, they may be paid in common shares or may be deferred in accordance with the terms of OneBeacon's deferred compensation plan. OneBeacon expenses the full cost of all its share-based compensation.
OneBeacon records its share-based compensation in accordance with ASC 718. ASC 718 applies to new grants of share-based awards, award modifications and the remaining portion of the fair value of the unvested awards. The unvested portion of OneBeacon performance share awards, as well as the stock options granted in connection with the initial public offering are subject to the fair value measurement and recognition requirements of ASC 718.
Performance Shares
Performance shares are conditional grants of a specified maximum number of common shares or an equivalent amount of cash. In general, grants are earned, subject to the attainment of pre-specified performance goals, at the end of a three-year period or as otherwise determined by the Compensation Committee of the Board (the "Compensation Committee") and are valued based on the market price of an underlying OneBeacon common share at the time awards are paid ("OB

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 9. Employee Share-Based Incentive Compensation Plans

Shares"). Results that significantly exceed pre-specified targets can result in a performance share payout of up to 200% of granted shares whereas results significantly below target result in no payout.

For awards granted in February 2010, the Compensation Committee granted performance shares with a goal of GBVPS. The targeted performance goal for full payment of the outstanding performance shares granted during the year ended December 31, 2010 is the attainment of a GBVPS of 12%. At a GBVPS of 5% or less, no performance shares would be earned and at a GBVPS of 19% or more, 200% of performance shares would be earned.

For awards granted in February 2011, the Compensation Committee granted performance shares with a goal of GBVPS. The targeted performance goal for full payment of the outstanding performance shares granted during the year ended December 31, 2011 is the attainment of a GBVPS of 11%. At a GBVPS of 4% or less, no performance shares would be earned and at a GBVPS of 18% or more, 200% of performance shares would be earned.

For awards granted in February 2012, the Compensation Committee granted performance shares with a goal of GBVPS. The targeted performance goal for full payment of the outstanding performance shares granted during the year ended December 31, 2012 is the attainment of a GBVPS of 10%. At a GBVPS of 3% or less, no performance shares would be earned and at a GBVPS of 17% or more, 200% of performance shares would be earned.

The following summarizes performance share activity for OB Performance Shares for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,					
	2012		2011		2010	
($ in millions)	Target OB Performance Shares outstanding	Accrued expense	Target OB Performance Shares outstanding	Accrued expense	Target OB Performance Shares outstanding	Accrued expense
Beginning of period	642,667	$9.7	1,464,295	$18.5	2,224,215	$15.1
Payments and deferrals[1][2][3][4]	(258,901)	(7.7)	(936,150)	(10.5)	(889,594)	(4.6)
New awards	181,290	—	194,900	—	270,691	—
Forfeitures and net change in assumed forfeitures	(1,866)	—	(80,378)	(0.5)	(141,017)	(2.2)
Expense (Benefit) recognized	—	(0.8)	—	2.2	—	10.2
End of period	563,190	$1.2	642,667	$9.7	1,464,295	$18.5

(1) Performance share payments in 2012 for the 2009-2011 performance cycle were based upon a performance factor of 138.6%.

(2) Performance share payments in 2011 for the 2008-2010 performance cycle were based upon a performance factor of 68.5%.

(3) Performance share payments in 2010 for the 2007-2009 performance cycle were based upon a performance factor of 14.2%.

(4) As a result of the sales of the commercial lines and personal lines businesses, payments were made to certain former employees of OneBeacon prior to the end of the performance cycle (2008-2010, 2009-2011 and 2010-2012 performance cycles) on a pro rata basis based upon a performance factor of 100%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 9. Employee Share-Based Incentive Compensation Plans

The following summarizes performance shares outstanding and accrued performance share expense at December 31, 2012 for each performance cycle:

	Target OB Performance Shares outstanding ($ in millions)	Accrued expense
Performance cycle:		
2010 - 2012	238,658	$—
2011 - 2013	151,563	0.3
2012 - 2014	181,290	0.9
Subtotal	571,511	1.2
Assumed forfeitures	(8,321)	—
Total at December 31, 2012	563,190	$1.2

If 100% of the outstanding performance shares had been vested on December 31, 2012, the total additional compensation cost to be recognized would have been $1.9 million, based on current accrual factors (common share price, accumulated dividends and payout assumptions) at December 31, 2012.

All performance shares earned and paid for the 2010-2012, 2009-2011, 2008-2010 and 2007-2009 performance cycles were settled in cash or by deferral into OneBeacon's deferred compensation plan.

Stock Options

In November 2006, in connection with the initial public offering, OneBeacon issued 1,420,000 options to acquire common shares of the Company at an above-market fixed exercise price to certain key employees as a one-time incentive. No options remained outstanding as of December 31, 2012 as the options expired five and a half years from the anniversary of issuance. The options vested in equal installments on each of the third, fourth and fifth anniversaries of their issuance. The fair value of each option award at grant date was estimated using a Black-Scholes option pricing model using an expected volatility assumption of 30.0%, a risk-free interest rate assumption of 4.6%, a forfeiture assumption of 5.0%, an expected dividend rate assumption of 3.4% and an expected term assumption of 5.5 years. The options originally had a per share exercise price of $30.00. On May 27, 2008, the Compensation Committee adjusted the exercise price to $27.97 as a result of the $2.03 per share special dividend paid in the first quarter of 2008. On November 16, 2010, the Compensation Committee adjusted the exercise price to $25.47 as a result of the $2.50 per share special dividend paid in the third quarter of 2010.

The compensation expense associated with the options and the incremental fair value of the award modifications was recognized ratably over the vesting period. No expense was recognized for the year ended December 31, 2012, as the options were fully vested prior to 2012. The Company recognized compensation expense of $0.5 million and $0.9 million in connection with these options during the years ended December 31, 2011 and 2010, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 9. Employee Share-Based Incentive Compensation Plans

The following summarizes option activity for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,					
	2012		2011		2010	
	Target options outstanding	Expense recognized	Target options outstanding	Expense recognized	Target options outstanding	Expense recognized
	($ in millions)					
Beginning of year	740,870	$—	768,652	$—	1,015,610	$—
Forfeitures	—	—	(27,782)	—	(37,044)	—
Vested and expired[1][2]	(740,870)	—	—	—	(209,914)	—
Expense recognized	—	—	—	0.5	—	0.9
End of year	—	$—	740,870	$0.5	768,652	$0.9

(1) During the year ended December 31, 2012, the remaining 740,870 options expired unexercised.
(2) During the year ended December 31, 2010, 209,914 options that vested as a result of the Commercial Lines Transaction and Personal Lines Transaction expired unexercised.

Restricted Stock Units

The options granted in connection OneBeacon's initial public offering did not include a mechanism in the options to reflect the contribution to total return from the regular quarterly dividend. As a result, during the first quarter of 2008, OneBeacon granted 116,270 Restricted Stock Units ("RSUs") to actively employed option holders. The RSUs were scheduled to vest one-third on each of November 9, 2009, 2010 and 2011 subject to, for each vesting tranche of units, the attainment of 4% growth in adjusted book value per share from January 1, 2008 through the end of the calendar year immediately following the applicable vesting date.

All three tranches of RSUs vested and were deferred into the non-qualified deferred compensation in 2011 and distributed in May 2012.

The expense associated with the RSUs was recognized ratably over the vesting period. No expense was recognized for the year ended December 31, 2012, as the RSUs were fully vested in 2011. For the years ended December 31, 2011 and 2010, OneBeacon recognized expense of $0.1 million and $0.5 million, 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 of the next five years are being reduced by 35,000 shares. The restricted shares contain dividend participation features, and therefore, are considered participating securities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 9. Employee Share-Based Incentive Compensation Plans

The following summarizes restricted shares activity for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,					
	2012		2011		2010	
	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value
	($ in millions)					
Beginning of year	630,000	$7.7	—	$—	—	$—
New awards	300,000	4.5	630,000	8.6	—	—
Forfeitures	(2,333)	—	—	—	—	—
Vested	(667)	—	—	—	—	—
Expense recognized	—	(2.6)	—	(0.9)	—	—
End of year	927,000	$9.6	630,000	$7.7	—	$—

At December 31, 2012, the Company had 927,000 unvested restricted shares. During the years ended December 31, 2012 and 2011, OneBeacon recognized expense for restricted shares of $2.6 million and $0.9 million, respectively. As of December 31, 2012 and 2011, the unrecognized compensation cost associated with the outstanding restricted share awards was $9.6 million and $7.7 million, respectively, to be recognized ratably over the remaining vesting periods.

Other Share-Based Compensation

OneBeacon sponsors a defined contribution plan, the OneBeacon 401(k) Savings and Employee Stock Ownership Plan ("KSOP"). Under the KSOP, participants have the ability to invest their balances in several different investment options, including the common shares of White Mountains and the common shares of the Company.

The employee stock ownership component of the KSOP provides all participants with an annual base contribution in common shares of the Company equal to 3% of their salary, up to the applicable Social Security wage base (or $110,100 with respect to 2012). Additionally, those participants not otherwise eligible to receive certain other Company benefits can earn a variable contribution up to an additional 6% of their salary, capped at the annual covered compensation limits ($250,000 for 2012), contingent upon OneBeacon's performance. The variable contribution amounts for eligible participants constituted approximately 3%, 2% and 1%, respectively, of salary for the years ended December 31, 2012, 2011 and 2010. OneBeacon has recorded $4.5 million, $6.0 million and $2.9 million, respectively, in compensation expense to pay benefits and allocate common shares to participants' accounts for the years ended December 31, 2012, 2011 and 2010.

As of December 31, 2012 and 2011, the KSOP owned less than 3% of either of the total White Mountains common shares outstanding or the total Company common shares outstanding. All common shares held by the KSOP are considered outstanding for earnings (loss) per share computations.

As of December 31, 2012, the Company has no outstanding share appreciation rights.

NOTE 10. Common Shareholders' Equity

Common Shares Repurchased and Retired

On August 22, 2007, the Company's Board authorized the repurchase of up to $200.0 million of its 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 authorization does not have a stated expiration date. During the year ended December 31, 2012 and 2011, no shares were repurchased. During the year ended December 31, 2010, the Company repurchased and retired 0.7 million of its Class A common shares under this authorization for $10.5 million. The average cost per share repurchased was $14.42. See Note 18 for discussion regarding the share repurchase authorization.

Dividends on Common Shares

During the year ended December 31, 2012, the Company declared and paid cash dividends totaling $80.1 million, or $0.84 per common share. During the year ended December 31, 2011, the Company declared and paid cash dividends totaling

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$174.8 million, or $1.84 per common share, including $79.7 million, or $0.84 per common share, of regular quarterly cash dividends and $95.1 million, or $1.00 per common share, of a special dividend. During the year ended December 31, 2010, the Company declared and paid cash dividends totaling $315.6 million, or $3.34 per common share, including $79.5 million, or $0.84 per common share, of regular quarterly cash dividends and $236.1 million, or $2.50 per common share, of a special dividend.

Accumulated Other Comprehensive Income (Loss)

For the years ended December 31, 2012, 2011 and 2010, OneBeacon recorded changes to accumulated other comprehensive income (loss) for net increases (decreases) in net benefit plan assets and obligations of $(2.9) million, $(11.2) million, $5.8 million, respectively, which were net of tax benefit (expense) of $1.6 million, $6.0 million and $(3.1) million, respectively. See Note 8.

NOTE 11. Statutory Capital and Surplus

OneBeacon's insurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, 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 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. Most states have implemented laws that establish standards for current, as well as continued, state accreditation. In addition, the National Association of Insurance Commissioners uses risk-based capital ("RBC") standards for property and casualty insurers as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. At December 31, 2012, OneBeacon's active insurance operating subsidiaries met their respective RBC requirements.

OneBeacon's combined policyholders' surplus as reported to various regulatory authorities as of December 31, 2012 and 2011 was $0.9 billion and $1.0 billion, respectively. OneBeacon's combined statutory net income for the years ended December 31, 2012, 2011 and 2010 was $82.0 million, $119.6 million and $257.2 million, respectively. The principal differences between OneBeacon's combined statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes and market value adjustments for debt securities. OneBeacon's insurance subsidiaries' statutory policyholders' surplus at December 31, 2012 was in excess of the minimum requirements of relevant state insurance regulations.

Dividend Capacity

Under the insurance laws of the states and jurisdictions under which OneBeacon's operating 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. Accordingly, there can be no assurance regarding the amount of such dividends that may be paid by such subsidiaries in the future.

Generally, OneBeacon's top tier regulated insurance operating subsidiaries have the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the greater of prior year statutory net income or 10% of prior year end statutory surplus, subject to the availability of unassigned funds. OneBeacon Insurance Company ("OBIC"), OneBeacon's primary top tier regulated insurance operating subsidiary, has the ability to pay $329.9 million of dividends during 2013 without prior approval of regulatory authorities, subject to the availability of unassigned funds. The amount of dividends available to be paid by OBIC in any given year is also subject to cash flow and earnings generated by OBIC's business, which now just comprises the Runoff Business, as well as to dividends received from its subsidiaries, including Atlantic Specialty Insurance Company ("ASIC"). At December 31, 2012, OBIC had $0.7 billion of unassigned funds and $0.9 billion of statutory surplus.

As disclosed in Note 2, during the fourth quarter of 2012, OneBeacon executed various intercompany reinsurance agreements which, along with other internal capital transactions among its 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. As a result of the internal restructuring transactions, OBIC's 2012 statutory net income was significantly higher than that of OneBeacon's consolidated combined statutory net income as statutory net losses at lower-tiered subsidiaries more than offset the income recorded at OBIC. Notwithstanding these restructuring transactions, OneBeacon continues to manage its statutory capital on a combined basis. Although OBIC remains a top tier regulated insurance operating subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 11. Statutory Capital and Surplus

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.

ASIC has the ability to pay dividends during any 12-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus. Given the changes in structure noted above, ASIC will likely require prior approval by regulatory authorities in order to pay dividends until it builds up a historical net investment income stream and earned surplus balance under its new structure. At December 31, 2012, ASIC had negative earned surplus and $0.7 billion of statutory surplus.

During the year ended December 31, 2012, OneBeacon's top tier regulated insurance operating subsidiaries distributed $173.1 million to their immediate parent, representing $114.7 million of dividends, which included the distribution of a regulated insurance subsidiary with a value of $34.0 million, and a return of capital to OneBeacon LLC of $58.4 million. During the year ended December 31, 2011, OneBeacon's top tier regulated operating subsidiaries distributed $150.0 million of extraordinary dividends to OneBeacon LLC. During the year ended December 31, 2010, OneBeacon's top tier regulated operating subsidiaries distributed $776.0 million of dividends, including $71.0 million of ordinary dividends, $535.0 million of extraordinary dividends and $170.0 million representing return of capital to OneBeacon LLC.

During the years ended December 31, 2012, 2011 and 2010, OneBeacon's unregulated insurance operating subsidiaries paid $4.9 million, $4.3 million and $8.3 million, respectively, of dividends to their immediate parent. At December 31, 2012, OneBeacon's unregulated insurance operating subsidiaries had approximately $28.6 million of net unrestricted cash, short-term investments and fixed maturity investments.

As described in Note 10, during the year ended December 31, 2012, the Company declared and paid dividends totaling $80.1 million of regular quarterly dividends to its common shareholders. During the year ended December 31, 2011, the Company declared and paid dividends totaling $174.8 million, including $79.7 million of regular quarterly dividends and $95.1 million of a special dividend. During the year ended December 31, 2010, the Company declared and paid dividends totaling $315.6 million, including $79.5 million of regular quarterly dividends and $236.1 million of a special dividend. See Note 21 for further information regarding dividends.

At December 31, 2012, OneBeacon Ltd. and it's intermediate holding companies had $272.4 million of net unrestricted cash, short-term investments and fixed maturity investments and $33.3 million of common equity securities and convertible fixed maturity investments outside of its regulated and unregulated insurance operating subsidiaries.

NOTE 12. Segment Information

As a result of recent transactions (including the Runoff Transaction, AutoOne sale and agreement to sell Essentia), the Company revised its reporting segment structure in the fourth quarter of 2012 into Specialty Products, Specialty Industries and Investing, Financing and Corporate.

The Company has thirteen underwriting operating segments which are managed by the chief operating decision maker and are aggregated into two underwriting reportable segments. The two underwriting reportable segments were determined based on the nature of products or services, the production process, method of distribution and the nature of the regulatory environment. The principal difference between the reportable segments is the type or class of customer.

The Specialty Products segment is comprised of seven 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 Products segment includes the Professional Insurance, Specialty Property, Excess and Surplus, Tuition Reimbursement, Programs, Surety, and Collector Cars and Boats underwriting operating segments.

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, Technology, Accident, Government Risks, Entertainment, and Energy 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 its intermediate subsidiaries, as well as operations associated with personal lines business that it sold in 2010 (see Note 2—"Acquisitions and Dispositions").

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 12. Segment Information

Previously, the Company reported its insurance operations through a Specialty Insurance Operations segment and an Other Insurance Operations segment. The former Specialty Insurance Operations segment was comprised of twelve underwriting operating segments that were aggregated into a single reportable segment, with supplemental disclosures of three major underwriting units for financial reporting: MGA Business, Specialty Industries and Specialty Products. The former Other Insurance Operations segment consisted of substantially all operations classified as discontinued operations as of December 31, 2012, including AutoOne, other run-off business, and certain purchase accounting adjustments relating to the run-off business resulting from the OneBeacon Acquisition. Prior periods have been reclassified to conform to the current presentation.
Invested assets are not allocated to the Specialty Products and Specialty Industries segments since OneBeacon does not manage its assets by segment. Invested assets, net investment income and net realized and unrealized investment gains (losses) related to OneBeacon's 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. Debt and the related interest expense on debt also are not allocated to or managed by segment and are also included in the Investing, Financing and Corporate segment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 12. Segment Information

Financial information for OneBeacon's reportable segments is as follows:

	Total Insurance Operations		Investing, Financing and Corporate	Consolidated
	Specialty Products	Specialty Industries		
	($ in millions)			
Year ended December 31, 2012				
Earned premiums	$604.0	$528.0	$—	$1,132.0
Loss and LAE	(345.6)	(304.4)	—	(650.0)
Policy acquisition expenses	(150.3)	(99.1)	—	(249.4)
Other underwriting expenses	(96.2)	(109.0)	—	(205.2)
Total underwriting income	11.9	15.5	—	27.4
Net investment income	—	—	53.6	53.6
Net realized and change in unrealized investment gains	—	—	55.7	55.7
Net other revenues (expenses)	0.4	(0.8)	(0.1)	(0.5)
General and administrative expenses	—	(1.9)	(11.5)	(13.4)
Interest expense	—	—	(16.9)	(16.9)
Pre-tax income from continuing operations	$12.3	$12.8	$80.8	$105.9
Year ended December 31, 2011				
Earned premiums	$549.8	$462.4	$—	$1,012.2
Loss and LAE	(281.7)	(266.6)	—	(548.3)
Policy acquisition expenses	(129.1)	(92.1)	—	(221.2)
Other underwriting expenses	(77.1)	(85.2)	—	(162.3)
Total underwriting income	61.9	18.5	—	80.4
Net investment income	—	—	71.4	71.4
Net realized and change in unrealized investment gains	—	—	10.6	10.6
Net other revenues (expenses)	—	0.6	(13.0)	(12.4)
General and administrative expenses	—	(1.7)	(8.1)	(9.8)
Interest expense	—	—	(20.5)	(20.5)
Pre-tax income from continuing operations	$61.9	$17.4	$40.4	$119.7
Year ended December 31, 2010				
Earned premiums[(1)]	$557.9	$421.3	$201.9	$1,181.1
Loss and LAE[(1)]	(282.0)	(257.6)	(146.0)	(685.6)
Policy acquisition expenses[(1)]	(124.1)	(88.6)	(39.4)	(252.1)
Other underwriting expenses[(1)]	(76.3)	(87.3)	(32.5)	(196.1)
Total underwriting income (loss)[(1)]	75.5	(12.2)	(16.0)	47.3
Net investment income	—	—	96.6	96.6
Net realized and change in unrealized investment gains	—	—	74.6	74.6
Net other revenues (expenses)	—	2.7	(3.3)	(0.6)
General and administrative expenses	—	(2.3)	(10.6)	(12.9)
Interest expense	—	—	(29.6)	(29.6)
Pre-tax income (loss) from continuing operations	$75.5	$(11.8)	$111.7	$175.4

(1)

Underwriting income and expenses included in Investing, Financing and Corporate for the year ended December 31, 2010 consist of the personal lines business sold in July 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 12. Segment Information

	Total Insurance Operations			
	Specialty Products	Specialty Industries	Investing, Financing and Corporate	Consolidated
	($ in millions)			
December 31, 2012				
Total investments	$—	$—	$2,291.5	$2,291.5
Reinsurance recoverable on paid and unpaid losses	52.3	58.3	—	110.6
Deferred acquisition costs	75.1	48.8	—	123.9
Ceded unearned premiums	3.3	8.2	—	11.5
Unpaid loss and LAE reserves	561.9	438.1	—	1,000.0
Unearned premiums	318.7	255.1	—	573.8
Debt	—	—	274.7	274.7
December 31, 2011				
Total investments	$—	$—	$2,707.6	$2,707.6
Reinsurance recoverable on paid and unpaid losses(1)	26.1	37.1	2,120.8	2,184.0
Deferred acquisition costs(1)	74.6	48.7	0.2	123.5
Ceded unearned premiums(1)	2.7	7.8	0.2	10.7
Unpaid loss and LAE reserves(1)	505.0	363.6	2,490.0	3,358.6
Unearned premiums(1)	291.1	234.5	2.4	528.0
Debt	—	—	269.7	269.7

(1) Balance included in Investing, Financing and Corporate relates to the Runoff Business, which was not classified as held for sale in the December 31, 2011 consolidated balance sheet.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 12. Segment Information

The following tables provide net written premiums, earned premiums and underwriting ratios for OneBeacon's insurance operations by reportable segment and in total, for the years ended December 31, 2012, 2011 and 2010:

($ in millions)	Total Insurance Operations: Specialty Products		Specialty Industries		Investing, Financing and Corporate		Consolidated	
Year ended December 31, 2012[1]								
Net written premiums	$630.9		$548.3		$—		$1,179.2	
Earned premiums	604.0		528.0		—		1,132.0	
Underwriting ratios:								
Loss and LAE	57.2	%	57.7	%	—	%	57.4	%
Expense	40.7		39.4		—		40.1	
Total combined ratio	97.9	%	97.1	%	—	%	97.5	%
Year ended December 31, 2011[1]								
Net written premiums	$571.2		$491.5		$—		$1,062.7	
Earned premiums	549.8		462.4		—		1,012.2	
Underwriting ratios:								
Loss and LAE	51.2	%	57.7	%	—	%	54.2	%
Expense	37.5		38.3		—		37.9	
Total combined ratio	88.7	%	96.0	%	—	%	92.1	%
Year ended December 31, 2010[1]								
Net written premiums	$556.8		$431.2		$179.7		$1,167.7	
Earned premiums	557.9		421.3		201.9		1,181.1	
Underwriting ratios:								
Loss and LAE	50.5	%	61.1	%	72.3	%	58.0	%
Expense	35.9		41.8		35.6		38.0	
Total combined ratio	86.4	%	102.9	%	107.9	%	96.0	%

(1) To better align its operating and reporting structure with the Company's business profile as a result the Runoff Transaction, AutoOne Transaction and agreement to sell Essentia, OneBeacon revised its segment structure during the fourth quarter of 2012. Financial information for all prior periods has been reclassified to conform to this presentation.

NOTE 13. Variable Interest Entities (VIE)

Reciprocals

Reciprocals are policyholder-owned insurance carriers organized as unincorporated associations. Each policyholder insured by the reciprocal shares risk with the other policyholders. Policyholders share profits and losses in the same proportion as the amount of insurance purchased but are not subject to assessment for net losses of the reciprocal. OneBeacon had capitalized three reciprocals by loaning funds to them in exchange for surplus notes. In 2002, OneBeacon formed New Jersey Skylands Management LLC ("NJSM") to provide management services for a fee to New Jersey Skylands Insurance Association, a reciprocal, and its wholly-owned subsidiary New Jersey Skylands Insurance Company (together, "New Jersey Skylands Insurance"). New Jersey Skylands Insurance was capitalized with a $31.3 million surplus note issued to OneBeacon in 2002. OneBeacon also loaned $0.2 million to New Jersey Skylands Insurance in the form of a security deposit. In 2004, OneBeacon formed Houston General Management Company to provide management services for a fee to another reciprocal, Houston General Insurance Exchange. During 2004, OneBeacon contributed $2.0 million of capital to Houston

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 13. Variable Interest Entities

General Insurance Exchange. In 2005, OneBeacon contributed one of its subsidiaries, Houston General Insurance Company with assets of $149.4 million and liabilities of $127.6 million, to Houston General Insurance Exchange (together "Houston General Insurance"). Subsequent to the contribution of Houston General Insurance Company (HGIC), Houston General Insurance Exchange (HGIE) issued a surplus note of $23.7 million to OneBeacon. During 2012, HGIE sold HGIC to OBIC. In 2006, Adirondack AIF, LLC ("AAIF"), a wholly-owned subsidiary of OneBeacon, entered into an agreement to provide management services for a fee to Adirondack Insurance Exchange ("Adirondack Insurance"), a reciprocal. Adirondack Insurance was capitalized with a $70.7 million surplus note issued to OneBeacon in May 2006. Principal and interest on the surplus notes are repayable to OneBeacon only with regulatory approval. The obligation to repay principal on the notes is subordinated to all other liabilities including obligations to policyholders and claimants for benefits under insurance policies. OneBeacon has no ownership interest in the reciprocals.

Under the provisions of ASC 810, OneBeacon had determined that each of the reciprocals qualifies as a VIE. Further, OneBeacon had determined that it is the primary beneficiary as it has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE as a result of the management services provided to the reciprocal and the funds loaned to it. Accordingly, OneBeacon consolidates Houston General Insurance and, until the completion of the Personal Lines Transaction in July 2010, consolidated New Jersey Skylands Insurance and Adirondack Insurance. The Personal Lines Transaction, which as described in Note 2 was completed in July 2010, included the sale of NJSM and AAIF and the transfer of the surplus notes issued by New Jersey Skylands Insurance and Adirondack Insurance. Completion of the Personal Lines Transaction triggered deconsolidation of New Jersey Skylands Insurance and Adirondack Insurance.

Subsequent to the Personal Lines Transaction, Houston General Insurance remains as OneBeacon's only reciprocal. At December 31, 2012 and 2011, consolidated amounts related to Houston General Insurance included total assets of $22.6 million and $105.9 million, respectively, and total liabilities of $43.8 million and $126.2 million, respectively. At December 31, 2012, the net amount of capital at risk is equal to the surplus note of $23.7 million less the accumulated losses of $21.2 million which includes accrued interest on the surplus note of $19.7 million which eliminates in consolidation.

NOTE 14. Fair Value of Financial Instruments

ASC 825 requires disclosure of fair value information of financial instruments. For certain financial instruments where quoted market prices are not available, other independent valuation techniques and assumptions are used. Because considerable judgment is used, these estimates are not necessarily indicative of amounts that could be realized in a current market exchange. Certain financial instruments are excluded from disclosure, including insurance contracts, other than financial guarantees and investment contracts. OneBeacon carries its financial instruments on its balance sheet at fair value with the exception of its fixed-rate, long-term indebtedness.

The fair values of the fixed-rate, long-term indebtedness were estimated by using quoted market prices. Judgment may be required to develop such estimates of fair value. Therefore, the estimate provided herein is not necessarily indicative of the amounts that could be realized in a current market exchange.

At December 31, 2012 and 2011, the fair value of OneBeacon's 2012 Senior Notes and 2003 Senior Notes (its fixed-rate, long-term indebtedness) was $282.4 million and $277.3 million, respectively, which compared to a carrying value of $274.7 million and $269.7 million, respectively. The fair value measurement of the Senior Notes is classified as Level 2 in the valuation hierarchy.

NOTE 15. Related Party Disclosures

White Mountains

During the fourth quarter of 2006, White Mountains sold 27.6 million or 27.6% of the Company's 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, 2012, White Mountains owned 75.2% of the Company's outstanding common shares.

Separation Agreement

In connection with the initial public offering, the Company entered into a separation agreement dated November 14, 2006 with White Mountains (the "Separation Agreement") to address a number of operational, administrative and financial matters relating to the fact that OneBeacon would no longer be a wholly-owned subsidiary of White Mountains. These matters

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 15. Related Party Disclosures

included, among others, the administration of payroll, employee benefits programs, deferred compensation and 401(k) plans, OneBeacon's travel and logistics office, certain information technology assets and functions and certain agreements with respect to finance and tax arrangements. Pursuant to the Separation Agreement, White Mountains has agreed to indemnify the Company and its subsidiaries, as well as their current and former officers, directors and employees to the extent permitted by law, for any and all claims or actions resulting in losses, expenses or damages relating to or arising out of the business, operation or ownership of any subsidiary company or business owned by the Company or its subsidiaries that, subsequent to OneBeacon's ownership, was a subsidiary or business of White Mountains (but no longer a subsidiary or business of OneBeacon).

For the years ended December 31, 2012, 2011 and 2010, OneBeacon recorded expenses of $0.3 million, $0.4 million and $0.4 million, respectively, and recorded revenues of $2.1 million, $2.4 million and $2.3 million, respectively, for services under the Separation Agreement that OneBeacon received from or provided to White Mountains and its subsidiaries.

Registration Rights Agreement

In connection with the initial public offering, the Company entered into a registration rights agreement dated November 14, 2006 with White Mountains that provides that White Mountains can demand that the Company register the distribution of its common shares owned by White Mountains ("demand" registration rights). In addition, White Mountains has "piggyback" registration rights, which means that White Mountains may include its shares in any future registrations of the Company's common equity securities, whether or not that registration relates to a primary offering by the Company or a secondary offering by or on behalf of any of the Company's shareholders. These registration rights are transferable by White Mountains. The Company will pay all costs and expenses in connection with each such registration, except underwriting discounts and commissions applicable to the common shares sold by White Mountains. The registration rights agreement contains customary terms and provisions with respect to, among other things, registration procedures and rights to indemnification in connection with the registration of the common shares on behalf of White Mountains. The Company will register sales of its common shares owned by employees and directors of White Mountains pursuant to employee share or option plans, but only to the extent such registration is required for the shares to be freely tradable.

Investment Management Agreement with WM Advisors

Prior to the initial public offering, White Mountains Advisors LLC ("WM Advisors") managed the majority of OneBeacon's investments, including the investments of the employee benefit plan portfolios. Prospector served as a discretionary advisor with respect to certain assets, specifically publicly-traded common equity and convertible securities, through a sub-advisory agreement with WM Advisors.

Pursuant to a Master Investment Management Agreement dated as of October 1, 2010, as amended (the "Master Investment Management Agreement"), WM Advisors supervises and directs the fixed income and other investments portions of OneBeacon's investment portfolio in accordance with the investment objectives, policies and restrictions described in OneBeacon's investment guidelines (the "Investment Guidelines"). The Master Investment Management Agreement replaced agreements dated as of November 2006 and 2007 entered into subsequent to the initial public offering.

In November 2009, WM Advisors terminated the investment management agreements with respect to the management of the employee benefit plan portfolios, including two of the three proprietary funds offered in the KSOP which Prospector managed through a sub-advisory agreement which was also terminated. New investment management agreements were entered into with Prospector to manage the portfolios of the Qualified Plan and the KSOP. See "Related Party Disclosures—Prospector."

Under the Master Investment Management Agreement, WM Advisors has full discretion and authority to make all investment decisions in respect of the fixed income and other investments portions of OneBeacon's investment portfolio, and to do anything which WM Advisors deems is required, appropriate or advisable in connection with the foregoing, subject to and in accordance with Investment Guidelines. The assets of OneBeacon's portfolio are held in one or more separately identifiable accounts in the custody of a bank or similar entity designated by OneBeacon and acceptable to WM

Advisors. The agreement is terminable by WM Advisors or OneBeacon upon 60 days prior written notice.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 15. Related Party Disclosures

OneBeacon is responsible for custodial arrangements and the payment of all custodial charges and fees. OneBeacon has agreed to pay annual investment management fees generally based on the quarter-end market values held under custody as set forth in the table below:

Assets Under Management	Annual Fee
Investment Grade Fixed Income:	
—Up to $1 billion	10.0 basis points
—Next $1 billion	8.5 basis points
—Next $3 billion	7.5 basis points
—Greater than $5 billion	2.5 basis points
High Yield Fixed Income	25.0 basis points
Equities	100.0 basis points
Hedge Funds	100.0 basis points
Private Equities & Deferreds	
First 2 years of fund's life (committed)	100.0 basis points
Thereafter (fair value)	100.0 basis points
Affordable housing credit funds	
First year of fund's life (committed)	100.0 basis points
Thereafter (fair value)	10.0 basis points

Prior to October 2010, the fee schedule was as follows:

Assets Under Management	Annual Fee
Investment Grade Fixed Income:	
—Up to $999 million	10.0 basis points
—Next $1 - $1.999 billion	8.5 basis points
—Amounts over $2 billion	7.5 basis points
High Yield Fixed Income	25.0 basis points
Fully Funded Hedge Funds, Limited Partnerships and Limited Liability Companies	100.0 basis points
Private Equities & Deferreds	
First 2 years of fund's life (committed)	100.0 basis points
Thereafter (fair value)	100.0 basis points

OneBeacon incurred $3.5 million, $3.9 million and $5.8 million, respectively, in total fees for investment management services provided by WM Advisors under these investment management agreements during the years ended December 31, 2012, 2011 and 2010. WM Advisors is also paid a quarterly fee for treasury management services computed at the annual rate of 1.75 basis points (0.0175%) of the aggregate value of net assets on an annual basis. OneBeacon incurred $0.4 million, $0.5 million and $0.6 million, respectively, in treasury management fees during the years ended December 31, 2012, 2011 and 2010.

OBH Guarantee

Prior to the repayment of the remaining 2003 Senior Notes during the fourth quarter of 2012, White Mountains provided an irrevocable and unconditional guarantee as to the payment of principal and interest (the "Guarantee") on the 2003 Senior Notes. See Note 6.

In consideration of this Guarantee, OneBeacon paid a specified fee to White Mountains in the amount of 25 basis points per annum on the outstanding principal amount of the 2003 Senior Notes. Such payments were made on a semi-annual basis in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 15. Related Party Disclosures

arrears. The Company incurred $0.8 million, $0.9 million and $1.3 million, respectively, in fees for the provision of the Guarantee during the years ended December 31, 2012, 2011 and 2010.

The indenture documents governing the 2003 Senior Notes provided that, if OneBeacon or White Mountains as guarantor of the 2003 Senior Notes defaulted under a credit agreement, mortgage or similar debt agreement with a principal amount greater than $25 million, and such default results in the acceleration of such debt, there would have been a default under the 2003 Senior Notes (commonly referred to as a "cross default"). Such a default would have resulted in a trigger of the cross default provisions in the indenture documents governing the 2003 Senior Notes resulting in a required repayment of the 2003 Senior Notes.

The Company's 2012 Senior Notes are not guaranteed by White Mountains. See Note 6.

Sale of OneBeacon Holdings (Luxembourg) S.à r.l. to White Mountains

On January 24, 2012, OneBeacon Holdings Gibraltar Limited, an indirect wholly-owned subsidiary of the Company ("OneBeacon Gibraltar"), sold all of the issued and outstanding shares of OB Lux to White Sands, an indirect wholly-owned subsidiary of White Mountains, for $24.7 million, or $14.0 million over GAAP equity of $10.7 million.

Sale of Esurance

On October 7, 2011, White Mountains completed the sale of Esurance Insurance and Answer Financial Inc. and its subsidiaries to The Allstate Corporation for a cash payment of $1.0 billion, which was equal to $700 million plus the estimated pro forma tangible book value at closing of the legal entities sold of approximately $310 million (the "Esurance Transaction"). Accordingly, effective as of the closing date of the Esurance Transaction, White Mountains ceased to own the Esurance business and it is no longer considered a related party to OneBeacon.

Esurance Trust

As part of the Esurance Transaction, OBIC established and funded a reinsurance trust for the benefit of Esurance Insurance Company ("EIC") and Esurance Insurance Company of New Jersey ("EICNJ"), entities that were transferred by OBIC to Esurance during the period 2003-2006, to collateralize certain known liabilities that OBIC remains liable for notwithstanding the transfer of EIC and EICNJ. As of December 31, 2012 and 2011, there were $25.5 million and $34.3 million, respectively, of assets in the trust supporting the liabilities. OneBeacon incurs annual fees for the trust, which are reimbursable by White Mountains. For the years ended December 31, 2012 and 2011, respectively, OneBeacon incurred approximately $18 thousand and $22 thousand in trustee fees with respect to the trust.

Esurance Sublease

OBIC subleases to Esurance Insurance approximately 4,200 square feet of an approximately 14,000 square foot office facility in Brooklyn, NY. The sublease term commenced August 15, 2008 and terminates on November 29, 2014. Esurance Insurance has the option to sublease an additional 3,000 square feet of the office space if available on the same terms and conditions as the original sublease except that the monthly rental payment would increase. In addition, Esurance Insurance has the right of first refusal on the remainder of the office space on terms and conditions to be agreed upon by the parties. During each of the years ended December 31, 2011 and 2010, Esurance Insurance paid OBIC $0.2 million for the office space.

Sale of HCIC to Esurance Holdings, Inc.

During the third quarter of 2006, OneBeacon sold one of its inactive licensed subsidiaries, Homeland Central Insurance Company ("HCIC"), to Esurance Holdings, a subsidiary of White Mountains until the Esurance Transaction. HCIC was renamed EICNJ. In connection with the sale, Esurance Holdings agreed to pay $2.9 million of the total purchase price in periodic annual installments based upon a percentage of an annually recognized tax benefit with respect to premium tax in the state of New Jersey. In the event of a sale of Esurance Holdings to a third party, the remainder of the tax benefit would become due and payable to OneBeacon. Because of the license held by HCIC in New Jersey, EICNJ was entitled to a tax benefit that resulted in a reduction in the amount of annual state premium tax due on premiums written in New Jersey. For the years ended December 31, 2011 and 2010, after the filing of its New Jersey premium tax return each year, EICNJ paid OneBeacon $1.2 million and $0.6 million, respectively. In connection with the closing of the Esurance Transaction in 2011, EICNJ paid OneBeacon $0.6 million, representing payment in full of the remainder of the tax benefit.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 15. Related Party Disclosures

OFAC Compliance Services Agreement between OneBeacon Insurance Company and Esurance Insurance Company

The U.S. Department of the Treasury Office of Foreign Assets Control ("OFAC") rules prohibit U.S. businesses from providing services to terrorists, drug traffickers, and others engaged in activities related to the proliferation of weapons of mass destruction and threats to the national security, foreign policy or economy of the United States in order to enforce U.S. foreign policy including economic and trade sanctions. In November 2009, OBIC entered into an OFAC Compliance Services Agreement with Esurance companies pursuant to which OBIC would continue to assist Esurance companies with compliance with OFAC rules and regulations. Prior to entry into the OFAC Compliance Services Agreement, OBIC provided OFAC compliance services to Esurance companies pursuant to the Separation Agreement. The fees paid by Esurance companies to OBIC pursuant to the Separation Agreement are included under "Related Party Disclosures—Separation Agreement" above. This agreement was terminated in August 2010.

Purchase of State Premium Tax Credits

In September 2010, OneBeacon America Insurance Company, the Employers' Fire Insurance Company and Pennsylvania General Insurance Company purchased $1.2 million of Connecticut premium tax credits from White Mountains Specialty Underwriting, Inc., formerly Folksamerica Specialty Underwriting, Inc., for approximately $1.0 million.

Federal Insurance Indemnity

In December 2003, White Mountains and Fund American Companies, Inc., now OBH, entered into a General Agreement of Indemnity with Federal Insurance Company ("Federal"), under which Federal agreed to execute judicial and similar bonds on behalf of White Mountains and OBH and their respective subsidiaries. Under the General Agreement of Indemnity, White Mountains and OBH agreed to jointly and severally indemnify Federal for any losses under the bonds. Included within the Separation Agreement is a provision under which each of White Mountains and the Company will indemnify the other for losses arising out of or in connection with bonds to the extent for the benefit of White Mountains or the Company, respectively. As of November 2006, the Company entered into a new agreement with Federal providing a similar bonding capacity to which White Mountains is not a party. At December 31, 2012, 2011 and 2010, total exposure under the General Agreement of Indemnity for outstanding bonds was $0.9 million, $1.1 million and $1.5 million, respectively, of which $0.9 million, $1.1 million and $1.4 million, respectively, related to bonds issued on behalf of OBH or its subsidiaries.

Prospector

Investment Management Agreement with Prospector

Prior to the initial public offering, Prospector managed most of the publicly-traded common equity and convertible securities in OneBeacon's portfolio, as well as certain assets of the employee benefit plan portfolios, through a sub-advisory agreement with WM Advisors.

In connection with the initial public offering, OneBeacon entered into an investment management agreement with Prospector in November 2006, as amended in November 2007, pursuant to which Prospector supervises and directs the publicly-traded common equity and convertible securities portion of OneBeacon's investment portfolio in accordance with the investment objectives, policies and restrictions described in OneBeacon's investment guidelines. The investment management agreement was renewed in March 2011 upon the same terms and conditions as the November 2006 agreement including an initial fixed term of three years which may be extended for an additional two year term.

Prospector served as a discretionary advisor to WM Advisors under sub-advisory agreements with respect to specified assets in OneBeacon's employee benefit plan portfolios until the fourth quarter of 2009. As described above under "Related Party Disclosures—WM Advisors," in November 2009, WM Advisors terminated the investment management agreements pursuant to which WM Advisors provided services with respect to the employee benefit plan portfolios. Effective as of November 1, 2009, the Qualified Plan entered into a new investment management agreement with Prospector with respect to the management of the plan assets. Effective as of December 1, 2009, OneBeacon entered into a new investment management agreement with Prospector with respect to the management of two proprietary funds under the KSOP.

In December 2010, OneBeacon and Prospector entered into an investment management agreement pursuant to which Prospector supervises and directs the assets held in trust to fund the Company's obligations under the Non-qualified Plan. The terms of the agreement are substantially similar to the terms of the March 2011 agreement described below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 15. Related Party Disclosures

Under the agreements, Prospector has discretion and authority with respect to the portfolios it manages for OneBeacon that are substantially similar to WM Advisors' discretion and authority under its agreements. The assets of OneBeacon's portfolios are held in one or more separately identifiable accounts in the custody of a bank or similar entity designated by OneBeacon and acceptable to Prospector. OneBeacon is responsible for custodial arrangements and the payment of all custodial charges and fees.

Under the agreements, OneBeacon pays annual management fees to Prospector based on aggregate net assets under management according to the following schedule: 1.00% on the first $200 million; 0.50% on the next $200 million; and 0.25% on amounts over $400 million. The agreements each have an initial fixed term of three years, which with respect to the 2006 agreement was extended by OneBeacon for an additional two year term. The agreements are terminable by OneBeacon only (i) for cause (including material non-performance by Prospector), (ii) if either John D. Gillespie or Richard P. Howard are no longer affiliated with Prospector, (iii) if there is a change in control of Prospector (for this purpose, a change in control represents 50% or greater change in voting interest of Prospector), or (iv) if White Mountains' voting interest in the Company falls below 50%. OneBeacon reviews periodically the performance of and the fees paid to Prospector under the agreements.

For the years ended December 31, 2012, 2011 and 2010, OneBeacon incurred $2.1 million, $1.9 million and $2.0 million, respectively, in fees for investment management services provided by Prospector. For the years ended December 31, 2012 and 2011, the employee benefit plans incurred $1.3 million and $1.4 million, respectively, in fees for investment management services provided by Prospector.

Richard P. Howard, a portfolio manager of Prospector, is a director of the Company.

Prospector Managed Limited Partnerships

At December 31, 2012 and 2011, OneBeacon had $12.9 million and $42.9 million, respectively, invested in limited partnerships managed by Prospector. Under the limited partnership agreements, Prospector serves as general partner and general manager of the funds and is paid a management fee by OneBeacon. In addition, OneBeacon allocates a portion of its earnings from OneBeacon's limited partnership interests to Prospector as an incentive fee. For each of the years ended December 31, 2012, 2011 and 2010, OneBeacon incurred $0.4 million in management fees. For the years ended December 31, 2012 and 2010, OneBeacon incurred $0.3 million and $0.4 million, respectively, in incentive fees. No incentive fees were incurred for the year ended December 31, 2011.

In December 2012, in anticipation of the Runoff Transaction, OneBeacon sold its investment in the Prospector Turtle Fund, L.P. ("Turtle Fund"). The Turtle Fund, one of the limited partnerships managed by Prospector, was sold to an affiliate of White Mountains for $31.6 million, representing the net asset value of OneBeacon's interest in the Turtle Fund on the date of sale. Prior to the sale, the Turtle Fund was consolidated by OneBeacon. At December 31, 2011, OneBeacon's investment in the Turtle Fund was $31.0 million.

NOTE 16. Commitments and Contingencies

Leases

OneBeacon leases certain office space under noncancellable operating leases expiring at various dates through 2021. Net rental expense for all of OneBeacon's locations was approximately $9.7 million, $13.1 million and $18.5 million, respectively, for the years ended December 31, 2012, 2011 and 2010. OneBeacon's future annual minimum rental payments required under noncancellable leases primarily for office space are $6.7 million, $5.6 million, $4.9 million, $4.5 million, and $9.6 million for 2013, 2014, 2015, 2016, and 2017 and thereafter, respectively. As of December 31, 2012, OneBeacon has accrued $0.1 million net of anticipated sub-lease income for leased space which OneBeacon has ceased using.

As described in Note 1, OneBeacon's wholly-owned insurance operating subsidiary, OBIC, sold the majority of its fixed assets and capitalized software to OB Services at a cost equal to book value with no gain or loss recorded on the sale. Subsequent to purchasing the fixed assets and capitalized software from OBIC, OB Services entered into lease financing arrangements with US Bancorp and Fifth Third whereby OB Services sold its furniture and equipment and its capitalized software, respectively, to US Bancorp and Fifth Third. The assets were sold at a cost equal to net book value. OB Services then leased the fixed assets back from US Bancorp for a lease term of five years and leased the capitalized software back from Fifth Third for a lease term of four years. OB Services received cash proceeds of $23.1 million as a result of entering into the sale-leaseback transactions. At the end of the lease terms, OB Services will have the obligation to purchase the leased assets for a nominal fee, after which all rights, title and interest would transfer to OB Services. OBIC recorded the sale of the assets with no

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 16. Commitments and Contingencies

gain or loss recognized while OB Services has recorded a capital lease obligation and a capital lease asset. As of December 31, 2012 and 2011, OB Services had a capital lease obligation of $18.2 million and $23.1 million, respectively, included within other liabilities and a capital lease asset of $16.1 million and $22.9 million, respectively, included within other assets. The underlying assets will continue to be depreciated over their respective useful lives. OB Services' future annual minimum rental payments are $5.3 million for each of the years ended December 31, 2013, 2014 and 2015 and $1.9 for the year ended December 31, 2016.

OneBeacon also has various other lease obligations which are immaterial in the aggregate.

Other Investments

OneBeacon has future binding commitments to fund certain limited partnership investments which do not have fixed funding dates and totaled $16.1 million as of December 31, 2012. OneBeacon's future binding commitment to fund an investment in a tax advantaged federal affordable housing development fund is $5.3 million for 2013.

Assigned Risks

As a condition of OneBeacon's license to do business in certain states, OneBeacon's insurance operations 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 total amount of such business an insurer is required to accept is based on its market share of voluntary business in the state. In certain cases, OneBeacon is obligated to write business from mandatory shared market mechanisms at some time in the future based on the market share of voluntary policies it is currently writing. Underwriting results related to assigned risk plans are typically adverse and are not subject to the predictability associated with OneBeacon's voluntarily written business.

Guaranty Funds

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. OneBeacon's insurance subsidiaries record guaranty fund assessments when such assessments are billed by the respective guaranty funds. In addition, each insurance subsidiary's policy is to accrue for any significant insolvencies when the loss is probable and the assessment amount can be reasonably estimated. The actual amount of such assessments will depend upon the final outcome of rehabilitation proceedings and will be paid over several years. At December 31, 2012, the reserve for such assessments at OneBeacon's insurance subsidiaries totaled $12.9 million.

Legal Contingencies

OneBeacon, and the insurance industry in general, are 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. OneBeacon's estimates of the costs of settling matters routinely encountered in claims activity are reflected in the reserves for unpaid loss and LAE. See Note 3.

Except as noted below, OneBeacon is not a party to any material non-claims litigation or arbitration. OneBeacon considers the requirements of ASC 450 when evaluating its exposure to non-claims related litigation and arbitration. ASC 450 requires that accruals be established for litigation and arbitration if it is probable that a loss has been incurred and it can be reasonably estimated. ASC 450 also requires that litigation and arbitration be disclosed if it is probable that a loss has been incurred or if there is a reasonable possibility that a loss may have been incurred.

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, OBIC-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. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 16. Commitments and Contingencies

White Mountains that are defendants in the action. OneBeacon and OBIC-sponsored benefit plans received approximately $32 million for Tribune common stock tendered in connection with the LBO.

In December 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate all of the Noteholder Actions for pretrial matters and transfer all such proceedings to the United States District Court for the Southern District of New York.

In addition, OneBeacon, OBIC-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, 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 the Committee Action has since been consolidated with the Noteholder Actions.

In September 2012, a case management order was entered in the consolidated cases, setting forth, among other things, a briefing schedule for an omnibus motion to dismiss in the Noteholder Actions. The court is expected to hear oral argument on that motion in March 2013. Discovery and other motion practice (other than motions to amend the complaints) in the Committee Action and the Noteholder Actions is stayed until further order of the court.

A subsidiary of the the Company, OBH, was sued in Federal Court in the Eastern District of Pennsylvania on August 17, 2012 by Ace American Insurance Company (“Ace”). The complaint alleges that OBH, through a professional recruiting firm, improperly hired a group of Ace employees from Ace's surety division. The complaint sought injunctive relief and unspecified damages. After court-ordered expedited discovery was completed, the claims for injunctive relief were resolved pursuant to a confidential agreement. The remaining claim against OBH is for damages only and is scheduled to be heard in April. After the claims against OBH for injunctive relief were resolved, Ace filed a Demand for Arbitration against five of the surety employees recruited from Ace, alleging breach of their duty of loyalty to Ace and misappropriation of Ace trade secrets. OneBeacon believes that Ace's damages claim against OBH and the claims against the individual employees are without merit and intends to vigorously defend both.

Although the ultimate outcome of claims and non-claims litigation and arbitration, and the amount or range of potential loss at any particular time, is often inherently uncertain, management does not believe that the expected ultimate outcome of such claims and non-claims litigation and arbitration, including the matter described above, will have a material adverse effect on OneBeacon's financial condition, results of operations or cash flows.

NOTE 17. Earnings per Share

Basic and diluted earnings per share amounts have been determined in accordance with ASC 260, based on the weighted average number of common shares outstanding, including unvested restricted shares that are considered participating securities (see Note 9). The weighted average number of shares outstanding also includes the impact of share awards issued and share repurchases. During the second quarters of 2012, 2011 and 2010, 20,055 shares, 21,980 shares, and 20,068 shares, respectively, of the Company's Class A common shares were awarded to certain non-employee directors of the Company's Board in lieu of their 2012, 2011, and 2010 annual cash retainers. As further described below (see Note 18), during the third quarter of 2007, the Company began repurchasing shares under a share repurchase authorization. Since the inception of this authorization, the Company has repurchased and retired 5.6 million of its Class A common shares.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17. Earnings per Share

The following table outlines the Company's computation of earnings per share for continuing operations attributable to OneBeacon's common shareholders for the years ended December 31, 2012, 2011, and 2010:

	Year ended December 31,		
	2012	2011	2010
Earnings attributable to OneBeacon's common shareholders—basic and diluted (in millions):			
Net income from continuing operations attributable to OneBeacon's common shareholders	$96.1	$103.9	$148.7
Allocation of income for participating unvested restricted common shares	(0.9)	(0.4)	—
Dividends paid on participating restricted common shares	(0.8)	(1.0)	—
Total allocation to restricted common shares	(1.7)	(1.4)	—
Net income from continuing operations attributable to OneBeacon's common shareholders, net of restricted common share amounts	$94.4	$102.5	$148.7
Undistributed (over-distributed) net earnings (in millions):			
Net income from continuing operations attributable to OneBeacon's common shareholders, net of restricted common share amounts	$94.4	$102.5	$148.7
Dividends paid, net of restricted common share amounts	(79.3)	(173.8)	(315.6)
Total undistributed (over-distributed) net earnings, net of restricted common share amounts	$15.1	$(71.3)	$(166.9)
Earnings per share denominator—basic and diluted (in millions):			
Total weighted average common shares outstanding	95.4	94.8	94.8
Weighted average unvested restricted common shares[(1)]	(0.9)	(0.4)	—
Basic earnings per share denominator[(2)]	94.5	94.4	94.8
Earnings per share attributable to OneBeacon's common shareholders—basic and diluted (in dollars):			
Net income from continuing operations attributable to OneBeacon's common shareholders	$1.00	$1.08	$1.57
Dividends declared and paid	(0.84)	(1.84)	(3.34)
Undistributed (Over-distributed) earnings	$0.16	$(0.76)	$(1.77)

(1) Restricted shares outstanding vest in equal installments upon a stated date or upon the occurrence of a specified event (see Note 9).

(2) Common shares issuable upon exercise of the options (see Note 9) were not included as their inclusion would be anti-dilutive for the periods presented. During the year ended December 31, 2012, the remaining outstanding options expired unexercised (see Note 9).

Basic and diluted loss per share amounts for discontinued operations are included in Note 19.

NOTE 18. Share Repurchase Authorization

On August 22, 2007, the Company's Board authorized the repurchase of up to $200.0 million of its 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 authorization does not have a stated expiration date. During the years ended December 31, 2012 and 2011, no shares were repurchased. During the year ended December 31, 2010, the Company repurchased and retired 0.7 million of its Class A common shares under this authorization for $10.5 million. The average cost per share repurchased was $14.42. The amount of authorization remaining is $87.7 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. Discontinued Operations

As described in Note 1 and Note 2 on October 17, 2012, OneBeacon entered into the Stock Purchase Agreement to sell the Runoff Business to Armour. Pursuant to the terms of the Stock Purchase Agreement, the Runoff Transaction includes the sale 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. The Runoff Transaction is expected to close in the second half of 2013, subject to regulatory approvals.

In anticipation of the Runoff Transaction, OneBeacon has sought and received regulatory approval from the respective departments of insurance effective October 1, 2012 to terminate the Pooling Agreement and existing intercompany 100% quota share reinsurance agreements and to enter into new 100% quota share reinsurance agreements, such that the Runoff Business is assumed and retained by OBIC, one of the legal entities that will be transferred to Armour at closing, and that the ongoing specialty business is assumed and retained by ASIC, one of the entities that OneBeacon will continue to own post-closing.

On February 22, 2012, OneBeacon completed the sale of the AutoOne business to Interboro. The AutoOne Transaction included the sale of two insurance entities, AOIC and AOSIC, through which substantially all of the AutoOne business was written on a direct basis. The AutoOne Transaction required the completion of various steps, including amendment of the Pooling Agreement to remove AOIC and AOSIC as parties to the agreement in order for them to retain 100% of their respective direct business, the contribution of specified assets supporting the AutoOne operations, and the sale, transfer or exchange of all of AOIC's and AOSIC's investment assets, other than those on deposit with governmental authorities. The AutoOne Transaction also included the execution of a reinsurance agreement with certain subsidiaries of the Company pursuant to which OneBeacon cedes, on a 100% quota share basis, AutoOne business not directly written by AOIC and AOSIC. The AutoOne Transaction, which was subject to regulatory approvals, closed in February 2012. During the third quarter of 2012, OneBeacon and Interboro reached conclusion on post-closing adjustments to the closing balance sheet, resulting in OneBeacon recording an after tax net charge of $0.3 million relating to underwriting activity and an after tax net gain of $0.5 million to true up the estimated loss on sale.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 19. Discontinued Operations

Summary of Reclassified Balances and Related Items
As of December 31, 2012 and 2011, respectively, the Runoff Transaction and the AutoOne Transaction met the criteria for held for sale accounting. As a result, the assets and liabilities associated with the businesses being sold, after effecting the various steps contemplated by the Stock Purchase Agreement and the AutoOne Purchase Agreement, are presented separately as single line items in the asset and liability sections of the consolidated balance sheets as of December 31, 2012 and 2011, respectively. The following summarizes the major categories of assets and liabilities associated with the business classified as held for sale:

	December 31,	
	2012	2011
	($ in millions)	
Investments	$ 338.1	$ 111.8
Cash	—	5.5
Premiums receivable	11.0	8.8
Reinsurance recoverable on unpaid losses(1)	1,840.8	—
Reinsurance recoverable on paid losses	15.6	—
Deferred acquisition costs	—	2.2
Net deferred tax asset	5.1	1.9
Other assets	16.2	2.4
Total assets held for sale	$ 2,226.8	$ 132.6
Unpaid loss and loss adjustment expense reserves(1)	$ 2,052.6	$ 64.7
Unearned premiums	0.5	34.1
Ceded reinsurance payable	21.9	—
Other liabilities(2)	151.8	8.8
Total liabilities held for sale	$ 2,226.8	$ 107.6
Net assets held for sale	$ —	$ 25.0

(1) The December 31, 2012 balances include the remaining purchase accounting fair value adjustments of $150.1 million relating to the OneBeacon Acquisition, which is described below. Gross of purchase accounting adjustments, reinsurance recoverable on unpaid losses and unpaid loss and LAE reserves were $1,990.9 million and $2,202.7 million, respectively.

(2) Other liabilities as of December 31, 2012 include the accrual related to the pre-tax loss on sale of the Runoff Business of $140.7 million.

As described in Note 1, the results of operations for the Runoff Business and AutoOne have been classified as discontinued operations and are presented as such, net of related income taxes, in the statements of operations and comprehensive (loss) income and cash flows for all periods. Investing and financing activities for OneBeacon are managed on a consolidated basis and currently reported within the Investing, Financing and Corporate segment. Therefore, no investment or financing activity is included in discontinued operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 19. 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,		
	2012	2011	2010
	($ in millions)		
Net written premiums	$3.5	$58.0	$68.6
Revenues			
Earned premiums	$10.6	$70.5	$306.6
Net other revenues	—	1.7	10.2
Total revenues	10.6	72.2	316.8
Expenses			
Loss and LAE	48.4	89.5	244.6
Policy acquisition expenses	(2.1)	5.3	68.6
Other underwriting expenses	1.7	22.8	50.4
General and administrative expenses	—	—	0.1
Total expenses	48.0	117.6	363.7
Pre-tax loss	(37.4)	(45.4)	(46.9)
Income tax benefit	13.1	15.8	16.5
Loss from discontinued operations, net of tax	$(24.3)	$(29.6)	$(30.4)
Loss from sale of discontinued operations, net of tax	$(91.0)	$(19.2)	$—
Net loss from discontinued operations, net of tax	$(115.3)	$(48.8)	$(30.4)

During the year ended December 31, 2012, OneBeacon recorded an after tax charge of a $91.5 million after tax ($140.7 million pre-tax) estimated loss on sale of the Runoff Business and an after tax loss from discontinued operations of $24.0 million, which included $9.0 million of after tax incurred loss and LAE relating to an adjustment to the workers compensation discount rate applied to the loss reserves being transferred, as well as $6.5 million of after tax underwriting losses primarily related to adverse prior year loss reserve development related to a legacy assumed reinsurance treaty.

As described above, during the third quarter of 2012, OneBeacon and Interboro reached conclusion on post-closing adjustments to the closing balance sheet resulting in OneBeacon recording a net gain of $0.5 million after tax, reflecting a true up of the estimated loss on sale of the AutoOne business. This after tax gain is included in loss from sale of discontinued operations in the statement of operations and comprehensive loss for the year ended December 31, 2012.

During the year ended December 31, 2011, OneBeacon recorded a net charge of $29.6 million pre-tax, $19.2 million after tax, reflecting the estimated loss on sale of the AutoOne business, which includes the $25.0 million of net assets held for sale as well as estimates for transaction costs. This after tax net charge is included in loss from sale of discontinued operations, net of tax, in the statement of operations and comprehensive income for the year ended December 31, 2011.

During 2010, OneBeacon determined that unearned limited assignment distribution fees, which related to the AutoOne business and had been presented as a component of unearned premiums, had been overstated in years prior to 2010. In order to correct this error, OneBeacon recorded an adjustment during the year ended December 31, 2010 of $5.5 million which increased earned premiums.

Loss per Share Related to Discontinued Operations

Basic loss per share amounts are based on the weighted average number of common shares outstanding including unvested restricted shares that are considered participating securities. Diluted earnings per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 19. Discontinued Operations

The following table outlines the computation of loss per share for discontinued operations attributable to OneBeacon's common shareholders for the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,		
	2012	2011	2010
Loss attributable to OneBeacon's common shareholders—basic and diluted (in millions):			
Net loss from discontinued operations attributable to OneBeacon's common shareholders	$(115.3)	$(48.8)	$(30.4)
Allocation of loss for participating unvested restricted common shares	1.1	0.2	—
Net loss from discontinued operations attributable to OneBeacon's common shareholders, net of restricted common share amounts	$(114.2)	$(48.6)	$(30.4)
Loss per share denominator—basic and diluted (in millions):			
Total weighted average common shares outstanding	95.4	94.8	94.8
Weighted average unvested restricted common shares[(1)]	(0.9)	(0.4)	—
Basic earnings per share denominator[(2)]	94.5	94.4	94.8
Loss per share attributable to OneBeacon's common shareholders—basic and diluted (in dollars):			
Net loss from discontinued operations attributable to OneBeacon's common shareholders per share	$(1.21)	$(0.50)	$(0.32)

(1) Restricted shares outstanding vest in equal installments upon a stated date or upon the occurrence of a specified event (see Note 9).

(2) Common shares issuable upon exercise of the options (see Note 9) were not included as their inclusion would be anti-dilutive for the periods presented. During the year ended December 31, 2012, the remaining outstanding options expired unexercised (see Note 9).

Additional Disclosure

Due to the relative significance of the transactions described above, OneBeacon has expanded the disclosures herein to provide additional insight into the balances and related activity reclassified to held for sale and discontinued operations.

Loss and LAE reserve summary

As described in Note 3, OneBeacon's insurance subsidiaries 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.

As disclosed in the summary of loss and LAE reserve activities in Note 3, for the years ended December 31, 2012, 2011 and 2010, OneBeacon incurred loss and LAE of $48.4 million, $89.5 million and $244.6 million, respectively, relating to discontinued operations. See disclosure below for a description of incurred loss and LAE relating to prior accident year loss and LAE reserves.

At December 31, 2012, $211.8 million of net loss and LAE reserves related to the Runoff Business were reclassified to held for sale. At December 31, 2011, $64.7 million of net loss and LAE reserves related to the AutoOne Transaction had been reclassified to held for sale. Immediately prior to the closing of the AutoOne Transaction in February 2012, the $64.7 million of net loss and LAE reserves were reclassified from held for sale, with $63.8 million of net loss and LAE reserves sold at closing. During the year ended December 31, 2010, $231.0 million of net loss and LAE reserves related to the Personal Lines Transaction were sold.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 19. Discontinued Operations

Loss and LAE development—2012
During the year ended December 31, 2012, OneBeacon experienced $40.4 million of adverse loss reserve development related to discontinued operations primarily driven by case incurred development on a small number of claims related to multiple peril liability lines and general liability lines and also the impact of an adverse court ruling in Mississippi regarding a disputed assessment from an involuntary pool for hurricane Katrina claims. In addition, there was a change in the workers' compensation tabular discount rate from 4.5% to 3.5% that resulted in adverse prior year development of $15.2 million.
Loss and LAE development—2011
During the year ended December 31, 2011, OneBeacon experienced $26.7 million of net unfavorable loss reserve development from the runoff business. The net unfavorable loss reserve development resulted from a detailed review of runoff expenses, principally unallocated loss adjustment expenses ("ULAE"), completed during the fourth quarter of 2011. Specifically, OneBeacon completed a detailed review of loss and defense and cost containment expenses (allocated LAE or "ALAE") and other adjusting expenses (ULAE) during the fourth quarter of 2011. The analysis considered costs, based on current non-staff expenses and staffing projections for the runoff business, as OneBeacon continued efforts to segregate its claims operations between ongoing claims and runoff claims. The analysis also factored in the revised definition of runoff claims to include the non-specialty commercial lines business that was exited via the renewal rights agreement sale beginning with January 1, 2010 effective dates.
Loss and LAE development—2010
During the year ended December 31, 2010, OneBeacon experienced $23.1 million of net favorable loss reserve development from the runoff business. The net favorable loss reserve development was primarily due to lower than expected severity on multiple peril liability lines and other general liability lines, particularly for accident years 2004 through 2009. As a result of the lower than expected case incurred loss and ALAE, actuarial methods based on case incurred losses produced lower estimated ultimate losses, resulting in lower estimates of required IBNR. Additionally, during the year ended December 31, 2010, AutoOne experienced $6.0 million of adverse loss reserve development.
Fair Value Adjustment
In connection with purchase accounting for the OneBeacon Acquisition, the Company was required to adjust to fair value the loss and LAE reserves and the related reinsurance recoverables. Loss and LAE reserves and the related reinsurance recoverable presented in the summary of reclassified balances within assets and liabilities held for sale as of December 31, 2012 are net of $150.1 million related to the outstanding pre-tax unaccreted adjustment. Loss and LAE reserves and the related reinsurance recoverable as presented in the December 31, 2011 consolidated balance sheet are net of $163.3 million related to the outstanding pre-tax unaccreted adjustment.
Asbestos and Environmental (A&E) Loss and LAE Reserve Activity
OneBeacon's reserves include provisions made for claims that assert damages from A&E related exposures. These reserves have been reclassified to liabilities held for sale as of December 31, 2012, as they relate to the Runoff Business. Asbestos claims relate primarily to injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs obligations, particularly as mandated by Federal and state environmental protection agencies. In addition to the factors described above regarding the reserving process, OneBeacon estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.
In connection with the OneBeacon Acquisition, Aviva caused OneBeacon to purchase a reinsurance contract with National Indemnity Company ("NICO") under which OneBeacon is entitled to recover from NICO up to $2.5 billion in the future for asbestos claims arising from business written by OneBeacon in 1992 and prior, environmental claims arising

from business written by OneBeacon in 1987 and prior, and certain other exposures (the "NICO Cover"). Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables from certain of OneBeacon's third-party reinsurers in existence at the time the NICO Cover was executed ("Third-Party Recoverables"). As a result, the Third-Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. Any amounts uncollectible from third-party reinsurers due to dispute or the reinsurers' financial inability to pay are covered by NICO under its agreement

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 19. Discontinued Operations

with OneBeacon. Third-Party Recoverables are typically for the amount of loss in excess of a stated level each year. Of claim payments in the past 13 years, approximately 47.1% of A&E losses have been recovered under the historical third-party reinsurance.

In September 2011, OneBeacon completed a study of its legacy A&E exposures based on experience through 2010. The previous study was based on experience through 2007. Reasonable estimates of potential adverse scenarios continue to be within the $2.5 billion reinsurance cover issued by NICO. Based on the results of the study, OneBeacon increased the point estimate of incurred losses for A&E and other mass tort exposures ceded to NICO from $2.2 billion to $2.3 billion, an increase of $121.9 million, net of underlying reinsurance. Due to the NICO Cover, there was no impact to income or equity from the change in estimate.

As noted above, OneBeacon estimates that on an incurred basis it has used approximately $2.3 billion of the coverage provided by NICO at December 31, 2012. Since entering into the NICO Cover, approximately 9% of the $2.3 billion of utilized coverage relates to uncollectible Third-Party Recoverables and settlements on Third-Party Recoverables through December 31, 2012. Net losses paid totaled approximately $1.5 billion as of December 31, 2012. Asbestos payments during the year ended December 31, 2012 reflect payments resulting from intensified efforts by claimants to resolve asbestos claims prior to enactment of potential federal asbestos legislation. To the extent that actual experience differs from OneBeacon's estimate of ultimate A&E losses and Third-Party Recoverables, future losses could exceed the $198.3 million of protection remaining under the NICO Cover at December 31, 2012.

OneBeacon's reserves for A&E losses at December 31, 2012 represent management's best estimate of its ultimate liability based on information currently available. However, significant uncertainties, including but not limited to case law developments, medical and clean up cost increases and industry settlement practices, limit OneBeacon's ability to accurately estimate ultimate liability and OneBeacon may be subject to A&E losses beyond currently estimated amounts. In addition, OneBeacon remains liable for risks reinsured in the event that a reinsurer does not honor its obligations under reinsurance contracts. OneBeacon cannot reasonably estimate at the present time loss reserve additions arising from any such future adverse loss reserve developments and cannot be sure that allocated loss reserves, plus the remaining capacity under the NICO Cover and other reinsurance contracts, will be sufficient to cover additional liability arising from any such adverse loss reserve developments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 19. Discontinued Operations

The following tables summarize reported A&E loss and LAE reserve activities (gross and net of reinsurance) for OneBeacon for the years ended December 31, 2012, 2011 and 2010, respectively.

	Year ended December 31,								
	2012			2011			2010		
	Gross	Pre-NICO Net[1]	Net	Gross	Pre-NICO Net[1]	Net	Gross	Pre-NICO Net[1]	Net
	($ in millions)								
Asbestos:									
Beginning balance	$1,074.3	$681.2	$2.2	$904.0	$647.3	$6.4	$985.6	$688.8	$6.5
Incurred loss and LAE [2]	(0.3)	(0.5)	(0.5)	256.8	32.2	(4.0)	—	—	—
Paid loss and LAE [2]	(144.6)	(78.2)	0.7	(86.5)	1.7	(0.2)	(81.6)	(41.5)	(0.1)
Ending balance [3]	$929.4	$602.5	$2.4	$1,074.3	$681.2	$2.2	$904.0	$647.3	$6.4
Environmental:									
Beginning balance	$279.8	$151.6	$9.0	$119.0	$93.8	$9.2	$350.7	$218.6	$7.6
Incurred loss and LAE [2]	(0.9)	(0.5)	(0.5)	231.8	62.2	10.0	6.2	6.0	6.0
Paid loss and LAE [2]	(45.9)	(25.7)	(2.1)	(71.0)	(4.4)	(10.2)	(237.9)	(130.8)	(4.4)
Ending balance [3]	$233.0	$125.4	$6.4	$279.8	$151.6	$9.0	$119.0	$93.8	$9.2
Total asbestos and environmental:									
Beginning balance	$1,354.1	$832.8	$11.2	$1,023.0	$741.1	$15.6	$1,336.3	$907.4	$14.1
Incurred loss and LAE [2]	(1.2)	(1.0)	(1.0)	488.6	94.4	6.0	6.2	6.0	6.0
Paid loss and LAE [2]	(190.5)	(103.9)	(1.4)	(157.5)	(2.7)	(10.4)	(319.5)	(172.3)	(4.5)
Ending balance [3]	$1,162.4	$727.9	$8.8	$1,354.1	$832.8	$11.2	$1,023.0	$741.1	$15.6

(1) Represents A&E reserve activity, net of third-party reinsurance, but prior to the NICO Cover.
(2) Substantially all of the paid and incurred loss and LAE for all periods presented relate to the Runoff Business.
(3) The ending balances presented include the unpaid A&E loss and LAE reserves, substantially all of which are related to the Runoff Business. The net unpaid loss and LAE reserves reclassified as liabilities held for sale on the December 31, 2012 balance sheet for Asbestos was $2.4 million, Environmental was $6.4 million and total A&E was $8.8 million.

Reinsurance

As described in Note 4, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 19. Discontinued Operations

The effects of reinsurance on OneBeacon's insurance subsidiaries' written and earned premiums and on incurred loss and LAE related to discontinued operations were as follows:

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Written premiums:			
Direct[1]	$5.8	$56.2	$342.1
Assumed	(0.1)	(0.9)	1.9
Ceded[1]	(2.2)	2.7	(275.4)
Net written premiums	$3.5	$58.0	$68.6
Earned premiums:			
Direct	$12.1	$169.8	$490.0
Assumed	0.9	0.8	3.5
Ceded	(2.4)	(100.1)	(186.9)
Net earned premiums	$10.6	$70.5	$306.6
Loss and LAE:			
Direct	$52.8	$656.3	$272.0
Assumed	14.5	26.8	93.3
Ceded	(18.9)	(593.6)	(120.7)
Net loss and LAE	$48.4	$89.5	$244.6

(1) Includes non-specialty commercial lines policies written on a direct basis and then ceded 100% to The Hanover, beginning with January 1, 2010 effective dates, as part of the Commercial Lines Transaction, as described below.

During the years ended December 31, 2011 and 2010, OneBeacon ceded written premiums of $0.6 million and $262.2 million, respectively, earned premiums of $96.6 million and $165.0 million, respectively, and loss and LAE of $62.3 million and $86.5 million, respectively, pursuant to the Commercial Lines Transaction.

In connection with the OneBeacon Acquisition, Aviva caused OneBeacon to purchase two reinsurance contracts from subsidiaries of Berkshire Hathaway Inc.: the NICO Cover, which as described above represents a reinsurance contract with NICO for up to $2.5 billion in old A&E claims and certain other exposures, and an adverse loss reserve development cover from General Reinsurance Corporation (“GRC”) for up to $570.0 million, comprised of $400.0 million of adverse loss reserve development occurring in years 2000 and prior (the “GRC Cover”) in addition to $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for under GAAP as a seller guarantee.

Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon intends to seek reimbursement from GRC only for claims which result in payment patterns similar to those supporting its recoverables recorded pursuant to the GRC Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its own investments. This cost, if any, is expected to be nominal. OneBeacon has ceded estimated incurred losses of $562.0 million to GRC under the GRC Cover. As of December 31, 2012, OneBeacon has $409.3 million of reinsurance recoverable on unpaid losses outstanding under the GRC Cover.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 19. Discontinued Operations

At December 31, 2012, OneBeacon had $15.6 million of reinsurance recoverable on paid losses and $1,990.9 million (gross of $150.1 million in purchase accounting adjustments, as described above) that will become recoverable if claims are paid in accordance with current reserve estimates, related to the Runoff Transaction that have been reclassified to assets held for sale. The following table provides a listing of the top reinsurers related to the Runoff Business reported in assets held for sale, excluding industry pools and associations, based on recoverable amounts, the percentage of total reinsurance recoverables reported as held for sale (gross of the $150.1 million in purchase accounting adjustment) and the reinsurers' A.M. Best ratings.

($ in millions)	Balance at December 31, 2012	% of total		A.M. Best Rating[(1)]
National Indemnity Company (NICO) and General Reinsurance Corporation[(2)]	$1,401.9	70	%	A++
Hanover Insurance Company	61.1	3	%	A
Tokio Marine and Nichido Fire[(3)]	25.6	1	%	A++
Tower Insurance Company	20.4	1	%	A-
Munich Reinsurance America	12.5	1	%	A+

(1) A.M. Best ratings as detailed above are: “A++” (Superior, which is the highest of fifteen financial strength ratings), “A+” (Superior, which is the second highest of fifteen financial strength ratings), “A” (Excellent, which is the third highest of fifteen financial strength ratings) and “A-” (Excellent, which is the fourth highest of fifteen financial strength ratings).

(2) Includes $198.3 million of Third Party Recoverables, which NICO would pay under the terms of the NICO Cover if they are unable to collect from third party reinsurers.

(3) Includes $28.1 million of reinsurance recoverables from the various reinsurers that are guaranteed by Tokio Marine and Nichido Fire under the terms of a 100% quota share reinsurance agreement between Houston General Insurance Company and Tokio Marine and Nichido Fire.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. Consolidating Financial Information

The Company has fully and unconditionally guaranteed the 2012 Senior Notes issued by its 100% owned subsidiary, OBH. The following tables present OneBeacon's consolidating balance sheets as of December 31, 2012 and 2011 and statements of operations and comprehensive income and cash flows for the years ended December 31, 2012, 2011, and 2010. These financial statements reflect the Company's ("guarantor") financial position, results of operations and cash flows on a stand-alone basis, that of OBH ("the issuer") and of the Company's other entities, as well as the necessary consolidating adjustments to eliminate intercompany balances and transactions.

Consolidating Balance Sheet	The Company (guarantor)	Non-guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
as of December 31, 2012		(in millions)			
Assets					
Investment Securities:					
Fixed maturity investments, at fair value	$—	$1,602.4	$16.6	$(25.7)	$ 1,593.3
Short-term investments, at amortized cost (which approximates fair value)	2.7	169.9	60.2	—	232.8
Common equity securities, at fair value	—	259.0	—	—	259.0
Convertible fixed maturity investments, at fair value	—	62.6	—	—	62.6
Other investments	—	143.8	—	—	143.8
Total investments	2.7	2,237.7	76.8	(25.7)	2,291.5
Cash	—	43.9	—	—	43.9
Reinsurance recoverable on unpaid losses	—	107.3	—	—	107.3
Reinsurance recoverable on paid losses	—	3.3	—	—	3.3
Premiums receivable	—	225.6	—	—	225.6
Deferred acquisition costs	—	123.9	—	—	123.9
Ceded unearned premiums	—	11.5	—	—	11.5
Net deferred tax asset	—	140.2	(2.5)	0.1	137.8
Investment income accrued	—	12.3	—	(0.2)	12.1
Accounts receivable on unsettled investment sales	—	1.4	0.7	—	2.1
Investments in subsidiaries	1,012.4	—	1,062.6	(2,075.0)	—
Other assets	0.3	208.3	7.1	—	215.7
Assets held for sale	—	2,226.8	—	—	2,226.8
Total assets	$1,015.4	$5,342.2	$1,144.7	$(2,100.8)	$ 5,401.5
Liabilities					
Loss and LAE reserves	$—	$1,000.0	$—	$—	$ 1,000.0
Unearned premiums	—	573.8	—	—	573.8
Debt	—	—	299.6	(24.9)	274.7
Ceded reinsurance payable	—	4.8	—	—	4.8
Accounts payable on unsettled investment purchases	—	6.2	—	—	6.2
Other liabilities	0.9	291.1	6.0	(0.1)	297.9
Liabilities held for sale	—	2,226.8	—	—	2,226.8
Total liabilities	0.9	4,102.7	305.6	(25.0)	4,384.2
OneBeacon's common shareholders' equity and noncontrolling interests					
Total OneBeacon's common shareholders' equity	1,014.5	1,236.7	839.1	(2,075.8)	1,014.5
Total noncontrolling interests	—	2.8	—	—	2.8

Total OneBeacon's common shareholders' equity and noncontrolling interests	1,014.5	1,239.5	839.1	(2,075.8)	1,017.3
Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests	$ 1,015.4	$ 5,342.2	$ 1,144.7	$ (2,100.8)	$ 5,401.5

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. Consolidating Financial Information

Consolidating Balance Sheet	The Company (guarantor)	Non-guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
as of December 31, 2011	(in millions)				
Assets					
Investment Securities:					
Fixed maturity investments, at fair value	$—	$ 1,936.9	$—	$ (50.7)	$ 1,886.2
Short-term investments, at amortized cost (which approximates fair value)	2.8	317.2	—	—	320.0
Common equity securities, at fair value	—	266.5	—	—	266.5
Convertible fixed maturity investments, at fair value	—	79.8	—	—	79.8
Other investments	—	155.1	—	—	155.1
Total investments	2.8	2,755.5	—	(50.7)	2,707.6
Cash	—	52.5	2.4	—	54.9
Reinsurance recoverable on unpaid losses	—	2,167.5	—	—	2,167.5
Reinsurance recoverable on paid losses	—	16.5	—	—	16.5
Premiums receivable	—	230.9	—	—	230.9
Deferred acquisition costs	—	123.5	—	—	123.5
Ceded unearned premiums	—	10.7	—	—	10.7
Net deferred tax asset	—	94.8	(1.7)	0.5	93.6
Investment income accrued	—	14.5	—	(0.4)	14.1
Accounts receivable on unsettled investment sales	—	0.5	—	—	0.5
Investments in subsidiaries	1,098.3	—	1,254.5	(2,352.8)	—
Other assets	0.3	266.6	2.3	—	269.2
Assets held for sale	—	132.6	—	—	132.6
Total assets	$ 1,101.4	$ 5,866.1	$ 1,257.5	$ (2,403.4)	$ 5,821.6
Liabilities					
Loss and LAE reserves	$—	$ 3,358.6	$—	$ —	$ 3,358.6
Unearned premiums	—	528.0	—	—	528.0
Debt	—	—	319.1	(49.4)	269.7
Ceded reinsurance payable	—	23.4	—	—	23.4
Accounts payable on unsettled investment purchases	—	22.7	—	—	22.7
Other liabilities	1.6	391.5	5.0	(0.4)	397.7
Liabilities held for sale	—	107.6	—	—	107.6
Total liabilities	1.6	4,431.8	324.1	(49.8)	4,707.7
OneBeacon's common shareholders' equity and noncontrolling interests					
Total OneBeacon's common shareholders' equity	1,099.8	1,420.2	933.4	(2,353.6)	1,099.8
Total noncontrolling interests	—	14.1	—	—	14.1
Total OneBeacon's common shareholders' equity and noncontrolling interests	1,099.8	1,434.3	933.4	(2,353.6)	1,113.9
Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests	$ 1,101.4	$ 5,866.1	$ 1,257.5	$ (2,403.4)	$ 5,821.6

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 20. Consolidating Financial Information

Consolidating Statement of Operations and Comprehensive (Loss) Income	The Company (guarantor)	Non-guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Year ended December 31, 2012	(in millions)				
Revenues					
Earned premiums	$—	$ 1,132.0	$—	$ —	$ 1,132.0
Net investment income	—	56.2	0.4	(3.0)	53.6
Net realized and change in unrealized investment gains	—	56.5	(1.4)	0.6	55.7
Net other revenues (expenses)	—	6.6	(7.1)	—	(0.5)
Total revenues	—	1,251.3	(8.1)	(2.4)	1,240.8
Expenses					
Loss and loss adjustment expenses	—	650.0	—	—	650.0
Policy acquisition expenses	—	249.4	—	—	249.4
Other underwriting expenses	—	205.2	—	—	205.2
General and administrative expenses	5.4	7.4	0.6	—	13.4
Interest expense	—	—	19.7	(2.8)	16.9
Total expenses	5.4	1,112.0	20.3	(2.8)	1,134.9
Pre-tax (loss) income from continuing operations	(5.4)	139.3	(28.4)	0.4	105.9
Income tax benefit (expense)	0.1	(18.6)	10.1	—	(8.4)
Net (loss) income from continuing operations	(5.3)	120.7	(18.3)	0.4	97.5
Loss from discontinued operations, net of tax	—	(24.3)	—	—	(24.3)
Loss from sale of discontinued operations, net of tax	—	(91.0)	—	—	(91.0)
(Loss) income before equity in (losses) earnings of unconsolidated affiliates	(5.3)	5.4	(18.3)	0.4	(17.8)
Equity in (losses) earnings of subsidiaries, net of tax	(13.9)	—	(28.9)	42.8	—
Net (loss) income including noncontrolling interests	(19.2)	5.4	(47.2)	43.2	(17.8)
Less: Net income attributable to noncontrolling interests	—	(1.4)	—	—	(1.4)
Net (loss) income attributable to OneBeacon's common shareholders	(19.2)	4.0	(47.2)	43.2	(19.2)
Change in other comprehensive income and loss items	(2.9)	—	(2.9)	2.9	(2.9)
Comprehensive (loss) income attributable to OneBeacon's common shareholders	$ (22.1)	$ 4.0	$ (50.1)	$ 46.1	$ (22.1)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. Consolidating Financial Information

Consolidating Statement of Operations and Comprehensive Income	The Company (guarantor)	Non-guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Year ended December 31, 2011	(in millions)				
Revenues					
Earned premiums	$—	$ 1,012.2	$—	$ —	$ 1,012.2
Net investment income	—	72.7	0.5	(1.8)	71.4
Net realized and change in unrealized investment gains (losses)	—	10.0	(0.1)	0.7	10.6
Net other revenues (expenses)	—	0.7	(13.1)	—	(12.4)
Total revenues	—	1,095.6	(12.7)	(1.1)	1,081.8
Expenses					
Loss and loss adjustment expenses	—	548.3	—	—	548.3
Policy acquisition expenses	—	221.2	—	—	221.2
Other underwriting expenses	—	162.3	—	—	162.3
General and administrative expenses	5.1	4.1	0.6	—	9.8
Interest expense	—	—	22.1	(1.6)	20.5
Total expenses	5.1	935.9	22.7	(1.6)	962.1
Pre-tax (loss) income from continuing operations	(5.1)	159.7	(35.4)	0.5	119.7
Income tax (expense) benefit	(0.2)	(26.9)	12.4	(0.1)	(14.8)
Net (loss) income from continuing operations	(5.3)	132.8	(23.0)	0.4	104.9
Loss from discontinued operations, net of tax	—	(29.6)	—	—	(29.6)
Loss from sale of discontinued operations, net of tax	—	(19.2)	—	—	(19.2)
(Loss) income before equity in earnings of unconsolidated affiliates	(5.3)	84.0	(23.0)	0.4	56.1
Equity in earnings of subsidiaries, net of tax	60.4	—	50.9	(111.3)	—
Net income including noncontrolling interests	55.1	84.0	27.9	(110.9)	56.1
Less: Net income attributable to noncontrolling interests	—	(1.0)	—	—	(1.0)
Net income attributable to OneBeacon's common shareholders	55.1	83.0	27.9	(110.9)	55.1
Change in other comprehensive income and loss items	(11.2)	—	(11.2)	11.2	(11.2)
Comprehensive income attributable to OneBeacon's common shareholders	$ 43.9	$ 83.0	$ 16.7	$ (99.7)	$ 43.9

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 20. Consolidating Financial Information

Consolidating Statement of Operations and Comprehensive Income	The Company (guarantor)	Non-guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Year ended December 31, 2010	(in millions)				
Revenues					
Earned premiums	$—	$ 1,181.1	$—	$ —	$ 1,181.1
Net investment income	—	99.1	0.1	(2.6)	96.6
Net realized and change in unrealized investment gains	—	75.5	—	(0.9)	74.6
Net other revenues (expenses)	—	11.6	(12.2)	—	(0.6)
Total revenues	—	1,367.3	(12.1)	(3.5)	1,351.7
Expenses					
Loss and loss adjustment expenses	—	685.6	—	—	685.6
Policy acquisition expenses	—	252.1	—	—	252.1
Other underwriting expenses	—	196.1	—	—	196.1
General and administrative expenses	6.3	4.4	1.0	1.2	12.9
Interest expense	0.3	(0.3)	32.4	(2.8)	29.6
Total expenses	6.6	1,137.9	33.4	(1.6)	1,176.3
Pre-tax (loss) income from continuing operations	(6.6)	229.4	(45.5)	(1.9)	175.4
Income tax (expense) benefit	—	(41.2)	16.1	—	(25.1)
Net (loss) income from continuing operations	(6.6)	188.2	(29.4)	(1.9)	150.3
Loss from discontinued operations, net of tax	—	(30.4)	—	—	(30.4)
Loss from sale of discontinued operations, net of tax	—	—	—	—	—
(Loss) income before equity in earnings of unconsolidated affiliates	(6.6)	157.8	(29.4)	(1.9)	119.9
Equity in earnings of subsidiaries, net of tax	124.9	—	127.9	(252.8)	—
Net income including noncontrolling interests	118.3	157.8	98.5	(254.7)	119.9
Less: Net income attributable to noncontrolling interests	—	(1.6)	—	—	(1.6)
Net income attributable to OneBeacon's common shareholders	118.3	156.2	98.5	(254.7)	118.3
Change in other comprehensive income and loss items	6.5	—	6.5	(6.5)	6.5
Comprehensive income attributable to OneBeacon's common shareholders	$ 124.8	$ 156.2	$ 105.0	$ (261.2)	$ 124.8

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. Consolidating Financial Information

Consolidating Statement of Cash Flows	The Company (guarantor)	Non-guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Year Ended December 31, 2012	($ in millions)				
Cash flows from operations:					
Net (loss) income including noncontrolling interests	$(19.2)	$ 5.4	$(47.2)	$43.2	$(17.8)
Charges (credits) to reconcile net income to cash flows (used for) provided from operations:					
Undistributed loss from subsidiaries	13.9	—	28.9	(42.8)	—
Net loss from discontinued operations	—	24.3	—	—	24.3
Net loss from sale of discontinued operations	—	91.0	—	—	91.0
Net realized and change in unrealized investment gains	—	(56.5)	1.4	(0.6)	(55.7)
Net other realized losses	—	—	6.3	—	6.3
Net realized gain on sale of business	—	(4.4)	—	—	(4.4)
Deferred income tax expense	—	15.2	0.8	0.4	16.4
Dividends received from subsidiaries	83.0	15.5	160.1	(258.6)	—
Other operating items:					
Net change in loss and LAE reserves	—	87.5	—	—	87.5
Net change in unearned premiums	—	48.4	—	—	48.4
Net change in ceded reinsurance payable	—	1.1	—	—	1.1
Net change in ceded unearned premium	—	(0.9)	—	—	(0.9)
Net change in premiums receivable	—	(14.6)	—	—	(14.6)
Net change in reinsurance recoverable on paid and unpaid losses	—	(3.1)	—	—	(3.1)
Net change in other assets and liabilities	2.3	(34.4)	(3.5)	(0.2)	(35.8)
Net cash (used for) provided from operations—continuing operations	80.0	174.5	146.8	(258.6)	142.7
Net cash provided from operations—discontinued operations	—	(196.4)	—	—	(196.4)
Net cash (used for) provided from operations	80.0	(21.9)	146.8	(258.6)	(53.7)
Cash flows from investing activities:					
Net maturities, purchases and sales of short-term investments	0.1	74.7	(60.2)	—	14.6
Maturities of fixed maturity investments	—	191.5	—	—	191.5
Sales of fixed maturity investments	—	1,766.4	—	(49.2)	1,717.2
Sales of common equity securities	—	112.5	—	—	112.5
Sales of convertible fixed maturity investments	—	29.3	—	—	29.3
Distributions and redemptions of other investments	—	63.9	—	—	63.9
Purchases of fixed maturity investments	—	(1,870.9)	(16.6)	25.0	(1,862.5)
Purchases of common equity securities	—	(91.5)	—	—	(91.5)
Purchases of convertible fixed maturity investments	—	(9.4)	—	—	(9.4)
Contributions for other investments	—	(44.9)	—	—	(44.9)
Proceeds from sale of business	—	15.0	—	—	15.0
Net change in unsettled investment purchases and sales	—	(18.2)	—	—	(18.2)
Net acquisitions of property and equipment	—	(1.8)	—	—	(1.8)
Return of capital to OneBeacon U.S. Enterprises Holdings, Inc.		28.7		(28.7)	—

Net cash provided from investing activities—continuing operations	0.1	245.3	(76.8)	(52.9)	115.7
Net cash provided from investing activities—discontinued operations	—	—	—	—	—
Net cash provided from investing activities	0.1	245.3	(76.8)	(52.9)	115.7
Cash flows from financing activities:					
Issuance of debt	—	—	296.9	(25.0)	271.9
Repurchases of debt	—	—	(325.1)	49.2	(275.9)
Cash dividends paid to common shareholders	(80.1)	—	—	—	(80.1)
Cash dividends paid to parent	—	(243.1)	(15.5)	258.6	—
Return of capital to OneBeacon U.S. Enterprises Holdings, Inc.	—	—	(28.7)	28.7	—
Capital lease obligation		(4.9)	—		(4.9)
Proceeds on sale of OneBeacon Holdings (Luxembourg) S.à r.l.	—	14.0	—	—	14.0
Net cash used for financing activities—continuing operations	(80.1)	(234.0)	(72.4)	311.5	(75.0)
Net cash used for financing activities—discontinued operations	—	—	—		—
Net cash used for financing activities	(80.1)	(234.0)	(72.4)	311.5	(75.0)
Net increase (decrease) in cash during year	—	(10.6)	(2.4)	—	(13.0)
Cash reclassified to assets held for sale	—	5.5	—	—	5.5
Cash transferred with sale of business	—	(3.5)	—	—	(3.5)
Net increase (decrease) after reclassification of cash to assets held for sale	—	(8.6)	(2.4)	—	(11.0)
Cash balance at beginning of year	—	52.5	2.4	—	54.9
Cash balance at end of year	$—	$ 43.9	$—	$—	$ 43.9

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 20. Consolidating Financial Information

Consolidating Statement of Cash Flows	The Company (guarantor)	Non-guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Year Ended December 31, 2011		($ in millions)			
Cash flows from operations:					
Net income including noncontrolling interests	$55.1	$84.0	$27.9	$(110.9)	$56.1
Charges (credits) to reconcile net income to cash flows provided from (used for) operations:					
Undistributed earnings from subsidiaries	(60.4)	—	(50.9)	111.3	—
Net loss from discontinued operations	—	29.6	—	—	29.6
Net loss from sale of discontinued operations	—	19.2	—	—	19.2
Net realized and change in unrealized investment gains	—	(10.0)	0.1	(0.7)	(10.6)
Net other realized losses (gains)	—	(0.3)	12.0	—	11.7
Deferred income tax expense	—	31.3	0.1	0.2	31.6
Dividends received from subsidiaries	181.0	34.4	155.0	(370.4)	—
Other operating items:					
Net change in loss and LAE reserves	—	69.2	—	—	69.2
Net change in unearned premiums	—	50.2	—	—	50.2
Net change in ceded reinsurance payable	—	(0.5)	—	—	(0.5)
Net change in ceded unearned premium	—	0.4	—	—	0.4
Net change in premiums receivable	—	(49.4)	—	—	(49.4)
Net change in reinsurance recoverable on paid and unpaid losses	—	(46.3)	—	—	(46.3)
Net change in other assets and liabilities	0.1	(87.9)	8.6	0.1	(79.1)
Net cash provided from (used for) operations—continuing operations	175.8	123.9	152.8	(370.4)	82.1
Net cash used for operations—discontinued operations	—	(200.6)	—		(200.6)
Net cash provided from (used for) operations	175.8	(76.7)	152.8	(370.4)	(118.5)
Cash flows from investing activities:					
Net maturities, purchases and sales of short-term investments	(1.0)	(74.9)	56.0	—	(19.9)
Maturities of fixed maturity investments	—	478.3	—	—	478.3
Sales of fixed maturity investments	—	1,414.8	—	—	1,414.8
Sales of common equity securities	—	101.9	—	—	101.9
Sales of convertible fixed maturity investments	—	37.1	—	—	37.1
Distributions and redemptions of other investments	—	38.6	—	—	38.6
Purchases of fixed maturity investments	—	(1,472.3)	—	—	(1,472.3)
Purchases of common equity securities	—	(88.5)	—	—	(88.5)
Purchases of convertible fixed maturity investments	—	(30.4)	—	—	(30.4)
Contributions for other investments	—	(10.8)	—	—	(10.8)
Net change in unsettled investment purchases and sales	—	13.5	—	—	13.5
Net acquisitions of property and equipment	—	(3.7)	—	—	(3.7)
Return of capital to OneBeacon U.S. Enterprises Holdings, Inc.		10.6		(10.6)	—
	(1.0)	414.2	56.0	(10.6)	458.6

Net cash (used for) provided from investing activities—continuing operations					
Net cash provided from investing activities—discontinued operations	—	—	—	—	—
Net cash (used for) provided from investing activities	(1.0)	414.2	56.0	(10.6)	458.6
Cash flows from financing activities:					
Repurchases of debt	—	—	(161.6)	—	(161.6)
Cash dividends paid to common shareholders	(174.8)	—	—	—	(174.8)
Cash dividends paid to parent	—	(336.0)	(34.4)	370.4	—
Return of capital to OneBeacon U.S. Enterprises Holdings, Inc.	—	—	(10.6)	10.6	—
Capital lease obligation	—	23.1	—	—	23.1
Net cash (used for) provided from financing activities—continuing operations	(174.8)	(312.9)	(206.6)	381.0	(313.3)
Net cash used for financing activities—discontinued operations	—	—	—	—	—
Net cash (used for) provided from financing activities	(174.8)	(312.9)	(206.6)	381.0	(313.3)
Net increase (decrease) in cash during year	—	24.6	2.2	—	26.8
Cash reclassified to assets held for sale	—	(5.5)	—	—	(5.5)
Net increase after reclassification of cash to assets held for sale	—	19.1	2.2	—	21.3
Cash balance at beginning of year	—	33.4	0.2	—	33.6
Cash balance at end of year	$—	$52.5	$2.4	$—	$54.9

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
NOTE 20. Consolidating Financial Information

Consolidating Statement of Cash Flows	The Company (guarantor)	Non-guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Year Ended December 31, 2010		($ in millions)			
Cash flows from operations:					
Net income including noncontrolling interests	$118.3	$157.8	$98.5	$(254.7)	$119.9
Charges (credits) to reconcile net income to cash flows (used for) provided from operations:					
Undistributed earnings from subsidiaries	(124.9)	—	(127.9)	252.8	—
Net loss from discontinued operations	—	30.4	—	—	30.4
Net loss from sale of discontinued operations	—	—	—	—	—
Net realized and change in unrealized investment gains	—	(75.5)	—	0.9	(74.6)
Net realized gain on Personal Lines Transaction	—	(8.5)	—	—	(8.5)
Net other realized losses (gains)	—	—	10.8	—	10.8
Deferred income tax expense	—	71.9	1.6	(0.6)	72.9
Dividends received from subsidiaries	332.3	526.0	776.0	(1,634.3)	—
Other operating items:					
Net change in loss and LAE reserves	—	20.9	—	—	20.9
Net change in unearned premiums	—	(23.5)	—	—	(23.5)
Net change in ceded reinsurance payable	—	1.5	—	—	1.5
Net change in ceded unearned premium	—	8.2	—	—	8.2
Net change in premiums receivable	—	(110.2)	—	—	(110.2)
Net change in reinsurance recoverable on paid and unpaid losses	—	78.8	—	—	78.8
Net change in other assets and liabilities	1.2	(86.1)	(4.9)	1.6	(88.2)
Net cash (used for) provided from operations—continuing operations	326.9	591.7	754.1	(1,634.3)	38.4
Net cash provided from operations—discontinued operations	—	(16.0)	—	—	(16.0)
Net cash (used for) provided from operations	326.9	575.7	754.1	(1,634.3)	22.4
Cash flows from investing activities:					
Net maturities, purchases and sales of short-term investments	(0.8)	(255.5)	(22.7)	—	(279.0)
Maturities of fixed maturity investments	—	1,080.4	—	—	1,080.4
Sales of fixed maturity investments	—	1,197.9	—	—	1,197.9
Sales of common equity securities	—	64.5	—	—	64.5
Sales of convertible fixed maturity investments	—	127.5	—	—	127.5
Distributions and redemptions of other investments	—	33.5	—	—	33.5
Purchases of fixed maturity investments	—	(1,697.5)	—	—	(1,697.5)
Purchases of common equity securities	—	(121.3)	—	—	(121.3)
Purchases of convertible fixed maturity investments	—	(38.0)	—	—	(38.0)
Contributions for other investments	—	(49.3)	—	—	(49.3)
Proceeds from the Personal Lines Transaction	—	166.6	—	—	166.6
Net change in unsettled investment purchases and sales	—	25.3	—	—	25.3
Net acquisitions of property and equipment	—	(6.8)	—	—	(6.8)

Return of capital to OneBeacon U.S. Enterprises Holdings, Inc.		9.0		(9.0)	—
Net cash provided from investing activities—continuing operations	(0.8)	536.3	(22.7)	(9.0)	503.8
Net cash provided from investing activities—discontinued operations	—	—	—	—	—
Net cash provided from investing activities	(0.8)	536.3	(22.7)	(9.0)	503.8
Cash flows from financing activities:					
Repayment of debt	—	(14.0)	—	—	(14.0)
Repurchases of debt	—	(1.1)	(196.2)	—	(197.3)
Cash dividends paid to common shareholders	(315.6)	—	—	—	(315.6)
Cash dividends paid to parent	—	(1,108.3)	(526.0)	1,634.3	—
Return of capital to OneBeacon U.S. Enterprises Holdings, Inc.	—	—	(9.0)	9.0	—
Repurchases and retirements of Class A common shares	(10.5)	—	—	—	(10.5)
Net cash used for financing activities—continuing operations	(326.1)	(1,123.4)	(731.2)	1,643.3	(537.4)
Net cash used for financing activities—discontinued operations	—	—	—	—	—
Net cash used for financing activities	(326.1)	(1,123.4)	(731.2)	1,643.3	(537.4)
Net increase (decrease) in cash during year	—	(11.4)	0.2	—	(11.2)
Cash reclassified to assets held for sale	—	—	—	—	—
Net increase (decrease) after reclassification of cash to assets held for sale	—	(11.4)	0.2	—	(11.2)
Cash balance at beginning of year	—	44.8	—		44.8
Cash balance at end of year	$—	$33.4	$0.2	$—	$33.6

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 21. Subsequent Events

On February 27, 2013, the Board declared a dividend of $0.21 per common share, payable on March 29, 2013 to shareholders of record on March 15, 2013.

Effective January 1, 2013, OneBeacon completed the sale of Essentia, an indirect wholly-owned subsidiary which wrote the collector car and boat business, to Markel Corporation. Concurrently therewith, OneBeacon and Hagerty terminated their underwriting arrangement with respect to the collector car and boat business. OneBeacon anticipates recognizing a pre-tax gain on sale of approximately $23.0 million ($15.0 million after tax) in the first quarter of 2013. The business associated with this agreement generated net written premiums of approximately $179.7 million, or 15.2% of consolidated written premiums, for the year ended December 31, 2012. See Note 2.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements included in this report. The financial statements have been prepared in conformity with GAAP in the United States. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Audit Committee of the Board, which is comprised entirely of independent, qualified directors, is responsible for the oversight of our accounting policies, financial reporting and internal control including the appointment and compensation of our independent registered public accounting firm. The Audit Committee meets periodically with management, our independent registered public accounting firm and our internal auditors to ensure they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing our financial reports. Our independent registered public accounting firm and internal auditors have full and unlimited access to the Audit Committee, with or without management present, to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to their attention.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Because of its inherent limitations, internal control over financial reporting may not prevent or detect a material misstatement. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, an effective internal control environment as of a point in time may become inadequate in the future because of changes in conditions, or deterioration in the degree of compliance with the policies and procedures.

We assessed the effectiveness of OneBeacon's internal control over financial reporting as of December 31, 2012. In making our assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this assessment, we have concluded that OneBeacon maintained effective internal control over financial reporting as of December 31, 2012.

PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, has audited the effectiveness of OneBeacon's internal control over financial reporting as of December 31, 2012 as stated in their report which appears on page F-86.

February 28, 2013

/s/ T. MICHAEL MILLER	/s/ PAUL H. MCDONOUGH
T. Michael Miller	Paul H. McDonough
President and Chief Executive Officer	Chief Financial Officer
(Principal Executive Officer)	(Principal Financial Officer)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of OneBeacon Insurance Group, Ltd.:

In our opinion, the consolidated financial statements listed in the accompanying index appearing on page F-1 present fairly, in all material respects, the financial position of OneBeacon Insurance Group, Ltd. and its subsidiaries (the "Company") at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Boston, MA
February 28, 2013

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SELECTED QUARTERLY FINANCIAL DATA
(Unaudited)
Selected quarterly financial data for 2012 and 2011 is shown in the following table. The quarterly financial data includes, in the opinion of management, all recurring adjustments necessary for a fair presentation of the results of operations for the interim periods. Financial information for the prior periods has been reclassified to conform to this presentation.

	2012 Three months ended				2011 Three months ended			
Millions, except per share amounts	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Revenues	$316.4	$282.6	$346.3	$295.5	$286.0	$264.5	$227.8	$303.5
Expenses	248.8	270.2	287.1	328.8	237.0	243.2	250.9	231.0
Pre-tax income (loss) from continuing operations	67.6	12.4	59.2	(33.3)	49.0	21.3	(23.1)	72.5
Tax (expense) benefit	(13.5)	(0.4)	(14.2)	19.7	(9.8)	(3.2)	11.1	(12.9)
Net income (loss) from continuing operations	54.1	12.0	45.0	(13.6)	39.2	18.1	(12.0)	59.6
Income (loss) from discontinued operations, net of tax	(9.5)	0.5	(15.8)	0.5	3.1	(2.1)	(2.5)	(28.1)
Loss from sale of discontinued operations, net of tax	—	—	(91.0)	—	—	—	(18.2)	(1.0)
Net income (loss) including noncontrolling interests	44.6	12.5	(61.8)	(13.1)	42.3	16.0	(32.7)	30.5
Less: Net (income) loss attributable to noncontrolling interests	(0.6)	(0.2)	(0.4)	(0.2)	(0.4)	(0.5)	(0.2)	0.1
Net income (loss) attributable to OneBeacon's common shareholders	$44.0	$12.3	$(62.2)	$(13.3)	$41.9	$15.5	$(32.9)	$30.6
Earnings (loss) per share attributable to OneBeacon's common shareholders—basic and diluted:								
Net income (loss) from continuing operations per share	$0.56	$0.12	$0.47	$(0.15)	$0.41	$0.18	$(0.13)	$0.63
Loss from discontinued operations, net of tax, per share	(0.10)	—	(0.17)	0.01	0.03	(0.02)	(0.03)	(0.30)
Loss from sale of discontinued operations, net of tax, per share	—	—	(0.95)	—	—	—	(0.19)	(0.01)
	0.46	0.12	(0.65)	(0.14)	0.44	0.16	(0.35)	0.32

Net income (loss)
attributable to
OneBeacon's common
shareholders per share

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SCHEDULE I
ONEBEACON INSURANCE GROUP, LTD.
SUMMARY OF INVESTMENTS—OTHER THAN
INVESTMENTS IN RELATED PARTIES
At December 31, 2012

	Amortized Cost ($ in millions)	Fair Value	Carrying Value
Investments:			
Fixed maturities:			
Bonds:			
U.S. Government and government agencies and authorities	$197.1	$197.6	$197.6
Corporate bonds and asset-backed securities	1,597.2	1,639.4	1,639.4
States, municipalities and political subdivisions	3.3	3.2	3.2
Foreign governments	6.0	6.5	6.5
Redeemable preferred stocks	78.3	84.7	84.7
Total fixed maturities[1]	1,881.9	1,931.4	1,931.4
Short-term investments	232.8	232.8	232.8
Common equity securities:			
Banks, trust and insurance companies	38.3	48.4	48.4
Public utilities	14.1	17.0	17.0
Industrial, miscellaneous and other	169.2	193.6	193.6
Total common equity securities	221.6	259.0	259.0
Convertible fixed maturity investments	59.5	62.6	62.6
Other investments	115.1	143.8	143.8
Total investments	$2,510.9	$2,629.6	$2,629.6

(1) Includes $338.1 million of fixed maturity investments reclassified to assets held for sale in the December 31, 2012 consolidated balance sheet as part of the Runoff Transaction.

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SCHEDULE II
ONEBEACON INSURANCE GROUP, LTD.
(Registrant Only)
CONDENSED BALANCE SHEETS

	December 31, 2012	2011
	($ in millions)	
Assets:		
Investments	$2.7	$2.8
Investments in subsidiaries	1,012.4	1,098.3
Other assets	0.3	0.3
Total assets	$1,015.4	$1,101.4
Liabilities	$0.9	$1.6
OneBeacon's common shareholders' equity	1,014.5	1,099.8
Total liabilities and OneBeacon's common shareholders' equity	$1,015.4	$1,101.4

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

	Year ended December 31, 2012	2011	2010
	($ in millions)		
Revenues	$—	$—	$—
Expenses	5.4	5.1	6.6
Pre-tax loss	(5.4)	(5.1)	(6.6)
Income tax benefit (expense)	0.1	(0.2)	—
Net loss	(5.3)	(5.3)	(6.6)
Equity in (loss) earnings from subsidiaries, net of tax	(13.9)	60.4	124.9
Net (loss) income attributable to OneBeacon's common shareholders	(19.2)	55.1	118.3
Other comprehensive income and loss items, after tax	(2.9)	(11.2)	6.5
Comprehensive (loss) income attributable to OneBeacon's common shareholders	$(22.1)	$43.9	$124.8

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SCHEDULE II (continued)
ONEBEACON INSURANCE GROUP, LTD.
(Registrant Only)
CONDENSED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
	($ in millions)		
Net (loss) income	$(19.2)	$55.1	$118.3
Charges (credits) to reconcile net income to net cash from operations:			
Undistributed (loss) earnings from subsidiaries	13.9	(60.4)	(124.9)
Dividends received from subsidiaries	83.0	181.0	332.3
Net change in other assets and liabilities	2.3	0.1	1.2
Net cash provided from operations	80.0	175.8	326.9
Cash flows from investing activities:			
Net maturities, purchases and sales of short-term investments	0.1	(1.0)	(0.8)
Net cash provided from (used for) investing activities	0.1	(1.0)	(0.8)
Cash flows from financing activities:			
Repurchases and retirements of Class A common shares	—	—	(10.5)
Cash dividends paid to common shareholders	(80.1)	(174.8)	(315.6)
Net cash used for financing activities	(80.1)	(174.8)	(326.1)
Net change in cash during the year	—	—	—
Cash balance at beginning of year	—	—	—
Cash balance at end of year	$—	$—	$—

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SCHEDULE III
ONEBEACON INSURANCE GROUP, LTD.
SUPPLEMENTARY INSURANCE INFORMATION[1]

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K
Segment	Deferred acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable	Premiums earned	Net investment income[3]	Benefits, claims, losses, and settlement expenses	Amortization of policy acquisition expenses	Other operating expenses	Premiums written
	($ in millions)									
Years ended:										
December 31, 2012:										
Specialty Industries	$48.8	$438.1	$255.1	$—	$ 528.0	$ —	$(304.4)	$ (99.1)	$(109.0)	$ 548.3
Specialty Products	75.1	561.9	318.7	—	604.0	—	(345.6)	(150.3)	(96.2)	630.9
Investing, Financing and Corporate[2]	—	—	—	—	—	53.6	—	—	—	—
December 31, 2011:										
Specialty Industries	$48.7	$363.6	$234.5	$—	$ 462.4	$ —	$(266.6)	$ (92.1)	$(85.2)	$ 491.5
Specialty Products	74.6	505.0	291.1	—	549.8	—	(281.7)	(129.1)	(77.1)	571.2
Investing, Financing and Corporate[2]	0.2	2,490.0	2.4	—	—	71.4	—	—	—	—
December 31, 2010:										
Specialty Industries	$43.2	$335.1	$205.6	$—	$ 421.3	$ —	$(257.6)	$ (88.6)	$(87.3)	$ 431.2
Specialty Products	68.1	506.4	269.7	—	557.9	—	(282.0)	(124.1)	(76.3)	556.8
Investing, Financing and Corporate	3.2	2,454.0	152.2	—	201.9	96.6	(146.0)	(39.4)	(32.5)	179.7

(1) Schedule excludes activity related to discontinued operations for all periods presented.

(2) Schedule excludes balances reclassified to held for sale in the consolidated balance sheets as of December 31, 2012 and 2011, respectively, related to the Runoff Transaction and the AutoOne Transaction.

(3) Invested assets are not allocated to Specialty Industries or Specialty Products since OneBeacon does not manage its assets by segment. Net investment income related to OneBeacon's Specialty Industries and Specialty Products segments are included in the Investing, Financing and Corporate segment since these assets are available for payment

of losses and expenses for all segments.

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SCHEDULE IV
ONEBEACON INSURANCE GROUP, LTD.
REINSURANCE

Column A	Column B	Column C		Column D	Column E	Column F	
Premiums earned	Gross amount	Ceded to other companies		Assumed from other companies	Net amount	Percentage of amount assumed to net	
	($ in millions)						
Years ended:							
December 31, 2012							
Continuing Operations	$1,158.3	$(79.1	)	$52.8	$1,132.0	4.7	%
Discontinued Operations	12.1	(2.4	)	0.9	10.6	8.5	
December 31, 2011							
Continuing Operations	$1,035.9	$(66.0	)	$42.3	$1,012.2	4.2	%
Discontinued Operations	169.8	(100.1	)	0.8	70.5	1.1	
December 31, 2010							
Continuing Operations	$1,242.5	$(122.1	)	$60.7	$1,181.1	5.1	%
Discontinued Operations	490.0	(186.9	)	3.5	306.6	1.1	

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SCHEDULE V
ONEBEACON INSURANCE GROUP, LTD.
VALUATION AND QUALIFYING ACCOUNTS[(1)]

Description	Column A	Column B	Column C	Column D	Column E
	Additions (subtractions)				
	Balance at beginning of period	Charged (credited) to costs and expenses	Charged (credited) to other accounts[(2)]	Other additions (deductions) described[(3)]	Balance at end of period
	($ in millions)				
Years ended:					
December 31, 2012					
Reinsurance recoverable on paid and unpaid losses:					
Allowance for reinsurance balances	$24.4	$—	$—	$1.2	$25.6
Premiums receivable:					
Allowance for uncollectible accounts	3.4	1.1	—	(0.1)	4.4
December 31, 2011					
Reinsurance recoverable on paid and unpaid losses:					
Allowance for reinsurance balances	$17.5	$10.7	$—	$(3.8)	$24.4
Premiums receivable:					
Allowance for uncollectible accounts	3.9	—	(0.5)	—	3.4
December 31, 2010					
Reinsurance recoverable on paid and unpaid losses:					
Allowance for reinsurance balances	$15.8	$—	$—	$1.7	$17.5
Premiums receivable:					
Allowance for uncollectible accounts	6.3	0.2	(1.0)	(1.6)	3.9

(1) Schedule includes activity related to discontinued operations. Balances as of December 31, 2012 include an Allowance for reinsurance balances of $23.1 million and an Allowance for uncollectible premiums receivable of $0.9 million related to the Runoff Transaction that were reclassified to held for sale in the consolidated balance sheet. Balance as of December 31, 2011 includes an Allowance for uncollectible premiums receivable of $0.4 million related to the AutoOne Transaction that was reclassified to held for sale in the consolidated balance sheet.

(2) Amount credited to other accounts represents a reduction in the Allowance for uncollectible premiums receivable which was offset by a corresponding reduction in Gross premiums receivable. There was no impact to Premiums receivable as presented in the consolidated balance sheet.

(3) Represents net collections (charge offs) of balances receivable.

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SCHEDULE VI
ONEBEACON INSURANCE GROUP, LTD.
SUPPLEMENTAL INFORMATION FOR PROPERTY AND CASUALTY INSURANCE UNDERWRITERS[1]

Column A	Column B	Column C	Column D		Column E	Column F	Column G	Column H		Column I	Column J	Column K
								Claims and Claims Adjustment Expenses Incurred Related to				
Affiliation with registrant	Deferred acquisition costs	Reserves for Unpaid Claims and Claims Adjustment Expenses	Discount, if any, deducted in Column C		Unearned Premiums	Earned Premiums	Net investment income[5]	Current Year[1]	Prior Year[2]	Amortization of deferred policy acquisition costs	Paid Claims and Claims Adjustment Expenses	Premiums written
	($ in millions)											
Specialty Industries:												
2012	$48.8	$ 438.1	$4.1	(3)	$ 255.1	$ 528.0	$ —	$309.9	$(5.5)	$ (99.1)	$ 253.0	$ 548.3
2011	48.7	363.6	4.2	(3)	234.5	462.4	—	279.8	(13.2)	(92.1)	241.6	491.5
2010	43.2	335.1	2.6	(3)	205.6	421.3	—	255.6	2.0	(88.6)	199.5	431.2
Specialty Products:												
2012	$75.1	$ 561.9	$0.5	(3)	$ 318.7	$ 604.0	$ —	$347.5	$(1.9)	$ (150.3)	$ 312.1	$ 630.9
2011	74.6	505.0	0.8	(3)	291.1	549.8	—	298.3	(16.6)	(129.1)	281.6	571.2
2010	68.1	506.4	0.4	(3)	269.7	557.9	—	312.0	(30.0)	(124.1)	217.0	556.8
Investing, Financing and Corporate:[5]												
2012[2]	$—	$ —	$—	(3)(4)	$ —	$ —	$ 53.6	$—	$—	$ —	$ —	$ —
2011[2]	0.2	2,490.0	266.6	(3)(4)	2.4	—	71.4	—	—	—	—	—
2010	3.2	2,454.0	292.9	(3)(4)	152.2	201.9	96.6	154.0	(8.0)	(39.4)	238.3	179.7

(1) Schedule excludes activity related to discontinued operations for all periods presented.

(2) Schedule excludes balances reclassified to held for sale in the consolidated balance sheets as of December 31, 2012 and 2011, respectively, related to the Runoff Transaction and the AutoOne Transaction.

(3) The amounts shown represent and/or include OneBeacon's discount on its long-term workers compensation loss and LAE reserves, as such liabilities constitute unpaid but settled claims under which the payment pattern and ultimate costs are fixed and determinable on an individual basis. OneBeacon discounts these reserves using an average discount rate which is determined based on various assumptions including consideration of when the claims will be settled (3.5%, 4.5% and 5.0% , respectively, at December 31, 2012, 2011 and 2010).

(4) The years ended December 31, 2011 and 2010 also include unamortized fair value adjustments of $163.3 million and $176.5 million, respectively, to reserves for unpaid claims and claims adjustment expenses made in purchase accounting as a result of the OneBeacon Acquisition.

(5) Invested assets are not allocated to Specialty Industries or Specialty Products since OneBeacon does not manage its assets by segment. Net investment income related to OneBeacon's Specialty Industries and Specialty Products segments are included in the Investing, Financing and Corporate segment since these assets are available for payment of losses and expenses for all segments.