



January 15, 2014

Mr. Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
Strawberry Square, 13th Floor
Harrisburg, PA 17120

RE: Engagement Letter – One Beacon Form A Filing

Risk & Regulatory Consulting (RRC or the Vendor) has been selected as the vendor to provide actuarial support to the Pennsylvania Insurance Department (Department) in its review of the potential sale of One Beacon Insurance Company and Potomac Insurance Company, and OneBeacon America Insurance Company and The Employers’ Fire Insurance Company, both Massachusetts domestic insurers (collectively, the Companies or the Run-off Companies). This document represents the RRC engagement letter for provision of services to the Department.

Introduction

Pursuant to 40 P.S. §§991.1402(f)(3) of the Pennsylvania insurance holding company systems laws (Holding Company Act), the Department is enlisting RRC, an outside vendor, to provide services in support of its review of a Form A filing and related materials (Form A) regarding the acquisition of control of One Beacon Insurance Company and Potomac Insurance Company, both Pennsylvania domestic insurers, by Armour Group Holdings Limited, through its subsidiary Trebuchet US Holdings, Inc. (collectively, Armour). To facilitate the review process, the Department will retain RRC to perform certain procedures and provide certain services as outlined below.



RRC acknowledged that it does not currently have any existing conflicts of interest regarding this undertaking. If any situations arise which could be construed as potential conflicts, the Vendor will immediately notify the Department of any actual or potential conflicts of interest that may arise or be discovered.

Scope of Engagement

The scope of this engagement may be altered at the sole discretion of the Department in consultation with the Vendor. Any alterations may affect the fee for the engagement.

The engagement will involve meeting with the Department to discuss the Form A and the objectives and expectations of the Department. The Department's primary objective is to determine whether or not the Run-off Companies, at the time of and following the acquisition by Armour, contain sufficient assets and sufficient liquidity to pay out on a timely basis all amounts due to policyholders and claimants. RRC will perform tasks necessary to meet the expectations of the Department, which will include, but not be limited to:

- Review and analyze the Analysis of Unpaid Loss and LAE of the Run-off Companies, prepared by Towers Watson.
- Analyze judgmental scenario modeling completed by the Companies on base and worst case projected run-off outcomes.
- Analyze stochastic scenario modeling completed by Towers Watson on projected run-off outcomes under a large number of independent projection scenarios.
- Analyze projections for each Run-off Company to determine whether each will meet applicable risk-based capital requirements at all relevant times.

Work Plan

- Obtain and review the final report of Analysis of Unpaid Loss and LAE as of September 30, 2012, December 31, 2012 and March 31, 2013 of the Run-off Companies, prepared by Towers Watson.
- Document analysis of the Towers Watson report and related exhibits and appendices, focusing on the methodologies utilized, assumptions applied and reasonableness of conclusions.
- Meet with the Department and its counsel, Companies, Armour, OneBeacon Insurance Group LLC (OneBeacon) and/or Towers Watson to discuss questions or concerns from RRC's analysis.
- Document high level assessment of judgmental scenario modeling and related outcomes

prepared by the Companies, whenever such documentation may be requested from time to time by the Department. No extensive analysis of this modeling is anticipated. The purpose of this understanding is to test the stochastic modeling outcomes being prepared by Towers Watson.

- Meet with Towers Watson to discuss scope of engagement by OneBeacon for stochastic modeling of run-off scenarios for the combined Run-Off Companies and for each of the Run-off Companies individually.
- Assure that the modeling will include stressed scenarios that are realistic downside views of the run-off. Also assure that sufficient outlier event scenarios are considered. For scenarios failures in the next 5 years, if any, assure that adequate information is available on the reason for the failure and, if requested, results if one or more variables is changed.
- Document understanding of Towers Watson scope in relation to objectives of the Department and requirements of the Holding Company Act and determine the reasonableness of the planned modeling outcome, including, but not limited to, the reasonableness of the planned number of scenarios to be executed in the model(s).
- Develop a timeline and work schedule with Towers Watson to enable RRC to actively participate and understand the procedures being performed in building the stochastic model, as well as the assumptions and methodologies being applied.
- Provide feedback and inquiries to Armour, the Companies and/or Towers Watson as necessary on the process of developing and deploying the stochastic model(s).
- Obtain and review final stochastic modeling output and supporting documentation from Towers Watson.
- Analyze the final outcomes of the stochastic model(s) and conclude as to the reasonableness and consistency of the final product compared to the planned approach.
- Summarize and determine reasonableness of the overall conclusion from the modeling. Specifically conclude on the reasonableness of the number of scenarios that project the Run-off Companies having sufficient surplus and liquidity to pay out all amounts due policyholders and claimants over their lifetimes versus those scenarios that project insufficient surplus and liquidity for this purpose.
- Prepare a report to the Department's attention summarizing all work completed by RRC and related conclusions and recommendations.
- Provide testimony at public hearings and potentially other proceedings as necessary regarding the conclusions and recommendations from our report to the Department.

Any additional procedures deemed advisable by RRC will be communicated to the Department prior to commencement, along with the rationale for undertaking such work, for advance approval.



Fees and Staffing

Vendor acknowledges that the Department is engaging Vendor pursuant to 40 P.S. § 991.1402(f)(3) of the Holding Company Act, and that Armour will be solely responsible for payment to Vendor of all amounts due Vendor under this agreement. Vendor agrees to seek all amounts due under this agreement from Armour.

The individuals listed below have been assigned to the engagement. Additional staff may only be assigned to the examination upon the prior written approval of the Department.

Patrick Tracy	CFE, CPA	\$225
Craig Moore	CFE, CPA	\$225
Mary Miller	FCAS, MAAA	\$260
Michael Dubin	FCAS, MAAA, FCA	\$260
Barry Ash		\$240
Staff Level Assistance		\$150

The Vendor’s fees will be based on an actual time and materials basis worked by the various levels of personnel assigned to this review, at rates applicable to each. If additional staff is assigned to the examination at a later date, appropriate hourly rates will be established and pre-approved by the Department. Because of the nature of the engagement, the Vendor is unable to reasonably estimate the hours necessary to complete the review at this time. Actual travel and related expenses will be billed to Armour as an additional expense in accordance with the Commonwealth of Pennsylvania’s Travel Policy.

Monthly billings will be sent to the Department, which will forward them to Armour. Bills are due and payable in full, net of the holdback amount described in the next paragraph, upon receipt by Armour. Billings will have sufficient detail to enable Armour and the Department to monitor the engagement. Billings should minimally include cumulative hours worked and fees incurred by billing rate for each of the Vendor’s staff participating on the engagement. The Vendor will submit a Monthly Billing Report to the Deputy Insurance Commissioner, in the format specified by the Department and communicated to the Vendor.



RRC acknowledges that 10% of its professional fees will be withheld until the Department is satisfied with all work performed. Upon the Department's determination that the engagement is complete and that RRC has fulfilled all obligations of the engagement, the Department will authorize Armour to release the remaining holdback amount to RRC.

Deliverable

It is anticipated that a draft report will be issued first to the Department for review and comments. Input from the Department will be discussed and modifications made, as necessary. A report will be issued to the Department once the project is complete to the Department's satisfaction. RRC will also provide the Department with a copy of the report in electronic format. A copy of the report will be given to Armour and the Companies at the time of its public release, unless the Department authorizes its distribution in whole or in part to Armour or the Companies sooner. As the review is related to an analysis of the Run-off Companies' Form A, RRC understands that its report to the Department will become a part of the public record.

Reporting and Responsibilities

The Vendor will be supervised by the Department's Deputy Insurance Commissioner for the Office of Corporate and Financial Regulation (Deputy), Stephen J. Johnson, or his designee. The Vendor should understand the need to work closely with the Deputy or his designee, who may not be on-site during the review. The Deputy (and any other Department staff designated by the Deputy) must have full access to any work (including workpapers) being performed by the Vendor under this engagement at all times, without the need for prior approval.

The Vendor, acting as appointed experts as defined by 40 P.S. §§991.1402(f)(3), shall be given full access to Armour and Company information in accordance with 40 P.S. §§991.1402. All information and data produced or obtained by the Vendor in the course of this engagement shall be subject to the confidentiality and distribution requirements and limitations delineated in 40 P.S. § 991.1407. The Department and the Vendor agree that all information communicated to one by the other, and identified as confidential, will be received in confidence. Such confidential information will be used only for purposes of this engagement. The recipient party, its agents, subcontractors or employees will make no disclosure without the prior written consent of the other party, except for those parties expressly identified in 40 P.S. § 991.1407(a)(4). Each party will employ the same means to protect the others' confidential information that it uses in protecting its own confidential information from disclosure to outside parties, but in no event will it employ less than all reasonable means.



The Vendor may be required to acknowledge various Department policies and procedures during this engagement; in particular, the Department's Vendor Computer Use Agreement. Any additional requirements will be communicated to the Vendor when necessary.

At any time, either party may request that any issue be put in written form. Unless such request is made, verbal resolutions may be utilized; however, it would be prudent for all parties to write an understanding of the issue and its agreed-upon solution to minimize any misunderstanding. Use of secure electronic mail is permissible.

The Vendor shall provide a tentative schedule of planned activities and timing of work to be approved or agreed upon by the Deputy or his designee before the start of this engagement, including establishing a start date, on and off site plans and expected completion date. The expected completion date may be extended only if the Department approves such extension in writing.

The Vendor will adhere to the following reporting requirements and hierarchy when dealing with the Department throughout this engagement:

- Vendor will report weekly activities and inquiries to the Deputy, or his designee.
- Vendor will provide the Deputy or his designee sufficient advance notice of all meetings with the any of Armour, OneBeacon, the Companies and/or Towers Watson to allow Department participation, if desired. The Deputy, and/or any other representative or agent selected by the Department, may attend any meetings with Armour, OneBeacon, the Companies and/or Towers Watson.
- Vendor will, upon request by the Deputy or his designee, provide copies of all correspondence by any of its employees with the Company, Armour, OneBeacon or Towers Watson (i.e., electronic mail, letters and memos). Vendor shall maintain written summaries of meetings and telephone calls, and make them available to the Deputy, or his designee.
- Vendor will submit written monthly Status Reports to the Deputy or his designee. Secure E-mail is an acceptable method of communicating status reports. Periodic Status Reports shall contain the following information:
 - Items completed and related issues or potential issues encountered;
 - Items in the process of completion and related issues or potential issues;
 - Items not yet started;
 - Items on hold and reason for such status and related issues or potential issues encountered or anticipated;
 - The cumulative hours worked and fees incurred to date to enable the Department to monitor progress. Break down the fees as to their status (what has been billed,



paid or outstanding) and separate travel and related expenses from professional fee charges.

The workpaper format will be agreed upon by the Vendor and the Department, and at a minimum shall include objectives, conclusions, indexing and cross-referencing. In addition, at the end of the engagement, all workpapers and documentation for findings will be delivered to the Department. The Department will own all material prepared for the Department and delivered under this engagement.

Engagement Assumptions

The following assumptions are made in the planning of this engagement:

- Company personnel will be reasonably available as required in accordance with schedules and timelines agreed upon by both parties.
- Company will make available, in a timely manner, sufficient office space, equipment, and staff in order to complete the engagement in an efficient manner.

Additional and Specific Vendor Engagement Responsibilities

Vendor is responsible for the following processes, tasks, personnel, and resources:

- Assign properly qualified and experienced personnel to support and assist in all deliverables;
- Understand the Department's approach, objectives, resource requirements and timing for this review and adhere to the Department's requirements for conducting review of Form A filings;
- Vendor shall be responsible for ensuring that its personnel acquire all necessary software licenses and that it and its personnel comply with all other applicable laws.
- Perform any other work as determined by the Deputy.

Clarifications, Disclaimers and Limitations

Neither party shall be liable to the other for any delay or failure to perform any of the Services or obligations set forth in this agreement due to causes beyond its reasonable control. If any provision of this agreement is determined to be invalid under any applicable law, such provision



is to that extent deemed omitted, and the balance of the agreement shall remain enforceable.

In the event that the Vendor is required, requested or authorized by the Department, government regulation, subpoena, or other legal process to produce its personnel to serve as witnesses with respect to this engagement for the Department, Armour will (so long as the Vendor is not a party to the proceeding in which the information is sought) compensate the Vendor for its time and expenses incurred in responding to such a request.

Any dispute arising under this agreement is governed by the law of Pennsylvania, without regard to otherwise applicable conflicts of law principles of that or any other jurisdiction, and any dispute must be resolved in the proper venue within the Commonwealth of Pennsylvania.

As the Final Report is the sole and exclusive property of the Department, if the Vendor is named in that report, the Department may disclose that the Vendor is not responsible for the sufficiency of the procedures performed.



Acceptances

The parties acknowledge acceptance of and agreement to this engagement letter by having authorized representatives sign below, thereby executing this agreement.

For the Department: For the Vendor:

1/15/14

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Date

1/15/14

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Date