BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402,
	:	and 1403 of the Insurance Holding
Application of Trebuchet US Holdings	:	Companies Act, Article XIV of the
Inc. in Support of the Request for	:	Insurance Company Law of 1921, Act
Approval to Acquire Control of	:	of May 17, 1921, P. L. 682, as
OneBeacon Insurance Company,	:	amended, 40 P.S. §§ 991.1401,
Potomac Insurance Company,	:	991.1402 and 991.1403
OneBeacon America Insurance Company	:	
and The Employers' Fire Insurance	:	
Company	:	Order No. ID-RC-14-17

DECISION AND ORDER

AND NOW, on this 23 day of December 2014, The Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner") hereby makes the following Decision and Order:

Pursuant to Section 1402 of the Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§ 991.1401 et seq. ("Insurance Holding Companies Act"), and in consideration of the documents, presentations, and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

1. On February 8, 2013, Armour Group Holdings Limited ("Armour") through its subsidiary, Trebuchet US Holdings, Inc. ("Trebuchet") filed an application to acquire OneBeacon Insurance Company ("OBIC") and Potomac Insurance Company ("Potomac") with The Insurance Department of the Commonwealth of Pennsylvania ("Department") pursuant to the Insurance Holding Companies Act. The Application was amended on June 19, 2014 to reflect, inter alia, address changes for notices and amendments to the Stock Purchase Agreement (defined below). The Application was further amended on June 25, 2014 to include The Employers' Fire Insurance Company ("EFIC") and OneBeacon America Insurance Company ("OBAIC," and together with OBIC, Potomac,

and EFIC, "Domestic Insurers"),[1] and on November 3, 2014 to reflect amended exhibits to the Stock Purchase Agreement. The application, together with its amendments and supporting documentation, are collectively the "Application."

2. Trebuchet is a foreign insurance holding company organized under the laws of Delaware with its principal place of business located in Hamilton, Bermuda.

3. Trebuchet is a wholly-owned subsidiary of Trebuchet Investments Limited ("Trebuchet Investments").

4. Trebuchet Investments is an alien corporation organized under the laws of Bermuda with its principal place of business in Hamilton, Bermuda and is a wholly-owned subsidiary of Armour.

5. Armour is an alien insurance holding company organized as an exempt limited liability company under the laws of Bermuda with its principal place of business located in Hamilton, Bermuda. Armour is in the business of owning, controlling, and managing insurance companies in runoff.

6. Brad Huntington ("Mr. Huntington") is an individual with his principal place of business located in Hamilton, Bermuda. Mr. Huntington currently owns 54.6% of the voting securities of Armour.

7. John Williams ("Mr. Williams") is an individual with his principal place of business located in Hamilton, Bermuda. Mr. Williams currently owns 36.4% of the voting securities of Armour. Collectively, Armour, Trebuchet, Trebuchet Investments, Mr. Huntington, and Mr. Williams are "the Applicant."

The Domestic Insurers

8. EFIC is a domestic stock casualty insurance company organized under the laws of Pennsylvania with its statutory home office located in Harrisburg, Pennsylvania.

9. OBAIC is a domestic stock casualty insurance company organized under the laws of Pennsylvania with its statutory home office located in Harrisburg, Pennsylvania.

10. OBIC is a domestic stock casualty insurance company organized under the laws of Pennsylvania with its statutory home office located in Harrisburg, Pennsylvania. OBIC currently directly owns all the issued and outstanding capital stock of EFIC and OBAIC.

11. Potomac is a domestic stock casualty insurance company organized under the laws of Pennsylvania with its statutory home office located in Harrisburg, Pennsylvania.

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[1] When the above-captioned Form A proceeding was filed, OBAIC and EFIC were domesticated in the Commonwealth of Massachusetts. On April 2, 2013, the Department received applications from OBAIC and EFIC for approval to redomesticate from Massachusetts to Pennsylvania. On October 4, 2013, the Department approved the applications for approval to redomesticate, subject to certain conditions, and on June 20, 2014, OBAIC and EFIC were redomesticated to Pennsylvania.

12. OBIC and Potomac are wholly-owned subsidiaries of OneBeacon Insurance Group LLC ("OB Group"), a foreign limited liability company organized under the laws of Delaware with its principal place of business located in Minnetonka, Minnesota.

13. OB Group is a subsidiary of OneBeacon Insurance Group, Ltd. ("OB Group Parent"), an alien exempt limited liability company organized under the laws of Bermuda and controlled by White Mountains Insurance Group, Ltd., an alien exempt limited liability company organized under the laws of Bermuda, with its principal place of business located in Hanover, New Hampshire.

14. Atlantic Specialty Insurance Company ("ASIC") is an insurance company domiciled in the state of New York. ASIC is an indirect subsidiary of OB Group.

Description of the Proposed Transaction

15. OB Group, OB Group Parent, Armour, and Trebuchet entered into a Stock Purchase Agreement, dated as of October 17, 2012 (which, together with all amendments received subsequently, is collectively the "Stock Purchase Agreement"), under which Trebuchet would acquire control of the Domestic Insurers (the "Proposed Transaction").

16. As described in the Application and pursuant to the Stock Purchase Agreement, Trebuchet intends to acquire from OB Group all of the issued and outstanding shares of OBIC, consisting of 400,000 shares of common stock and 159,307 shares of treasury stock, and all of the issued and outstanding shares of Potomac, consisting of 1,000,000 shares of common stock (the "Shares").

17. As more fully set forth in the Stock Purchase Agreement, the aggregate purchase price to be paid by Trebuchet at the Closing (as defined in the Stock Purchase Agreement) for the Shares shall be an amount in cash equal to sixty-one million dollars ($61,000,000), plus accrued accretion thereon from December 31, 2011 to the Closing Date (as defined in the Stock Purchase Agreement), adjusted for changes in the capital and surplus of the Domestic Insurers estimated shortly before the Closing, minus eighteen million five hundred thousand dollars ($18,500,000). The purchase price to be paid at the Closing is referred to in the Stock Purchase Agreement as the Closing Purchase Price.

18. Pursuant to the Stock Purchase Agreement, if the Closing Purchase Price is a negative number, instead of Trebuchet paying the Closing Purchase Price to OB Group, OB Group is required to contribute to OBIC an amount of Cash Equivalents (as defined in the Stock Purchase Agreement) equal to the absolute value of such negative amount. This contribution is referred to in the Stock Purchase Agreement as the Pre-Closing Seller Contribution.

19. As described more fully *infra* paragraphs 73-74, and pursuant to the Stock Purchase Agreement, OB Group will contribute to the capital of OBIC certain additional amounts to strengthen the Domestic Insurers.

20. As more fully set forth in the Stock Purchase Agreement, the estimated Closing Purchase Price paid at the Closing is adjusted following the Closing to reach a Final Purchase Price (as defined in the Stock Purchase Agreement) based on final, agreed capital and surplus.

21. As described in the Application, Mr. Huntington and Mr. Williams would become the ultimate controlling persons of the Domestic Insurers as a result of the Proposed Transaction.

22. Effective as of the Closing Date, as defined in the Stock Purchase Agreement, OBIC, as cedent, will reinsure certain business to ASIC (or its successor), as reinsurer, under a Retained Business Reinsurance Agreement (as defined in and made an exhibit to the Stock Purchase Agreement), and, effective as of the Closing Date, ASIC (or its successor), will administer such business under a Retained Business Administrative Services Agreement (as defined in and made an exhibit to the Stock Purchase Agreement).

23. Effective as of the Closing Date, as defined in the Stock Purchase Agreement, ASIC (or its successor), as cedent, will reinsure certain business to OBIC, as reinsurer, under a Run-off Business Reinsurance Agreement (as defined in and made an exhibit to the Stock Purchase Agreement), and, effective as of the Closing Date, OBIC will administer such business under a Runoff Business Administrative Services Agreement (as defined in and made an exhibit to the Stock Purchase Agreement).

24. Pursuant to the Stock Purchase Agreement, Armour Risk Services (Bermuda) Limited ("ARS") entered into a Letter of Agreement dated October 17, 2012 ("Consulting Agreement") to provide a broad variety of services, including claims services, commencing on October 17, 2012. ARS has been providing and will continue to provide those services through the Closing Date.

25. Pursuant to the Stock Purchase Agreement, ARS and Armour Risk Management Inc. ("ARM") will enter into a Services Agreement, which is referred to in the Stock Purchase Agreement as an Intercompany Purchaser Agreement, with the Domestic Insurers under which ARS and ARM will provide a variety of services commencing on the Closing Date. ARS and ARM will be paid a management fee equal to actual cost of services rendered plus ten percent. This fee was originally fifteen percent, but the Applicant agreed to reduce the fee to ten percent.

Retention of Consultants and Advisors

26. Section 1402 of the Insurance Holding Companies Act provides that the Department may retain, at the acquiring person's expense, any attorneys, actuaries, accountants, and other experts not otherwise a part of the Department's staff as may be reasonably necessary to assist the Department in reviewing the proposed acquisition of control.

27. The Department retained Drinker Biddle & Reath LLP to act as its legal advisor in connection with matters relating to the Department's examination of Trebuchet's acquisition of control of the Domestic Insurers.

28. At the Department's request, OB Group retained Towers Watson Delaware Inc. ("Towers") in November 2012 to perform a ground-up actuarial analysis of the loss reserves of the Domestic Insurers. Towers' Analysis of Unpaid Loss and LAE as of September 30, 2012, December 31, 2012, and March 31, 2013 was provided in full to the Department on September 9, 2013, and a Summary Report was provided for publication as a supplement to the Form A on September 9, 2013 (together or separately, "Ground-Up Study"). In January 2014, the Department expanded its request, and Towers was further retained by OB Group to perform stochastic modeling of the proposed balance sheet of the Domestic Insurers. Towers' Stochastic Modeling of Run-Off Business Pro-Forma Balance Sheet as of June 30, 2014 was provided in full to the Department, and a Summary Report was provided for publication as a supplement to the Form A, on June 19, 2014 (together or separately, "Stochastic Model").

29. On January 15, 2014, the Department engaged Risk & Regulatory Consulting, LLC ("RRC") to provide actuarial support to the Department in its review of the Application.

30. RRC was engaged to perform certain tasks, including the following:

    a. Review and analyze the Ground-Up Study prepared by Towers.

    b. Analyze judgmental scenario modeling completed by the companies on base and worst case projected runoff outcomes.

    c. Analyze stochastic scenario modeling completed by Towers on projected runoff outcomes under a large number of independent projection scenarios.

    d. Analyze the seventy-year projections using the success definition as assets available to pay claims, and review proposed financial statements of each Domestic Insurer to determine compliance with applicable capital requirements.

    e. Review the comments and reports submitted by commenters and experts retained by the commenters.

Department Procedures

Notice and Comments

31. On February 23, 2013, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by the Applicant and such notice invited interested persons to submit comments to the Department regarding the Application for sixty days following the date of the publication ("Comment Period").

32. On May 25, 2013, the Department published notice in the *Pennsylvania Bulletin* that the Comment Period would be re-opened for forty-five days following the date of the publication.

33. On July 26, 2014, the Department published notice in the *Pennsylvania Bulletin* that the Comment Period would be re-opened for an indefinite period of time to afford interested persons ample opportunity to provide written comments.

34. On September 20, 2014, the Department published notice in the *Pennsylvania Bulletin* that the Comment Period would end on October 17, 2014.

35. In response to these published notices, the Department received numerous comments, documents, and other inquiries from, or on behalf of, a variety of persons ("commenters").

36. The comments fell into the following basic categories:

    a. Concerns that the Stock Purchase Agreement and other related transaction documents do not make adequate provision for the uncertainty associated with long-tail policies, both in reserving and in capitalization.

    b. Concerns that there may be an inability by one or more of the Domestic Insurers to timely pay certain claims not captured by the Stochastic Model, including concerns about the definition of failure used by Towers (whether there are assets available to pay claims). In connection with these concerns, commenters suggested that alternative failure definitions could potentially result in both a higher failure rate and earlier failures than indicated by Towers.

    c. Arguments that, absent a compelling reason, the status quo should be maintained.

    d. Concerns regarding the financial condition of the Applicant.

    e. Concerns regarding the claims practices of Excalibur Reinsurance Corporation ("Excalibur"), a reinsurance company controlled by Armour.

    f. Concerns that elements of the financial analysis had not been subject to adequate review, including concerns based on the confidentiality of certain documents submitted in connection with the Application, the proprietary and undisclosed nature of certain elements of the Stochastic Model, and whether Towers' model had been stressed enough.

37. All comments were forwarded to the Applicant for response.

38. The Applicant shared comment letters with OB Group and with Towers when it determined that their input would be valuable.

39. The Department reviewed and considered all submissions by commenters, as well as submissions by the Applicant, OB Group, Towers, and RRC.

40. The Department created a website to serve as a public repository of documents related to the Application. As of the date of this Decision and Order, 97 documents, totaling approximately 2,919 pages, have been posted to the website.

41. On July 11, 2013, the Department received a request from Colgate-Palmolive Company ("Colgate") pursuant to the Pennsylvania Right-to-Know Law, 65 P.S. §§ 67.101-67.3104 ("Right-to-Know Law"), and the Department's Right-to-Know Law Policy for the release of certain documents pertaining to the Application that had been designated confidential.

42. The Department granted in part and denied in part Colgate's request.

43. Colgate appealed the partial denial to the Pennsylvania Office of Open Records.

44. On March 7, 2014, the Office of Open Records granted the appeal in part and denied it in part.

45. The determination of the Office of Open Records was not appealed.

46. All documents that were made public as a part of the Right-to-Know Law request and proceeding were posted to the Department's website and are therefore available to the public and all of the commenters.

47. Upon the request of the Department, the Applicant and OB Group, as applicable, made public certain additional documents that the Applicant and/or OB Group had designated as confidential. These documents also were posted on the Department's website.

Public Informational Hearing

48. Section 1402 of the Insurance Holding Companies Act provides that the Department may exercise its discretion to hold a hearing on whether an application complies with the Insurance Holding Companies Act, unless either the person proposing to make the acquisition or the insurer that is proposed to be acquired requests a hearing within ten days of the filing of the Application.

49. If neither the acquiring party nor the insurer to be acquired timely demands a hearing, the holding of a hearing is solely at the discretion of the Department.

50. Neither the Applicant nor any of the Domestic Insurers requested a hearing on the Application.

51. After consideration of all documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Department exercised its discretion to hold a public informational hearing on the Application.

52. The Department's decision to hold a public informational hearing was an appropriate exercise of its discretion under section 1402 of the Insurance Holding Companies Act.

53. On June 21, 2014, the Department published notice in the *Pennsylvania Bulletin* that a public informational hearing would be held on July 23, 2014. The published notice advised that the public informational hearing would provide an opportunity for policyholders of any of the Domestic Insurers and other persons to present oral comments relevant to the Application. The notice also stated that, in the alternative, written comments could be submitted to the Department. Notice also was posted on the Department's website. In addition, the Department gave notice of the hearing to all persons who had contacted the Department up to that point in time, and it answered the questions it received about the hearing.

54. On July 23, 2014, the Department held the noticed public informational hearing with regard to the Application as provided for in Section 1402 of the Insurance Holding Companies Act.

55. The public informational hearing was conducted in the same manner as other hearings in Section 1402 proceedings.

56. Approximately 45 persons attended all or part of the public informational hearing, including representatives of the Department, the Applicant, OB Group, the Domestic Insurers, several policyholders of the Domestic Insurers, and others.

57. Deputy Insurance Commissioner Stephen J. Johnson presided over the public informational hearing and received oral comments and written presentation materials.

58. During the public informational hearing, among other things, the Department described its review process.

59. OB Group representatives provided an overview of the Proposed Transaction, the regulatory approvals needed, and the benefits of the Proposed Transaction to the Domestic Insurers and their respective policyholders.

60. Towers representatives provided a summary of the work they performed and the conclusions they reached.

61. A representative of the Applicant discussed the background of Armour and the Applicant's plans for the Domestic Insurers.

62. RRC representatives described the work they were retained to perform and discussed the conclusions they had reached regarding their review of the Towers reports.

63. A number of persons, all of whom had previously submitted written comments, presented their positions regarding the Proposed Transaction of the Domestic Insurers.

64. The public informational hearing was transcribed by a stenographer. The transcript of the public informational hearing is 211 pages and is available on the Department's website.

65. On July 26, 2014, the Department published notice in the *Pennsylvania Bulletin* that the Comment Period would be re-opened for an indefinite period of time to afford persons ample opportunity to provide written comments.

66. On September 20, 2014, the Department published notice in the *Pennsylvania Bulletin* that the Comment Period would end on October 17, 2014. Notice was published in the *Pennsylvania Bulletin* at 44 Pa. Bull. 6056 (September 20, 2014).

67. Additional comments were submitted by Colgate; the Pennsylvania Manufacturers' Association ("PMA"), Associated Industries of Massachusetts, Belden Inc., Crosby Valve, LLC, Invensys, Inc., ITT Corp., Meritor, Inc., PolyOne Corp., the Proctor & Gamble Co., Rockwell Automation, Inc., 3M Co., United Technologies Corp., and the William Powell Co. (when discussed as a group, the "PMA petitioners"); and Olin Corporation ("Olin") in October. Responses were received from the Applicant and OB Group (dated November 3, 2014), and Towers (confidential dated October 31, 2014 and public dated November 2, 2014).

68. Throughout the Application process, the Department reviewed and analyzed the information provided by all sources in connection with the Proposed Transaction.

69. At various times throughout the Application process, the Department requested that the Applicant, OB Group, and/or Towers provide additional information or documentation.

70. As stated above, the Applicant, OB Group, and Towers continued to provide information and documents in support of the Application, up to and including November 3, 2014.

71. Many of these documents have been made a part of the public record. Those that have not been made a part of the public record are confidential by statute or constitute trade secret or otherwise protected material.

Actuarial Analysis

72. On June 20, 2014, RRC provided the Department with two Summary Reports, one reviewing Towers' reserve study and the other reporting its actuarial review of the Stochastic Model. RRC also presented at the public hearing. On October 2, 2014, RRC sent a letter to the Department discussing Towers' response to the points raised at the hearing and in the comments submitted to that point. On December 8, 2014, RRC sent a letter to the Department discussing Towers' Update of Stochastic Modeling dated November 2, 2014. RRC's Summary Reports, October letter, and December letter were posted to the Department's website. RRC's conclusions on Towers' work, which are in the public documents and in RRC's testimony, are as follows:

a. Towers was independent and acted in accordance with professional standards in its Ground-Up Study and the development and application of the Stochastic Model.

b. Towers was forthcoming with explanations of its choices and judgments, and based its conclusions on accepted professional standards and methods:

   i. The choice of Stochastic Model used was reasonable and consistent with professional standards and practices.

   ii. The judgments as to the data, parameters, and techniques to use in the Stochastic Model were reasonable and consistent with professional standards and practices.

c. The initial results of the Stochastic Model showed a long-term (in excess of thirty years) failure rate of roughly 12 percent. Nevertheless, due to a combination of additional capitalization; better-than-expected loss development; the passage of time; and, to a lesser extent, the reduction in the management fee, that failure rate was reduced by almost half in Towers' most recent responses (confidential dated October 31, 2014 and public dated November 2, 2014).

Strengthening the Domestic Insurers

73. In response to questions from the Department and to address concerns raised by commenters, the Applicant and OB Group strengthened the capital of OBIC by increasing, on two separate occasions, the amount OB Group will contribute to the capital of OBIC, in exchange for Surplus Notes (as defined in the Stock Purchase Agreement). This included a $20.1 million increase offered by OB Group after review of the comments made prior to and at the public informational hearing. The amount OB Group will contribute to the capital of OBIC is $101 million.

74. To effect these increases, the parties to the Stock Purchase Agreement have agreed that (a) the Required Additional Capital Amount (as defined in the Stock Purchase Agreement) is an amount expected to be in the range of $140 million to $150 million, such that the total amount of the Surplus Notes shall be equal to $101 million; and (b) the amount by which the Required Additional Capital Amount exceeds $101 million shall be satisfied by the Pre-Closing Seller Contribution. Therefore, on or before the Closing Date, OB Group will contribute to OBIC (i) the Required Additional Capital Amount, which includes the $101 million described above, and (ii) the Pre-Closing Seller contribution.

75. In response to questions from the Department in connection with the exposure by the Domestic Insurers to possible risk associated with owning equity securities, the Applicant and OB Group will reduce the percentage of the assets of the Domestic Insurers invested in equity securities from the initial proposed percentage. These lower percentages, which

were reflected in Towers' Update of Stochastic Modeling dated November 2, 2014, lower the exposure to, and thus the risk of, equity securities.

76. In response to questions from the Department, and as discussed *supra* paragraph 25, the Applicant agreed to reduce the management fee that ARS and ARM will charge under the Services Agreement from actual cost of services rendered plus fifteen percent to actual cost of services rendered plus ten percent.

77. As a result of these and other factors, including the better-than-expected loss development and passage of time, the mid- to long-range success rate, as reflected in Towers' Update of Stochastic Modeling dated November 2, 2014, increased as follows:

	Success Rate (current)	Success Rate (prior)
Years 15-20	97.32%	95.91%
Years 20-25	95.56%	92.48%
Years 25-30	94.59%	90.10%
30+ Years	93.44%	88.28%

Standards for Review

78. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for the acquisition of control of a domestic insurer.

Requirements for Licensure

79. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the requirements for continued licensure of the domestic insurers being acquired, in each case for the line or lines of insurance for which each is presently licensed.

80. The classes of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. § 382).

81. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. § 386).

82. In accordance with Section 206 of the Insurance Company Law (40 P.S. § 386), the Domestic Insurers are each required to maintain a minimum paid up capital stock of $2,350,000 to write the classes of insurance for which they are presently licensed.

83. In accordance with Section 206 of the Insurance Company Law (40 P.S. § 386), the Domestic Insurers are each required to maintain a minimum paid in surplus of $1,175,000 to write the classes of insurance for which they are presently licensed.

84. Upon completion of the Proposed Transaction, each of the Domestic Insurers will have paid up capital in an amount that will satisfy the minimum required of a casualty insurance company licensed to write the lines of insurance presently held by each of the Domestic Insurers.

85. Upon completion of the Proposed Transaction, each of the Domestic Insurers will have paid in surplus an amount that will satisfy the minimum required of a casualty insurance company licensed to write the lines of insurance presently held by each of the Domestic Insurers.

86. Based on all relevant facts in the record, including those set forth herein, the Department does not find that the Proposed Transaction would render any of the Domestic Insurers unable to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which each is presently licensed.

Competitive Impact

87. The acquisition of control of the Domestic Insurers is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition in insurance in the Commonwealth or tend to create a monopoly in the Commonwealth.

88. As described in the Application, the Domestic Insurers are in runoff and as such have no market share in the Commonwealth of Pennsylvania.

89. In addition, in the Form E submitted in conjunction with the Stock Purchase Agreement, the Applicant certified that neither it nor any of its affiliates writes insurance in Pennsylvania or elsewhere and thus do not have – and have not had in the past five years – any market share in the relevant market in the Commonwealth.

90. Based on all relevant facts in the record, including those set forth herein, the acquisition of control of the Domestic Insurers will not lessen competition in insurance in the Commonwealth or tend to create a monopoly in the Commonwealth because the market share of the Applicant (including its affiliates) and the Domestic Insurers does not exceed the market share levels established in Section 1403.

Financial Condition of the Applicant

91. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring person(s).

92. The Department has reviewed the financial condition of the Applicant and the financial statements submitted by its principals, Mr. Huntington and Mr. Williams.

93. Based on all relevant facts in the record, including those set forth herein, the Department is satisfied that the financial condition of the Applicant at the Closing Date would not jeopardize the financial stability of any of the Domestic Insurers or prejudice the interest of their respective policyholders.

Plans for the Acquired Insurer

94. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer to determine whether they are unfair and unreasonable and fail to confer benefit on policyholders of the insurer and are not in the public interest.

95. As more fully set forth in the Application and other information submitted by the Applicant, the Applicant is in the business of owning and operating insurers in runoff.

96. As stated in the Application, the Applicant has no future plans or proposals to liquidate any of the Domestic Insurers, to sell their respective assets, to consolidate or merge any of them with any person or persons, or to make any other material change in the business operations or corporate structure of the Domestic Insurers other than as set forth in the Business Plan attached to the Application.

97. As noted *supra* paragraphs 73-74, on or before the Closing Date, and as part of the Proposed Transaction, OB Group will contribute to OBIC $101 million of additional capital evidenced by the Surplus Notes, along with the Pre-Closing Seller Contribution.

98. In addition to the reduction of the management fee, *see supra* paragraph 25, the Applicant has discussed specific areas in which it can operate the Domestic Insurers more efficiently than they are currently operated. These areas include savings on office space, statistical reporting, and offsite storage costs and savings through implementation of an integrated claims system, with projected annual savings of $1.6 million from these initiatives. The Department is satisfied the initiatives are directed at achieving cost savings through consolidation and integration, because each Domestic Insurer will reduce its expenses and thus have additional assets with which to pay claims.

99. The commenters expressed concerns about the management of certain asbestos and environmental liabilities. On June 21, 2013, the Applicant and OB Group provided the Department with a substantive response to averments in the PMA petitioners' petition to intervene and stated, inter alia, that Resolute Management, Inc. ("Resolute") has handled most of the Domestic Insurers' asbestos and environmental claims since 2006, and that Resolute will continue in such role and remain subject to contractual obligations to exercise independent judgment and abide by applicable laws. Mr. Huntington reiterated

this assurance during the public informational hearing. Continuing the contractual relationships addresses the concerns of the commenters.

100. In addition, ASIC or its successor will provide services to the Domestic Insurers with respect to the Retained Business (as defined in the Stock Purchase Agreement) pursuant to the Retained Business Administrative Services Agreement, and OBIC will administer the Run-Off Business (as defined in the Stock Purchase Agreement) pursuant to the Run-off Business Administrative Services Agreement. Further, since October 17, 2012, ARS, on OBIC's behalf, has been monitoring runoff performance of the Domestic Insurers' administration of the business that is not reinsured under the reinsurance agreement with National Indemnity Company ("NICO") and monitoring all claims activities. The Applicant will have access to certain of OB Group's services, systems, and equipment for up to eighteen months after closing pursuant to the Transition Services Agreement (as defined in and made an exhibit to the Stock Purchase Agreement).

101. Based on the facts discussed *supra* paragraphs 95-100, and other facts in the record, the Proposed Transaction increases efficiency and preserves continuity.

102. The Domestic Insurers have reinsurance cover that, in combination with the capitalization which will occur pursuant to the amended terms of the Stock Purchase Agreement, will be adequate to withstand significant economic and other stressors over time.

103. Indeed, in response to concerns raised by the Department upon its own analysis and its review of the concerns of the commenters, the Applicant and OB Group (a) provided more current data, and (b) will strengthen the capitalization of OBIC to further insulate against stressors. As a result, the mid- to long-range success rate increased, as discussed *supra* paragraph 77.

104. In its evaluation, the Department also considered Risk-Based Capital ("RBC") requirements for each Domestic Insurer, which are determined through a formula set forth by the National Association of Insurance Commissioners ("NAIC") and incorporated into Pennsylvania law at 40 P.S. § 221.1-A et seq. In accordance with the statute, RBC instructions, RBC reports, adjusted RBC reports, RBC plans, and revised RBC plans are intended solely for use by the Commissioner in monitoring the solvency of insurers and the need for possible corrective action. 40 P.S. § 221.12-A(d). RBC reports (except for publicly available annual statement schedules), RBC plans, and corrective orders are all confidential by law. 40 P.S. §§ 221.12-A(a), (b).

105. The Department has analyzed the adequacy of the Domestic Insurers' surplus to satisfy its obligations to their policyholders even assuming adverse developments. In its analysis, the Department fully considered whether after the Proposed Transaction each Domestic Insurer would be able to continue to perform the business in which it is engaged.

106. Based on all relevant facts in the record, including those set forth herein, the Department has not found that these plans and proposals are unfair or unreasonable and fail to confer benefits on the policyholders of each Domestic Insurer and are not in the public interest.

Management

107. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience, and integrity of those persons who will control the operations of the acquired insurers.

108. The Department reviewed the biographical affidavits for all directors and executive officers of the Applicant.

109. Based on all relevant facts in the record, including those set forth herein, the Department has not found that the competence, experience, and integrity of the Applicant are such that it would not be in the interest of the policyholders of each Domestic Insurer and of the public to permit the Proposed Transaction.

Public Interest

110. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews whether the merger, consolidation, or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public.

111. Based on all relevant facts in the record, including those set forth herein, and based on the collective statutory analysis and conclusion herein, the Department is satisfied that the Proposed Transaction is not likely to be hazardous or prejudicial to the insurance buying public.

Compliance with the Laws of the Commonwealth

112. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews whether the merger, consolidation, or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A.

113. Based on all relevant facts in the record, including those set forth herein, the Department is satisfied that the acquisition of control complies with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.

Review of the Public Comments

114. A number of issues addressed above were raised in comment letters and/or at the public informational hearing.

115. These comments fell into the broad categories discussed *supra* paragraph 36.

Uncertainty Associated with Asbestos and Environmental Risk

116. Charles B. Renfrew, a retired judge representing future asbestos claimants in a bankruptcy case, cites the 2013 Form 10-K of OB Group Parent, which discusses the uncertainty inherent in asbestos and environmental risk and recognizes that such uncertainty limits the OB Group Parent's ability to accurately estimate ultimate liability; as a result, OB Group Parent cannot reasonably presently estimate loss reserve additions and therefore cannot be sure it would have sufficient reserves to satisfy all possible future liabilities. Mr. Renfrew asserts there is a significant risk the Domestic Insurers will not have sufficient assets to pay claims. Mr. Renfrew recommends the Department disapprove the Proposed Transaction unless additional capital is provided. Jonathan Terrell, an expert retained by the PMA petitioners, advances a similar argument.

117. As Mr. Renfrew recognizes, uncertainty preceded the Proposed Transaction and is a characteristic of this type of insurance business, rather than a characteristic of the Proposed Transaction or the Applicant. In addition, there will be additional capital contributed, thus addressing Mr. Renfrew's specific concern.

118. Colgate, through its expert, FTI Consulting, Inc. ("FTI"), in an unsigned report[2] criticized the age of the data on which Towers relied.

119. As described above, Towers submitted an Updated Stochastic Modeling Summary Report, which updated the data and addressed this concern. In addition, the updated data revealed that claims experience had developed more favorably than anticipated.

120. Although uncertainty is inherent in the industry, PMA petitioners' expert, Jonathan Terrell, cites to two unrelated transactions in which runoff insurers were acquired (Zurich Insurance Group's 1995 acquisition of approximately $1 billion of Home Insurance Company's renewal business and Arrowpoint Capital Corporation's 2007 purchase of Royal Indemnity Company and Royal Surplus Lines Insurance Company), both of which were approved by other states. According to Mr. Terrell, one entered liquidation eight years later and the other has seen its surplus deteriorate. It appears from Mr. Terrell's comments that he was drawing generalizations from these two transactions involving insurers in runoff and applying those generalizations to other transactions involving insurers in runoff. Runoff transactions, however, are not uncommon. The mere fact that the two acquired companies referred to by Mr. Terrell were in runoff is not enough to infer a valid and accurate projection from the two transactions cited by Mr. Terrell to all other transactions involving insurers in runoff. Nor is it enough to infer a valid and accurate projection to the Proposed Transaction specifically, because each insurer and each transaction has unique characteristics and arises in unique circumstances. Further, with advances in modeling and the application of appropriate prudential safeguards,

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[2] The FTI report dated July 18, 2014 was unsigned. The second (supplemental) report submitted by FTI, dated October 16, 2014, was signed by Alan Kaufman.

comparisons to transactions that occurred seven years ago, let alone two decades ago, do not provide a basis for a fair or reasonable comparison.

The Definition of Failure

121. Colgate's expert, FTI, for example, faults Towers for its definition of failure. FTI uses alternative definitions interchangeably, including inadequate capitalization, which it characterizes as capitalization that will lead to the Department's supervision of the Domestic Insurers, focusing on Potomac. FTI also uses the term "technical insolvency," which it defines as having adequate cash to pay claims but having reserves that predict a cash shortfall. In its supplemental comments, FTI contends that in as little as eight years the Domestic Insurers could recognize their assets would "not be adequate to pay all valid policyholders claims in full."

122. In Towers' Stochastic Model, failure is defined as an exhaustion of assets such that the Domestic Insurers cannot pay claims as they come due. The Department finds the definition of failure to be proper, appropriate, and rational.

123. As shown *supra* paragraph 77, the contribution of additional capital to OBIC, when combined with the updated data and the reduction of the management fee, significantly reduces the ultimate failure rate to roughly 6.5 percent after 30 years and to a lower percentage before that point.[3]

124. Moreover, in order to determine under what conditions the Domestic Insurers could fail, Towers modeled 10,000 possible scenarios based on research into the industry that Towers has conducted over time.

125. Towers has utilized a sufficiently conservative methodology to project potential failure, and the failure rate after the Applicant and OB Group agreed to add additional capital and lower management fees, which changes were made in response to the comments prior to and at the hearing, is not hazardous nor prejudicial to policyholders or the insurance buying public.

126. In so finding, the Department rejects Jonathan Terrell's criticism of Towers' model as "proprietary," because the fact that Towers guards its data is immaterial to its value in the model.

Preference for Maintaining the Status Quo

127. Many of the commenters criticized aspects of OneBeacon's current and prior management of the Domestic Insurers, including upstream payments and reserving practices. Jonathan Terrell, expert for the PMA petitioners, for example, contends that the "industry" has "historically underestimated" asbestos and environmental exposure and that OB Group has underestimated its own exposures and reserving requirements. He

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[3] Although commenters agree that additional capital or reinsurance is necessary, they do not agree on the amount.

also states that if one looks backward, there was a larger surplus five years ago than there is today. He also faults OB Group's motives, concluding there should be "some regulatory imperative that necessitated the restructuring." In its supplemental comments, Colgate asks the Department to assess the "status quo" as of December 2009 and to require additional capital or retroactive reinsurance to recreate the surplus that existed as of December 2009.

128. These criticisms are beyond the scope of a Form A proceeding, in which the Department is required to analyze whether specific statutory criteria are satisfied at the time of the Proposed Transaction, and not to analyze events that lawfully occurred years ago. Even if true, the criticisms by the commenters provide more reason for the run off of the Domestic Insurers to be handled by the Applicant, which is a runoff specialist and is subject to the conditions in the transaction documents and this Decision and Order.

The Applicant's Financial Condition

129. Colgate, for example, argues that "[t]he major difference between Potomac and Century is that Century has the benefit of substantial capital that it can obtain from its parent companies which are part of the ACE conglomerate. In contrast, the Proposed Transaction is intended to decouple the Run-Off Companies from OneBeacon's financial resources." It then criticizes the Armour financial information and raised concerns that Armour's fees would "further deplete the already under-capitalized companies." Jonathan Terrell characterizes the transaction the same way.

130. As noted above, the Applicant has reduced its management fee and has provided additional confidential data to the Department that, together, demonstrate the invalidity of these concerns. More important, the distinction Colgate attempts to draw between Potomac and Century rests on two fallacies: (1) that OB Group as a parent company is currently obligated by law to contribute additional funds to, and be accountable for the separate obligations of, its subsidiaries; and (2) that the Applicant faces a risk from future uncertainty that OB Group does not. Jonathan Terrell does the same, suggesting that the financial condition of Armour "cannot compare with the strength and stability of OBIG [OB Group]" and likewise points to the Century/ACE transaction.

131. As discussed above, FTI defines a point at which a state regulator places an insurer under supervision as a threat to "timely payment," and thus focuses on the amount of capital needed by Potomac to be above action level as critical to the transaction. The fact that Potomac has been at or below action level is irrelevant to an assessment of the Applicant and the Proposed Transaction and whether the Proposed Transaction satisfies the Form A statutory criteria.

Excalibur's Practices

132. Travelers was concerned about what it characterized as Excalibur's "slow pay" and "no pay" practices, given that Excalibur also is an affiliate of Armour. Travelers acknowledged that it is not a policyholder; it wrote because it has reinsurance contracts

with OB Group. In its petition to intervene, Colgate raised similar concerns about changing claims administrators.

133. As a matter of law, any person handling claims is subject to the Pennsylvania Unfair Insurance Practices Act, 40 P.S. §§ 1171.1 et seq. and regulations promulgated thereunder, including the Pennsylvania Unfair Claims Settlement Practices regulations, 31 Pa. Code §§ 146.1 et seq. This act prohibits any person from engaging in any trade practice that is an unfair or deceptive act or practice in the business of insurance. Section 1171.5(a)(10) defines a broad range of claims practices as unfair or deceptive, including, inter alia, a failure to attempt in "good faith to effectuate prompt, fair and equitable settlements of claims in which the company's liability under the policy has become reasonably clear." Thus, the Unfair Insurance Practices Act is designed to protect against the types of conduct that certain of the commenters expressed concern about. Moreover, the commenters were concerned that a change in claims administrators would result in poor claims administration. However, because Resolute Management will continue as administrator for the NICO claims, and because monitoring of the other claims has already transitioned to the Applicant without incident, the statutory requirements that each Domestic Insurer administer claims in accordance with the Unfair Insurance Practices Act and applicable regulation adequately addresses the concerns of the commenters.

Adequacy of the Review Process

134. Olin, for example, identified 1 Pa. Code §§ 35.27-28[4] and 31 Pa. Code § 56.1 as requiring additional procedural and substantive protections that it claims it did not receive.

135. Colgate criticized that what it characterized as "many of the key documents bearing on the Proposed Transaction" were not made available to it. In its criticisms, Colgate relies on a report generated by FTI, which was attached to Colgate's public comment. FTI stated that the reports by Towers and RRC "do not appear to provide the information needed by the [Department] to evaluate whether the acquisition of control . . . will result in adequate confidence that the Run-off Companies will make claim or other payments on a timely basis." FTI conceded that "a full review of the TW and RRC work might produce very different observations, potentially contradicting the observations in this letter."

136. Jonathan Terrell cites to the NAIC White Paper on Liability-Based Restructuring as "contemplat[ing] that interested parties should be allowed to present evidence, call witnesses and cross-examine the witnesses of other parties." The White Paper also suggested that policyholders be given access to "information that may be sensitive and proprietary."

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[4] It is unclear why Olin cites to 1 Pa. Code §§ 35.27-28. The former is a provision that on its face does not provide any rights or procedural guaranties but merely sets forth the alternate means whereby a person may intervene in agency proceedings. The latter sets forth the criteria a putative intervenor is required to satisfy in order to demonstrate that intervention in proceedings governed by the Pennsylvania Administrative Code is "necessary or appropriate to the administration of the statute under which the proceeding is brought."

137. The NAIC White Paper, as its title would suggest, is not binding law and did not represent a consensus position of other insurance regulators. In particular, the Commonwealth has, by statute, protected some information that has been submitted in conjunction with the Application, and it has a specific mechanism for seeking information that has been produced to an agency, with specific statutory guidelines about what may and may not be produced. As noted above, one commenter sought information pursuant to the Right-to-Know Law, and that commenter did not appeal the determination as to what was protected. In addition, the Applicant provided access to more information and documents than required by applicable law.

138. In any event, all interested persons were invited to present evidence and call witnesses. Cross-examination of other witnesses would have been inconsistent with the nature of the public hearing, and is not required by statute. Moreover, the comment period remained open from the time of the hearing until October, allowing anyone who desired to challenge any statement made at or comment submitted in conjunction with the hearing.

139. All of the above Findings of Fact are based on the record.

140. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the change in control of the Domestic Insurers.

2. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a change of control unless the Department has found that:

    a. After the merger, consolidation, or other acquisition of control, the domestic insurer would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;

    b. The effect of the merger, consolidation, or other acquisition of control would be to substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;

    c. The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;

    d. The plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable and fail to confer benefit on policyholders of the insurer and are not in the public interest;

    e. The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and of the public to permit the merger, consolidation, or other acquisition of control;

    f. The merger, consolidation, or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public; or

    g. The merger, consolidation, or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.

3. Under Section 1402 of the Insurance Holding Companies Act, the Department has not found that any of the above conditions are present with respect to the proposed change of control of the Domestic Insurers.

4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402
	:	and 1403 of the Insurance Holding
Application of Armour Group Holdings	:	Companies Act, Article XIV of the
Limited in Support of the Request for	:	Insurance Company Law of 1921, Act
Approval to Acquire Control of	:	of May 17, 1921, P. L. 682, as
OneBeacon Insurance Company,	:	amended, 40 P.S. §§ 991.1401,
Potomac Insurance Company,	:	991.1402 and 991.1403
OneBeacon America Insurance Company	:	
and The Employers' Fire Insurance	:	
Company	:	Order No. ID-RC-14-17

ORDER

Upon consideration of the foregoing, The Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner") hereby makes the following Order:

The application of Armour Group Holdings Limited ("Armour") through its subsidiary, Trebuchet US Holdings, Inc. ("Trebuchet") and including Trebuchet Investments Limited, Brad Huntington, and John Williams (collectively, "the Applicant") in support of the request for approval to acquire control of OneBeacon Insurance Company, Potomac Insurance Company, OneBeacon America Insurance Company and The Employers' Fire Insurance Company (collectively "the Domestic Insurers"),[1] as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. All necessary regulatory filings and approvals are obtained prior to the consummation of the proposed transaction.

2. The parties to the Stock Purchase Agreement have agreed that (a) the Required Additional Capital Amount (as defined in the Stock Purchase Agreement) is an amount expected to be in the range of $140 million to $150 million, such that the total amount of Surplus Notes (as defined in the Stock Purchase Agreement) shall be equal to $101 million, and (b) the amount by which the Required Additional Capital Amount exceeds $101 million shall be satisfied by the Pre-Closing Seller Contribution (as defined in the Stock Purchase Agreement). On or before the Closing Date, OB Group shall contribute to OBIC (i) the Required Additional Capital Amount, which includes the $101 million described above and (ii) the Pre-Closing Seller Contribution. OB Group shall provide evidence of such contributions satisfactory to the Department.

[1] Capitalized terms in this Order have the same meaning as the defined terms in the Decision.

3. The Applicant will provide a list of all closing documents within five (5) days after the Closing Date and will maintain those documents and make them available to the Department for at least five (5) years from the Closing Date.

4. The Applicant will provide copies of all contracts with third parties relating to the administration and handling of the claims of the Domestic Insurers within thirty (30) days of their execution for at least five (5) years from the Closing Date.

5. Consistent with the responses to the public and at the hearing, the Applicant will assume the contract with Resolute Management, Inc., and will not terminate such contract for a period of at least five years after the Closing Date without the prior written approval of the Department.

6. Each Domestic Insurer shall, and the Applicant shall cause each Domestic Insurer to, maintain and acquire only those assets and classes of assets, and only in the proportions, shown in the Towers Stochastic Model, except upon the prior written approval of the Department.

7. None of the Domestic Insurers shall, and the Applicant shall not cause any Domestic Insurer to, directly or indirectly, engage in any transactions with affiliates or other entities owned or controlled by any officer or director of the Applicant or any Domestic Insurer, without prior written approval of the Department.

8. The Department approves the form of the Surplus Notes attached hereto, and any Surplus Notes issued pursuant to the Stock Purchase Agreement must be in the form attached hereto.

9. None of the Domestic Insurers shall be responsible for, and shall not make any payments or other dividends or distributions to the Applicant in connection with any taxes the Applicant may incur or pay in connection with the Stock Purchase Agreement or the Proposed Transaction.

10. On or before March 31, 2016 and each year thereafter, the Applicant, at its sole cost and expense, shall provide to the Department a two-year financial projection for each of the Domestic Insurers. The form, scope, and content of such projection shall be subject to the prior written approval of the Department.

11. On or before March 31, 2016 and each year thereafter, the Applicant, at its sole cost and expense, shall retain an independent actuary to review and analyze the reserves of each Domestic Insurer, including, without limitation, the adequacy of the reserves for reinsurance uncollectibles. The actuary and the form, scope, and content of the review shall be subject to the prior written approval of the Department. The Department, in its sole discretion, may waive this requirement for a Domestic Insurer in any year during which the Department performs a financial examination of such Domestic Insurer.

12. On or before March 31, 2016 and each year thereafter, the Applicant, at its sole cost and expense, shall provide to the Department a stress test that will demonstrate the adequacy

of assets and ability of each Domestic Insurer to continue to run off its business, and a comparison between such stress test and the Towers Stochastic Model, including a detailed explanation of any material differences. The form, scope, and content of such stress test and comparison shall be subject to the prior written approval of the Department.

13. On or before May 31, 2015 and each year thereafter, the Applicant and each Domestic Insurer shall meet with the Department to review the operating results of each Domestic Insurer. The Applicant and each Domestic Insurer also will review with the Department any complaints any of them or any of their respective agents or representatives have received and any legal actions related to their respective claims-handling practices. As part of this review, the Applicant or the respective Domestic Insurer, as applicable, will provide information on what actions, including improving claims-handling practices where appropriate, the Applicant or the respective Domestic Insurer is taking in response to the complaint or legal action. The Applicant shall meet with the Department at other times upon reasonable advance notice by the Department.

14. As of June 30 and December 31 of each year, the Applicant shall, and shall cause each Domestic Insurer to, provide to the Department a report setting forth all ceded and assumed reinsurance activity, including activity relating to reinsurance agreements with NICO and Gen Re Corporation. Such reports shall be provided within 60 days of the end of such reporting periods, shall be in form and content acceptable to the Department, and shall contain such detail as will enable the Department to monitor the actual paid claim and outstanding reserve activity on an ongoing basis. No Domestic Insurer shall make any material change or amendment to any reinsurance agreement, related administration agreement, or reinsurance program without the prior written consent of the Department.

15. OBIC shall not, and the Applicant shall not cause OBIC to, directly or indirectly, repay any amounts due under or in respect of either Surplus Note (including repayment of principal or interest) or amend either Surplus Note, without the prior written approval of the Department.

16. None of the Domestic Insurers shall, and the Applicant shall not cause any Domestic Insurer to, directly or indirectly, pay any dividends or other distributions to any person without the prior written approval of the Department.

17. Any amendment to the Services Agreement, including, without limitation, any change to the management fee thereunder, is subject to the prior written approval of the Department.

18. Except as expressly set forth in this paragraph, none of the Domestic Insurers shall, and the Applicant shall not cause any Domestic Insurer to, directly or indirectly (a) make or cause any disbursement, payment, or transfer of assets, except in the normal and ordinary course of business (excluding from the normal and ordinary course any matter described in subpart (b) of this paragraph); and (b) pay, deposit, post, provide, establish, or otherwise arrange for any collateral or other security (i) in connection with any

reinsurance agreement, statute, regulation, or order, or (ii) arising out of or in connection with any dispute, arbitration, litigation, or other proceeding relating to such collateral, security, reinsurance agreement, statute, regulation or order, without the prior written approval of the Department; provided, however, that no prior approval of the Department shall be required for any commutation of a contract of insurance or reinsurance between any Domestic Insurer, on the one hand, and any counterparty to such contract, on the other, when such commutation payment from such Domestic Insurer is at or below the aggregate level of outstanding payment obligations, case reserves, and incurred but not reported (IBNR) reserves carried on the books of such Domestic Insurer at the time of the commutation payment.

19. None of the Domestic Insurers shall, and the Applicant shall not cause any Domestic Insurer to, directly or indirectly, pay, deposit, post, provide, or establish any security or other deposit with any governmental authority, including any insurance regulator, in any jurisdiction without the prior written approval of the Department, except to the extent expressly required by a court order.

20. Any request for release of statutory deposits from any other jurisdiction is subject to the prior written approval of the Department, except to the extent expressly required by law.

21. None of the Domestic Insurers shall, and the Applicant shall not cause any Domestic Insurer to, directly or indirectly, write any new business, including, without limitation, issue, enter into, or renew any contract of insurance or reinsurance, without the prior written approval of the Department.

22. None of the Domestic Insurers shall, and the Applicant shall not cause any Domestic Insurer to, directly or indirectly, cede or assume, under either the Run-off Business Reinsurance Agreement or the Retained Business Reinsurance Agreement, any business other than the business analyzed in the Towers Stochastic Model, in each case without the prior written approval of the Department.

23. None of the Domestic Insurers shall, and the Applicant shall not cause any of the Domestic Insurers to, redomesticate to any jurisdiction without the prior written approval of the Department.

24. None of the Domestic Insurers shall, and the Applicant shall not cause any of the Domestic Insurers to, file an application for voluntary dissolution or otherwise dissolve, institute any action to seek protection from creditors, or otherwise agree to any order of conservation, rehabilitation, liquidation, or similar proceeding, without the prior written approval of the Department.

25. The Department may retain at the reasonable expense of the Applicant and the Domestic Insurers, as determined by the Department, any attorneys, actuaries, accountants, and other experts not otherwise part of the Department's staff as, in the judgment of the Department, may be necessary to assist the Department, regardless whether retained before, on, or after the date of this Decision and Order, in or with respect to:

(a) evaluation and assessment of any submissions, notices given or required to be given, giving rise to, or in connection with this Decision and Order; (b) compliance by any of the Applicant or any of the Domestic Insurers with this Decision and Order; (c) the enforcement, appeal, or any challenge or contest to the enforcement or validity of any part of this Decision and Order, including, without limitation, any condition set forth herein; (d) reviewing and analyzing any submissions or notices by or for the Applicant or any of the Domestic Insurers or auditing and reviewing any books and records of the Applicant or any of the Domestic Insurers; (e) litigation (including any appeals), threatened litigation, inquiries, complaints or investigations regarding, arising from, or related to the Application, the process surrounding the approval of the Application and/or this Decision and Order or its enforcement; and/or (f) responding to any request or action to require public disclosure of information the Applicant, any of the Domestic Insurers, or the Department requests or deems confidential. The obligation of the Applicant and each of the Domestic Insurers shall be joint and several obligations to the Department for all such costs and expenses.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation. This one-year limitation does not apply to any conditions prescribed by the Department in the Order.

Michael F. Consedine
Insurance Commissioner
Commonwealth of Pennsylvania

FORM OF SELLER PRIORITY SURPLUS NOTE
Number 1

For Value Received, ONEBEACON INSURANCE COMPANY, a Pennsylvania domiciled, property and casualty insurance company located at [•] (the "Company") promises to pay to OneBeacon Insurance Group LLC of [•] (the "Holder") the principal sum of $[•] (the "Surplus Note"), and to pay interest thereon, from [•] or from the most recent Scheduled Interest Payment Date (as defined below) for which interest has been paid or duly provided for. semi-annually in arrears on March 15 and August 31 in each year and on the date on which this Surplus Note matures, commencing [•] (each, a "Scheduled Interest Payment Date"), at the applicable Stated Rate (as defined below), until the principal hereof is paid or duly provided for. The terms and conditions governing payment of this Surplus Note are as follows:

1. This Surplus Note has been issued in accordance with Section 322.2 of the Insurance Company Law of 1921, as amended by Act 216 of November 30, 2004 (40 P.S. § 445.2).

2. The obligation of the Company to pay the Holder in accordance with the terms and conditions of this Surplus Note is unconditional and absolute. Nothing contained herein is intended to or shall prevent the Holder, in the event of default by the Company under the terms and conditions of this Surplus Note, from exercising all remedies permitted by applicable law, provided that such rights and remedies of the Holder shall at all times remain subject to the terms and conditions hereof.

(a) Any payment of principal or interest on this Surplus Note shall be subordinated, whether existing or hereafter incurred or created, to payment of all policyholders, other liabilities of the Company, including all claims and beneficiary claims of all policyholders, and all other classes of creditors other than holders of surplus notes the terms of which expressly state that they are subordinated to this Surplus Note.

(b) The annual interest rate on this Surplus Note shall be equal to the applicable Stated Rate.

The "Stated Rate" shall be equal to:

(i) for each Scheduled Interest Payment Date occurring on or prior to [March 15][August 31], [•][1], a per annum rate equal to [•]%[2];

(ii) for each Scheduled Interest Payment Date occurring after [March 15][August 31], [•] [3] but on or prior to [March 15][August 31], [•] [4], a per annum rate equal to the sum of (A) (i) [•]% [5], less (ii) [•]% [6], plus (iii) 1.0% (such amount, the "Base Rate"), plus (B) Three-Month LIBOR; and

(iii) for each Scheduled Interest Payment Date occurring after [March 15][August 31], [•] [7], a per annum rate equal to the sum of (A) the Base Rate, plus (B) (i) 0.50%, multiplied by (ii) the number of consecutive five-year periods (including any partial five-year period) occurring from [March 15][August 31], [•] [8] to and including such Scheduled Interest Payment Date, plus (C) Three-Month LIBOR.

"Three-Month LIBOR" shall be equal to three-month LIBOR as reported in the Eastern Edition of the Wall Street Journal two Business Days (as defined below) prior to the applicable Scheduled Interest Payment Date.

(c) The Company shall repay this Surplus Note on [•][9], subject to all terms and conditions of this Surplus Note and specifically paragraph 2.

(d) Principal or interest on this Surplus Note shall not be a liability nor an expense except to the extent that the payment has been approved by the Insurance Commissioner of the Commonwealth of Pennsylvania (the "Commissioner"). Unapproved interest shall not be represented as an addition to the principal or notional amount and shall not accrue further interest. This Surplus Note shall accrue interest only on the outstanding principal balance and not on accrued but unpaid interest.

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[1] **Note to Draft:** First Scheduled Interest Payment Date occurring after the fifth anniversary of the Closing.
[2] **Note to Draft:** Equal to (x) 4.35% plus (y) the 5-year U.S. treasury rate as reported in the Eastern Edition of the Wall Street Journal two Business Days prior to the Closing.
[3] **Note to Draft**: See footnote 1.
[4] **Note to Draft:** First Scheduled Interest Payment Date occurring after the tenth anniversary of the Closing.
[5] **Note to Draft:** Rate set forth in clause (i).
[6] **Note to Draft:** Equal to the 5-year swap rate as reported in the Eastern Edition of the Wall Street Journal two Business Days prior to the Closing.
[7] **Note to Draft:** See footnote 4.
[8] **Note to Draft:** See footnote 4.
[9] **Note to Draft:** Scheduled maturity date to be 5 years following closing.

(e) Any interest payment or principal repayment on this Surplus Note requires prior approval of the Commissioner. The Company shall provide the Commissioner with written notice at least thirty days prior to the intended date of the payment of principal or interest on the Surplus Note.

(f) This Surplus Note is not a liability or claim against the Company or any of its assets, and interest shall be repaid only out of the unassigned surplus of the Company. Payment of principal and interest on this Surplus Note are not guaranteed and such payment is subordinated to claims of all policyholders, creditors and other liabilities of the Company.

(g) Interest on this Surplus Note shall be calculated on the basis of a 360-day year of twelve months of 30 days each.

3. Payments of interest on this Surplus Note will be made, in accordance with the foregoing and subject to applicable laws and regulations, (i) by wire transfer of immediately available funds to an account maintained by the person entitled thereto with a bank if such registered holder gives notice to the Company, not less than 15 days (or such fewer days as the Company may accept at its discretion) prior to the applicable scheduled payment date or maturity date hereof, of the payee's account to which payment is to be made or, (ii) if no such notice is given, by mailing a check on or before the scheduled payment date of such payment to the person entitled thereto at such person's address as provided to the Company. Unless the designation of the payee's account to which payment is to be made is revoked, any such designation made by such holder with respect to this Surplus Note of the payee's account to which payment is to be made shall remain in effect with respect to any future payments with respect to this Surplus Note payable to such holder. In any case where the scheduled payment date or maturity date of this Surplus Note shall be at any place of payment a day on which banking institutions are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close, then payment of principal or interest need not be made on such date at such place but may be made on the next succeeding day at such place which is not a day on which banking institutions in the applicable jurisdiction are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close (a "Business Day"), with the same force and effect as if made on the scheduled payment date or maturity date thereof, and no interest shall accrue on the amount of such payment for the period after such date, if such payment is so made.

4. This Surplus Note may be redeemed by the Company, subject to the approval of the Commissioner, in whole or in part, at any time, subject to all the terms and conditions of this Surplus Note and specifically paragraph 2, at a redemption price equal to 100% of the aggregate principal amount plus any accrued and unpaid interest (calculated pursuant to the terms of this Surplus Note) to be redeemed. In addition, subject to all the terms and conditions of this Surplus Note and specifically paragraph 2, the Company shall redeem this Surplus Note in whole or in part on March 15 of each year in an amount, if any, such that, following such prepayment, the Company's "total adjusted capital" (as such term is defined in, and calculated pursuant to, the risk-based capital instructions permitted or prescribed by the insurance laws of the Commonwealth of Pennsylvania) is equal to the product of 2.0 (or such other factor established by the Commissioner) and the Company's "authorized control level RBC" (as such term is defined in, and calculated pursuant to, the risk-based capital instructions permitted or prescribed by the insurance laws of the Commonwealth of Pennsylvania). The Company shall provide the Commissioner with written notice at least thirty days prior to the intended date of the redemption. This Surplus Note shall be canceled upon redemption, whether in whole or in part, and cancellation shall be effective upon approval of the Commissioner. If the redemption is not for full outstanding principal balance, the Company shall issue new surplus notes for the amount of outstanding principal balance and shall contain the same terms as contained in this Surplus Note as approved by the Commissioner.

5. This Surplus Note may be assigned or transferred by the Holder, in whole or in part, at any time, subject to all the terms and conditions of this Surplus Note and specifically paragraph 2, upon approval of the Commissioner and the Board of Directors of the Company. The Holder and the Company shall provide the Commissioner with written notice at least thirty days prior to the intended date of the assignment or transfer. Any such assignment or transfer shall not be effective so as to impose any obligations or liability upon the Company and such assignment or transfer shall be duly registered in the appropriate books of record of the Company. In the event of such assignment or transfer, the Holder shall surrender this Surplus Note to the Company for cancellation and for issuance of a substituted Surplus Note or Surplus Notes identical in form and substance to this Surplus Note, in aggregate principal amounts equal to the assigned or transferred and unassigned or untransferred portions hereof. This Surplus Note is not assignable or transferrable except as set forth in this paragraph 5.

6. No recourse for the payment of the principal of or interest on this Surplus Note, and no recourse under or upon any obligation, covenant or agreement for any claim based on this Surplus Note or otherwise in respect hereof, or on account of the creation of any indebtedness represented hereby, shall be made against any incorporator, member, officer or director, past, present or future, of the Company, or any successor or resulting corporation, either directly or through the Company, or any successor or resulting corporation, whether by virtue of any constitution, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that any and all such personal liability, if any, of every such incorporator, member, officer or director is expressly waived and released by the Holder as a condition of, and in consideration of, the issuance of this Surplus Note.

7. For so long as this Surplus Note remains outstanding or any amount remains unpaid on this Surplus Note:

(a) The Company shall use commercially reasonable efforts to obtain the approval of the Commissioner in accordance with Section 322.2 of the Insurance Law for the payment by the Company of interest on and principal of this Surplus Note on the scheduled payment dates, prepayment date or maturity dates thereof, and, in the event any such approval has not been obtained for any such payment or prepayment at or prior to the scheduled payment date, prepayment date or maturity date, as the case may be, to continue to use best efforts to obtain such approval promptly thereafter. Not less than 45 days prior to the scheduled payment date, prepayment date or maturity date (excluding any such maturity date which arises as a result of the obtaining of an order or the granting of approval for the rehabilitation, liquidation, conservation or dissolution of the Company), the Company will seek the approval of the Commissioner to make each payment or prepayment of interest on and principal of this Surplus Note. In addition, the Company shall notify in writing the holder of this Surplus Note no later than five Business Days prior to the scheduled payment date for interest, date for the prepayment of principal or the maturity date for principal in the event that the Commissioner has not then approved the making of any such payment on such scheduled payment date, prepayment date or such maturity date, and thereafter, if such payment or prepayment has been approved by the Commissioner, shall promptly notify in writing the holder of this Surplus Note of such approval.

(b) Until the full principal amount of this Surplus Note and any interest incurred thereon has been paid to the holder hereof, the Company shall not, without the prior written consent of the holder of this Surplus Note:

(i) make any dividend or distribution to holders of its equity interests or purchase or retire any of its equity interests;

(ii) create, assume, incur or have outstanding any indebtedness (including purchase money indebtedness), or become liable, whether as endorser, guarantor, surety or otherwise, for any debt or obligation of any other person;

(iii) cease operations, liquidate, merge, transfer, acquire or consolidate with any entity, or dissolve or transfer or sell assets outside of the ordinary course of business;

(iv) amend its charter or bylaws in a manner that would adversely affect its corporate existence, material rights (charter and statutory) or material franchises; or

(v) write, assume or acquire any new business (including through any reinsurance or under existing treaties) other than pursuant to the fronting requirements set forth in Section 5.23 of that certain Stock Purchase Agreement between OneBeacon Insurance Group LLC, Trebuchet US Holdings, Inc. and the other parties thereto, dated October 17, 2012, as amended from time to time.

8. The Holder, in consideration of the issuance hereof, represents and warrants that it has been furnished with information sufficient to make an informed decision to make the advance represented by this Surplus Note. The Holder, by acceptance of this Surplus Note, acknowledges that this Surplus Note has been acquired in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended, and that the Company is relying, to the extent applicable, upon such representations and warranties.

9. Nothing in this Surplus Note, expressed or implied, shall give or be construed to give any person, firm or corporation, other than the Company and the Holder, any legal or equitable right, remedy or claim under or in respect to this Surplus Note or under any covenant, condition or provision contained herein.

10. In the event of the insolvency, bankruptcy, receivership, rehabilitation, conservatorship, reorganization, readjustment of debt, marshalling of assets and liabilities, or similar proceedings, by or against the Company, or any liquidation or winding up of the Company, whether voluntary or involuntary, this Surplus Note will immediately mature in full without any action on the part of the holder of this Surplus Note, and repayment of the balance of the funds and any accrued interest then due and owing to the Holder shall be subordinate to any policyholder, claimant and beneficiary claims as well as debts owed to all other classes of creditors. Notwithstanding any other provision of this Surplus Note, in no event shall any holder of this Surplus Note be entitled to declare this Surplus Note immediately mature or otherwise be immediately payable.

11. In the event that the Commissioner approves a payment of any interest on or principal of, or any redemption payment with respect to, this Surplus Note, in whole or in part, and the Company fails to pay the full amount of such approved payment on the date such amount is scheduled to be paid, such approved amount will be immediately payable on such date without any action on the part of the holder of this Surplus Note. In the event that the Company fails to perform any of its other obligations hereunder, the holder of this Surplus Note may pursue any available remedy to enforce the performance of any provision of this Surplus Note; provided, however, that such remedy shall in no event include the right to declare this Surplus Note immediately payable, and shall in no circumstances be inconsistent with the provisions of applicable law or the provisions of Section 2. A delay or omission by the holder of this Surplus Note in exercising any right or remedy accruing as a result of the Company's failure to perform its obligations hereunder and the continuation thereof shall not impair such right or remedy or constitute a waiver of or acquiescence in such non-performance by the Company. To the extent permitted by law, no remedy is exclusive of any other remedy and all remedies are cumulative.

12. All notices, requests, claims, demands or other communications under this Surplus Note shall be deemed to have been duly given and made if in writing and (a) at the time personally delivered if served by personal delivery upon the party for whom it is intended, (b) at the time received if delivered by registered or certified mail (postage prepaid, return receipt requested) or by a national courier service (delivery of which is confirmed), or (c) upon confirmation if sent by facsimile; in each case to the person at the address set forth below, or such other address as may be designated in writing hereafter, in the same manner, by such person:

to the Company:

OneBeacon Insurance Company
[•]
Telephone: [•]
Facsimile: [•]
Attention: [•]

to the Holder:

OneBeacon Insurance Group LLC
[•]
Telephone: [•]
Facsimile: [•]
Attention: [•]

13. In the event that any one or more of the provisions contained in this Surplus Note other than the provision of Paragraph 2, shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Surplus Note, but this Surplus Note shall be construed as if such invalid or illegal or unenforceable provision had never been contained in this Surplus Note.

14. The covenants, stipulations, promises and agreements contained in this Surplus Note shall bind and inure to the benefit of, and shall be enforceable by the Company and the Holder, and their respective successors and assigns.

15. This Surplus Note shall be governed by and construed in accordance with the domestic laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles, unless and to the extent preempted by the laws of the United States of America.

16. This Surplus Note represents the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior written or oral agreements between the parties and shall be modified only by a written amendment of the Company and the Holder upon receipt of prior written consent of the Commissioner.

IN WITNESS HEREOF, the Company, intending to be legally bound, has caused this Surplus Note to be executed and attested to by its duly authorized officers and corporate seal to be impressed this ___ day of _____.

(Company Name)

(CORPORATE SEAL)

_____

by: (Company Representative)

Attest to by:

_____

Agreed and Accepted by:

_____ (Holder name)

FORM OF SELLER PARI PASSU SURPLUS NOTE
Number 1

For Value Received, ONEBEACON INSURANCE COMPANY, a Pennsylvania domiciled, property and casualty insurance company located at [•] (the "Company") promises to pay to OneBeacon Insurance Group LLC of [•] (the "Holder") the principal sum of $[•] (the "Surplus Note"), and to pay interest thereon, from [•] or from the most recent Scheduled Interest Payment Date (as defined below) for which interest has been paid or duly provided for, semi-annually in arrears on March 15 and August 31 in each year and on the date on which this Surplus Note matures, commencing [•] (each, a "Scheduled Interest Payment Date"), at the applicable Stated Rate (as defined below), until the principal hereof is paid or duly provided for. The terms and conditions governing payment of this Surplus Note are as follows:

1. This Surplus Note has been issued in accordance with Section 322.2 of the Insurance Company Law of 1921, as amended by Act 216 of November 30, 2004 (40 P.S. § 445.2).

2. The obligation of the Company to pay the Holder in accordance with the terms and conditions of this Surplus Note is unconditional and absolute. Nothing contained herein is intended to or shall prevent the Holder, in the event of default by the Company under the terms and conditions of this Surplus Note, from exercising all remedies permitted by applicable law, provided that such rights and remedies of the Holder shall at all times remain subject to the terms and conditions hereof.

(a) Any payment of principal or interest on this Surplus Note shall be subordinated, whether existing or hereafter incurred or created, to payment of all policyholders, other liabilities of the Company, including all claims and beneficiary claims of all policyholders, and all other classes of creditors and that certain surplus note of the Company issued to the initial holder of this Surplus Note concurrently with this Surplus Note in the principal amount of $[•].

(b) The annual interest rate on this Surplus Note shall be equal to the applicable Stated Rate.

The "Stated Rate" shall be equal to:

(i) for each Scheduled Interest Payment Date occurring on or prior to [March 15][August 31], [•][1], a per annum rate equal to [•]%[2];

(ii) for each Scheduled Interest Payment Date occurring after [March 15][August 31], [•] [3] but on or prior to [March 15][August 31], [•] [4], a per annum rate equal to the sum of (A) (i) [•]% [5], less (ii) [•]% [6], plus (iii) 1.0% (such amount, the "Base Rate"), plus (B) Three-Month LIBOR; and

(iii) for each Scheduled Interest Payment Date occurring after [March 15][August 31], [•] [7], a per annum rate equal to the sum of (A) the Base Rate, plus (B) (i) 0.50%, multiplied by (ii) the number of consecutive five-year periods (including any partial five-year period) occurring from [March 15][August 31], [•] [8] to and including such Scheduled Interest Payment Date, plus (C) Three-Month LIBOR.

"Three-Month LIBOR" shall be equal to three-month LIBOR as reported in the Eastern Edition of the Wall Street Journal two Business Days (as defined below) prior to the applicable Scheduled Interest Payment Date.

(c) The Company shall repay this Surplus Note on [•][9], subject to all terms and conditions of this Surplus Note and specifically paragraph 2.

(d) Principal or interest on this Surplus Note shall not be a liability nor an expense except to the extent that the payment has been approved by the Insurance Commissioner of the Commonwealth of Pennsylvania (the "Commissioner"). Unapproved interest shall not be represented as an addition to the principal or notional amount and shall not accrue further interest. This Surplus Note shall accrue interest only on the outstanding principal balance and not on accrued but unpaid interest.

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[1] **Note to Draft:** First Scheduled Interest Payment Date occurring after the fifth anniversary of the Closing.
[2] **Note to Draft:** Equal to (x) 4.35% plus (y) the 5-year U.S. treasury rate as reported in the Eastern Edition of the Wall Street Journal two Business Days prior to the Closing.
[3] **Note to Draft**: See footnote 1.
[4] **Note to Draft:** First Scheduled Interest Payment Date occurring after the tenth anniversary of the Closing.
[5] **Note to Draft:** Rate set forth in clause (i).
[6] **Note to Draft:** Equal to the 5-year swap rate as reported in the Eastern Edition of the Wall Street Journal two Business Days prior to the Closing.
[7] **Note to Draft:** See footnote 4.
[8] **Note to Draft:** See footnote 4.
[9] **Note to Draft:** Scheduled maturity date to be 5 years following closing.

(e) Any interest payment or principal repayment on this Surplus Note requires prior approval of the Commissioner. The Company shall provide the Commissioner with written notice at least thirty days prior to the intended date of the payment of principal or interest on the Surplus Note.

(f) This Surplus Note is not a liability or claim against the Company or any of its assets, and interest shall be repaid only out of the unassigned surplus of the Company. Payment of principal and interest on this Surplus Note are not guaranteed and such payment is subordinated to claims of all policyholders, creditors and other liabilities of the Company.

(g) Interest on this Surplus Note shall be calculated on the basis of a 360-day year of twelve months of 30 days each.

3. Payments of interest on this Surplus Note will be made, in accordance with the foregoing and subject to applicable laws and regulations, (i) by wire transfer of immediately available funds to an account maintained by the person entitled thereto with a bank if such registered holder gives notice to the Company, not less than 15 days (or such fewer days as the Company may accept at its discretion) prior to the applicable scheduled payment date or maturity date hereof, of the payee's account to which payment is to be made or, (ii) if no such notice is given, by mailing a check on or before the scheduled payment date of such payment to the person entitled thereto at such person's address as provided to the Company. Unless the designation of the payee's account to which payment is to be made is revoked, any such designation made by such holder with respect to this Surplus Note of the payee's account to which payment is to be made shall remain in effect with respect to any future payments with respect to this Surplus Note payable to such holder. In any case where the scheduled payment date or maturity date of this Surplus Note shall be at any place of payment a day on which banking institutions are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close, then payment of principal or interest need not be made on such date at such place but may be made on the next succeeding day at such place which is not a day on which banking institutions in the applicable jurisdiction are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close (a "Business Day"), with the same force and effect as if made on the scheduled payment date or maturity date thereof, and no interest shall accrue on the amount of such payment for the period after such date, if such payment is so made.

4. This Surplus Note may be redeemed by the Company, subject to the approval of the Commissioner, in whole or in part, at any time, subject to all the terms and conditions of this Surplus Note and specifically paragraph 2, at a redemption price equal to 100% of the aggregate principal amount plus any accrued and unpaid interest (calculated pursuant to the terms of this Surplus Note) to be redeemed. In addition, subject to all the terms and conditions of this Surplus Note and specifically paragraph 2, the Company shall redeem this Surplus Note in whole or in part (a) on March 15 of each year in an amount, if any, such that, following such prepayment and any concurrent dividend or distribution pursuant to paragraph 7(b)(i), the Company's "total adjusted capital" (as such term is defined in, and calculated pursuant to, the risk-based capital instructions permitted or prescribed by the insurance laws of the Commonwealth of Pennsylvania) is equal to the product of 2.0 (or such other factor established by the Commissioner) and the Company's "authorized control level RBC" (as such term is defined in, and calculated pursuant to, the risk-based capital instructions permitted or prescribed by the insurance laws of the Commonwealth of Pennsylvania) or (b) as contemplated by paragraph 7(b)(i). The Company shall provide the Commissioner with written notice at least thirty days prior to the intended date of the redemption. This Surplus Note shall be canceled upon redemption, whether in whole or in part, and cancellation shall be effective upon approval of the Commissioner. If the redemption is not for full outstanding principal balance, the Company shall issue new surplus notes for the amount of outstanding principal balance and shall contain the same terms as contained in this Surplus Note as approved by the Commissioner.

5. This Surplus Note may be assigned or transferred by the Holder, in whole or in part, at any time, subject to all the terms and conditions of this Surplus Note and specifically paragraph 2, upon approval of the Commissioner and the Board of Directors of the Company. The Holder and the Company shall provide the Commissioner with written notice at least thirty days prior to the intended date of the assignment or transfer. Any such assignment or transfer shall not be effective so as to impose any obligations or liability upon the Company and such assignment or transfer shall be duly registered in the appropriate books of record of the Company. In the event of such assignment or transfer, the Holder shall surrender this Surplus Note to the Company for cancellation and for issuance of a substituted Surplus Note or Surplus Notes identical in form and substance to this Surplus Note, in aggregate principal amounts equal to the assigned or transferred and unassigned or untransferred portions hereof. This Surplus Note is not assignable or transferrable except as set forth in this paragraph 5.

6. No recourse for the payment of the principal of or interest on this Surplus Note, and no recourse under or upon any obligation, covenant or agreement for any claim based on this Surplus Note or otherwise in respect hereof, or on account of the creation of any indebtedness represented hereby, shall be made against any incorporator, member, officer or director, past, present or future, of the Company, or any successor or resulting corporation, either directly or through the Company, or any successor or resulting corporation, whether by virtue of any constitution, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that any and all such personal liability, if any, of every such incorporator, member, officer or director is expressly waived and released by the Holder as a condition of, and in consideration of, the issuance of this Surplus Note.

7. For so long as this Surplus Note remains outstanding or any amount remains unpaid on this Surplus Note:

(a) The Company shall use commercially reasonable efforts to obtain the approval of the Commissioner in accordance with Section 322.2 of the Insurance Law for the payment by the Company of interest on and principal of this Surplus Note on the scheduled payment dates, prepayment date or maturity dates thereof, and, in the event any such approval has not been obtained for any such payment or prepayment at or prior to the scheduled payment date, prepayment date or maturity date, as the case may be, to continue to use best efforts to obtain such approval promptly thereafter. Not less than 45 days prior to the scheduled payment date, prepayment date or maturity date (excluding any such maturity date which arises as a result of the obtaining of an order or the granting of approval for the rehabilitation, liquidation, conservation or dissolution of the Company), the Company will seek the approval of the Commissioner to make each payment or prepayment of interest on and principal of this Surplus Note. In addition, the Company shall notify in writing the holder of this Surplus Note no later than five Business Days prior to the scheduled payment date for interest, date for the prepayment of principal or the maturity date for principal in the event that the Commissioner has not then approved the making of any such payment on such scheduled payment date, prepayment date or such maturity date, and thereafter, if such payment or prepayment has been approved by the Commissioner, shall promptly notify in writing the holder of this Surplus Note of such approval.

(b) Until the full principal amount of this Surplus Note and any interest incurred thereon has been paid to the holder hereof, the Company shall not, without the prior written consent of the holder of this Surplus Note:

(i) make any dividend or distribution to holders of its equity interests or purchase or retire any of its equity interests, unless, concurrently with such dividend or distribution payment, the principal amount of this Surplus Note shall be prepaid by an amount equal to the amount of such dividend or distribution payment;

(ii) create, assume, incur or have outstanding any indebtedness (including purchase money indebtedness), or become liable, whether as endorser, guarantor, surety or otherwise, for any debt or obligation of any other person;

(iii) cease operations, liquidate, merge, transfer, acquire or consolidate with any entity, or dissolve or transfer or sell assets outside of the ordinary course of business;

(iv) amend its charter or bylaws in a manner that would adversely affect its corporate existence, material rights (charter and statutory) or material franchises; or

(v) write, assume or acquire any new business (including through any reinsurance or under existing treaties) other than pursuant to the fronting requirements set forth in Section 5.23 of that certain Stock Purchase Agreement between OneBeacon Insurance Group LLC, Trebuchet US Holdings, Inc. and the other parties thereto, dated October 17, 2012, as amended from time to time.

8. The Holder, in consideration of the issuance hereof, represents and warrants that it has been furnished with information sufficient to make an informed decision to make the advance represented by this Surplus Note. The Holder, by acceptance of this Surplus Note, acknowledges that this Surplus Note has been acquired in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended, and that the Company is relying, to the extent applicable, upon such representations and warranties.

9. Nothing in this Surplus Note, expressed or implied, shall give or be construed to give any person, firm or corporation, other than the Company and the Holder, any legal or

equitable right, remedy or claim under or in respect to this Surplus Note or under any covenant, condition or provision contained herein.

10. In the event of the insolvency, bankruptcy, receivership, rehabilitation, conservatorship, reorganization, readjustment of debt, marshalling of assets and liabilities, or similar proceedings, by or against the Company, or any liquidation or winding up of the Company, whether voluntary or involuntary, this Surplus Note will immediately mature in full without any action on the part of the holder of this Surplus Note, and repayment of the balance of the funds and any accrued interest then due and owing to the Holder shall be subordinate to any policyholder, claimant and beneficiary claims as well as debts owed to all other classes of creditors. Notwithstanding any other provision of this Surplus Note, in no event shall any holder of this Surplus Note be entitled to declare this Surplus Note immediately mature or otherwise be immediately payable.

11. In the event that the Commissioner approves a payment of any interest on or principal of, or any redemption payment with respect to, this Surplus Note, in whole or in part, and the Company fails to pay the full amount of such approved payment on the date such amount is scheduled to be paid, such approved amount will be immediately payable on such date without any action on the part of the holder of this Surplus Note. In the event that the Company fails to perform any of its other obligations hereunder, the holder of this Surplus Note may pursue any available remedy to enforce the performance of any provision of this Surplus Note; provided, however, that such remedy shall in no event include the right to declare this Surplus Note immediately payable, and shall in no circumstances be inconsistent with the provisions of applicable law or the provisions of Section 2. A delay or omission by the holder of this Surplus Note in exercising any right or remedy accruing as a result of the Company's failure to perform its obligations hereunder and the continuation thereof shall not impair such right or remedy or constitute a waiver of or acquiescence in such non-performance by the Company. To the extent permitted by law, no remedy is exclusive of any other remedy and all remedies are cumulative.

12. All notices, requests, claims, demands or other communications under this Surplus Note shall be deemed to have been duly given and made if in writing and (a) at the time personally delivered if served by personal delivery upon the party for whom it is intended, (b) at the time received if delivered by registered or certified mail (postage prepaid, return receipt requested) or

by a national courier service (delivery of which is confirmed), or (c) upon confirmation if sent by facsimile; in each case to the person at the address set forth below, or such other address as may be designated in writing hereafter, in the same manner, by such person:

to the Company:

OneBeacon Insurance Company
[•]
Telephone: [•]
Facsimile: [•]
Attention: [•]

to the Holder:

OneBeacon Insurance Group LLC
[•]
Telephone: [•]
Facsimile: [•]
Attention: [•]

13. In the event that any one or more of the provisions contained in this Surplus Note other than the provision of Paragraph 2, shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Surplus Note, but this Surplus Note shall be construed as if such invalid or illegal or unenforceable provision had never been contained in this Surplus Note.

14. The covenants, stipulations, promises and agreements contained in this Surplus Note shall bind and inure to the benefit of, and shall be enforceable by the Company and the Holder, and their respective successors and assigns.

15. This Surplus Note shall be governed by and construed in accordance with the domestic laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles, unless and to the extent preempted by the laws of the United States of America.

16. This Surplus Note represents the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior written or oral agreements between the parties and shall be modified only by a written amendment of the Company and the Holder upon receipt of prior written consent of the Commissioner.

IN WITNESS HEREOF, the Company, intending to be legally bound, has caused this Surplus Note to be executed and attested to by its duly authorized officers and corporate seal to be impressed this ___ day of _____.

(Company Name)

(CORPORATE SEAL)

_____

by: (Company Representative)

Attest to by:

_____

Agreed and Accepted by:

_____ (Holder name)