ANNUAL STATEMENT

OF THE

OneBeacon Insurance Company

of Harrisburg

in the state of Pennsylvania

TO THE

Insurance Department

OF THE

FOR THE YEAR ENDED

December 31, 2013

PROPERTY AND CASUALTY

2013

PROPERTY AND CASUALTY COMPANIES - ASSOCIATION EDITION

21970201320100100

ANNUAL STATEMENT

For the Year Ended December 31, 2013

OF THE CONDITION AND AFFAIRS OF THE

OneBeacon Insurance Company

NAIC Group Code 1129 (Current Period) 1129 (Prior Period) **NAIC Company Code** 21970 **Employer's ID Number** 23-1502700

Organized under the Laws of Pennsylvania, **State of Domicile or Port of Entry** Pennsylvania

Country of Domicile United States of America

Incorporated/Organized June 1, 1956 **Commenced Business** July 11, 1956

Statutory Home Office 116 Pine Street, 3rd Floor, Suite 320 (Street and Number), Harrisburg, PA, US 17101 (City or Town, State, Country and Zip Code)

Main Administrative Office 150 Royall Street (Street and Number)

Canton, MA, US 02021-1030 (City or Town, State, Country and Zip Code) 781-332-7000 (Area Code) (Telephone Number)

Mail Address 150 Royall Street (Street and Number or P.O. Box), Canton, MA, US 02021-1030 (City or Town, State, Country and Zip Code)

Primary Location of Books and Records 150 Royall Street (Street and Number) Canton, MA, US 02021-1030 (City or Town, State, Country and Zip Code) 781-332-7000 (Area Code) (Telephone Number)

Internet Web Site Address www.OneBeacon.com

Statutory Statement Contact Eric Chambers (Name) 952-852-0214 (Area Code) (Telephone Number) (Extension)

EChambers@OneBeacon.com (E-Mail Address) 781-332-7704 (Fax Number)

OFFICERS

Timothy Michael Miller

	Name	Title
1.	Timothy Michael Miller	President & CEO
2.	Virginia Ann McCarthy #	Vice President & Secretary
3.	John Charles Treacy	Senior Vice President & Treasurer
4.	Brian David Poole	Senior Vice President & Chief Actuary

VICE-PRESIDENTS

Name	Title	Name	Title
Paul John Brehm	SVP & Chief Risk Officer	Sean William Duffy	SVP & Chief Claims Officer
Josette Durling Kiel	SVP & Chief Underwriting Officer	Scott Walter McClintock	SVP & Chief Information Officer
Paul Harrington McDonough	SVP & Chief Financial Officer	Maureen Ann Phillips	SVP & General Counsel
Thomas Norman Schmitt	SVP & Chief Human Resources Officer		

DIRECTORS OR TRUSTEES

Dennis Albert Crosby	Sean William Duffy	Joan Kathleen Geddes	Josette Durling Kiel
Paul Harrington McDonough	Timothy Michael Miller	Maureen Ann Phillips	Brian David Poole
Paul Francis Romano	Thomas Norman Schmitt		

State of Massachusetts

County of Norfolk ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
Timothy Michael Miller	Paul Harrington McDonough	Virginia Ann McCarthy
(Printed Name)	(Printed Name)	(Printed Name)
1.	2.	3.
Chairman of the Board, President & CEO	SVP & Chief Financial Officer	Vice President & Secretary
(Title)	(Title)	(Title)

Subscribed and sworn to (or affirmed) before me on this 24th day of February, 2014, by

Ka Chang, Notary Public
My Commission Expires January 31, 2018

KA CHANG
Notary Public
State of Minnesota
My Commission Expires
January 31, 2018

a. Is this an original filing? [X] Yes [ ] No
b. If no: 1. State the amendment number
2. Date filed
3. Number of pages attached

ASSETS

	Current Year 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
1. Bonds (Schedule D)	231,089,061		231,089,061	250,535,596
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	756,492,279		756,492,279	872,634,935
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less $ 0 encumbrances)				
4.2 Properties held for the production of income (less $ 0 encumbrances)				
4.3 Properties held for sale (less $ 0 encumbrances)				
5. Cash ($ 11,706,315, Schedule E - Part 1), cash equivalents ($ 0, Schedule E - Part 2), and short-term investments ($ 5,808,347, Schedule DA)	17,514,662		17,514,662	50,644,706
6. Contract loans (including $ 0 premium notes)				
7. Derivatives (Schedule DB)				
8. Other invested assets (Schedule BA)				
9. Receivables for securities				367,204
10. Securities lending reinvested collateral assets (Schedule DL)				
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	1,005,096,002		1,005,096,002	1,174,182,441
13. Title plants less $ 0 charged off (for Title insurers only)				
14. Investment income due and accrued	675,468		675,468	940,443
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	9,021,262		9,021,262	10,960,304
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ 0 earned but unbilled premiums)				
15.3 Accrued retrospective premiums				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers	10,634,627		10,634,627	15,547,943
16.2 Funds held by or deposited with reinsured companies	1,836,855		1,836,855	2,214,591
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon	25,987,143		25,987,143	15,214,388
18.2 Net deferred tax asset	14,868,019		14,868,019	6,213,717
19. Guaranty funds receivable or on deposit	5,669,417		5,669,417	5,669,417
20. Electronic data processing equipment and software				2,885,916
21. Furniture and equipment, including health care delivery assets ($ 0)				
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates	563,758	563,758		20,978,282
24. Health care ($ 0) and other amounts receivable				
25. Aggregate write-ins for other than invested assets	12,183,092	47,883	12,135,209	24,815,088
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	1,086,535,643	611,641	1,085,924,002	1,279,622,530
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	1,086,535,643	611,641	1,085,924,002	1,279,622,530

DETAILS OF WRITE-IN LINES				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)				
2501. Sundry balances	11,290,866	47,883	11,242,983	19,722,604
2502. Taxes, licenses & fees receivable	892,226		892,226	
2503. Balances receivable from Tower Group and Hanover Insurance Group				3,047,555
2598. Summary of remaining write-ins for Line 25 from overflow page				2,044,929
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	12,183,092	47,883	12,135,209	24,815,088

LIABILITIES, SURPLUS AND OTHER FUNDS

		1 Current Year	2 Prior Year
1.	Losses (Part 2A, Line 35, Column 8)	188,037,368	211,422,511
2.	Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	1,224,730	4,340,744
3.	Loss adjustment expenses (Part 2A, Line 35, Column 9)	382,808	981,492
4.	Commissions payable, contingent commissions and other similar charges	(1,936)	(1,670)
5.	Other expenses (excluding taxes, licenses and fees)	504,057	2,284,737
6.	Taxes, licenses and fees (excluding federal and foreign income taxes)		216,765
7.1	Current federal and foreign income taxes (including $ 0 on realized capital gains (losses))		643,048
7.2	Net deferred tax liability		
8.	Borrowed money $ 0 and interest thereon $ 0		
9.	Unearned premiums (Part 1A, Line 38, Column 5) (after deducting unearned premiums for ceded reinsurance of $ 3,670,486 and including warranty reserves of $ 0 and accrued accident and healthexperience rating refunds including $ 0 for medical loss ratio rebate per the Public Health Service Act)	146,261	485,081
10.	Advance premium		
11.	Dividends declared and unpaid:		
	11.1 Stockholders		
	11.2 Policyholders		
12.	Ceded reinsurance premiums payable (net of ceding commissions)	566,779	714,144
13.	Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	7,703,741	11,670,776
14.	Amounts withheld or retained by company for account of others	(207)	(22,447)
15.	Remittances and items not allocated		
16.	Provision for reinsurance (including $ 0 certified) (Schedule F, Part 8)	1,173,000	1,895,242
17.	Net adjustments in assets and liabilities due to foreign exchange rates		
18.	Drafts outstanding	7,106,175	23,052,943
19.	Payable to parent, subsidiaries and affiliates	1,293,066	132,550,867
20.	Derivatives		
21.	Payable for securities		
22.	Payable for securities lending		
23.	Liability for amounts held under uninsured plans		
24.	Capital notes $ 0 and interest thereon $ 0		
25.	Aggregate write-ins for liabilities	11,599,478	14,189,535
26.	Total liabilities excluding protected cell liabilities (Lines 1 through 25)	219,735,320	404,423,768
27.	Protected cell liabilities		
28.	Total liabilities (Lines 26 and 27)	219,735,320	404,423,768
29.	Aggregate write-ins for special surplus funds		
30.	Common capital stock	4,200,000	4,200,000
31.	Preferred capital stock		
32.	Aggregate write-ins for other than special surplus funds		
33.	Surplus notes		
34.	Gross paid in and contributed surplus	1,169,337,083	1,134,337,083
35.	Unassigned funds (surplus)	628,192,197	672,202,277
36.	Less treasury stock, at cost:		
	36.1 159,307 shares common (value included in Line 30 $ 1,672,724)	935,540,598	935,540,598
	36.2 0 shares preferred (value included in Line 31 $ 0)		
37.	Surplus as regards policyholders (Lines 29 to 35, less 36) (Page 4, Line 39)	866,188,682	875,198,762
38.	Totals (Page 2, Line 28, Col. 3)	1,085,924,002	1,279,622,530

	DETAILS OF WRITE-IN LINES		
2501.	Ceded balances payable to Tower Group	10,016,972	10,953,642
2502.	Other liabilities	1,582,506	2,935,823
2503.	NYAIP liability		300,000
2598.	Summary of remaining write-ins for Line 25 from overflow page		70
2599.	Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	11,599,478	14,189,535
2901.			
2902.			
2903.			
2998.	Summary of remaining write-ins for Line 29 from overflow page		
2999.	Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)		
3201.			
3202.			
3203.			
3298.	Summary of remaining write-ins for Line 32 from overflow page		
3299.	Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)		

STATEMENT OF INCOME

	1 Current Year	2 Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 35, Column 4)	370,928	567,919,776
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7)	56,125,991	242,250,758
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	22,616,087	80,985,173
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	399,518	249,898,794
5. Aggregate write-ins for underwriting deductions		(1,334,309)
6. Total underwriting deductions (Lines 2 through 5)	79,141,596	571,800,416
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(78,770,668)	(3,880,640)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	1,955,439	170,667,964
10. Net realized capital gains (losses) less capital gains tax of $ (795,064) (Exhibit of Capital Gains (Losses))	20,676,088	130,525,380
11. Net investment gain (loss) (Lines 9 + 10)	22,631,527	301,193,344
OTHER INCOME		
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered $ 0 amount charged off $ 0)	579,049	(319)
13. Finance and service charges not included in premiums		
14. Aggregate write-ins for miscellaneous income	8,106,786	2,401,615
15. Total other income (Lines 12 through 14)	8,685,835	2,401,296
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(47,453,306)	299,714,000
17. Dividends to policyholders		21,242
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(47,453,306)	299,692,758
19. Federal and foreign income taxes incurred	(10,509,744)	(32,021,258)
20. Net income (Line 18 minus Line 19) (to Line 22)	(36,943,562)	331,714,016
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	875,198,762	942,739,651
22. Net income (from Line 20)	(36,943,562)	331,714,016
23. Net transfers (to) from Protected Cell accounts		
24. Change in net unrealized capital gains or (losses) less capital gains tax of $ (918,359)	161,648,158	(269,231,238)
25. Change in net unrealized foreign exchange capital gain (loss)	(27,411)	117,684
26. Change in net deferred income tax	5,550,036	(53,618,949)
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 28, Col. 3)	16,924,699	2,546,272
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	722,242	(500,242)
29. Change in surplus notes		
30. Surplus (contributed to) withdrawn from protected cells		
31. Cumulative effect of changes in accounting principles		
32. Capital changes:		
32.1 Paid in		
32.2 Transferred from surplus (Stock Dividend)		
32.3 Transferred to surplus		
33. Surplus adjustments:		
33.1 Paid in	35,000,000	
33.2 Transferred to capital (Stock Dividend)		
33.3 Transferred from capital		
34. Net remittances from or (to) Home Office		
35. Dividends to stockholders	(190,000,000)	(65,000,000)
36. Change in treasury stock (Page 3, Lines 36.1 and 36.2, Column 2 minus Column 1)		
37. Aggregate write-ins for gains and losses in surplus	(1,884,242)	(13,568,432)
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	(9,010,080)	(67,540,889)
39. Surplus as regards policyholders, December 31 current year (Lines 21 plus Line 38) (Page 3, Line 37)	866,188,682	875,198,762

DETAILS OF WRITE-IN LINES		
0501. Takeout credit fee income		(296,161)
0502. L.A.D. service fee income		(1,038,148)
0503.		
0598. Summary of remaining write-ins for Line 05 from overflow page		
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 05 above)		(1,334,309)
1401. National Workers Compensation reinsurance pool settlement	7,947,956	
1402. Miscellaneous income and (expense)	158,830	2,401,615
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	8,106,786	2,401,615
3701. Change in balance due from reinsurer	115,758	564,242
3702. Prior year adjustment		4,043,571
3703. Restatement due to merger		(18,176,245)
3798. Summary of remaining write-ins for Line 37 from overflow page	(2,000,000)	
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	(1,884,242)	(13,568,432)

CASH FLOW

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance	2,201,521	402,416,902
2. Net investment income	1,554,260	181,196,356
3. Miscellaneous income	8,685,835	2,441,421
4. Total (Lines 1 through 3)	12,441,616	586,054,679
5. Benefit and loss related payments	50,628,631	666,981,250
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	24,723,546	468,916,923
8. Dividends paid to policyholders		21,242
9. Federal and foreign income taxes paid (recovered) net of $ 0 tax on capital gains (losses)	110,995	(21,199,273)
10. Total (Lines 5 through 9)	75,463,172	1,114,720,142
11. Net cash from operations (Line 4 minus Line 10)	(63,021,556)	(528,665,463)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	475,528,000	1,984,564,801
12.2 Stocks	298,074,628	527,016,778
12.3 Mortgage loans		
12.4 Real estate		47,785,339
12.5 Other invested assets		84,066,811
12.6 Net gains (or losses) on cash, cash equivalents and short-term investments	814	(23,120)
12.7 Miscellaneous proceeds	455,876	(6,169,095)
12.8 Total investment proceeds (Lines 12.1 to 12.7)	774,059,318	2,637,241,514
13. Cost of investments acquired (long-term only):		
13.1 Bonds	458,657,693	1,517,766,311
13.2 Stocks		704,139,103
13.3 Mortgage loans		
13.4 Real estate		1,705,819
13.5 Other invested assets		18,221,714
13.6 Miscellaneous applications	161,623,146	3,337,818
13.7 Total investments acquired (Lines 13.1 to 13.6)	620,280,839	2,245,170,765
14. Net increase (decrease) in contract loans and premium notes		
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	153,778,479	392,070,749
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes		
16.2 Capital and paid in surplus, less treasury stock	35,000,000	16,101,756
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders	190,000,000	65,000,000
16.6 Other cash provided (applied)	31,113,033	98,634,116
17. Net cash from financing and miscellaneous sources (Lines 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	(123,886,967)	49,735,872
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(33,130,044)	(86,858,842)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	50,644,706	137,503,548
19.2 End of year (Line 18 plus Line 19.1)	17,514,662	50,644,706

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001		
20.0002		
20.0003		

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 – PREMIUMS EARNED

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year- per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year- per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire				
2. Allied lines	(31,932)	314,956	134,269	148,755
3. Farmowners multiple peril				
4. Homeowners multiple peril				
5. Commercial multiple peril	(2,367)	(2)		(2,369)
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine		(5)		(5)
10. Financial guaranty				
11.1 Medical professional liability—occurrence				
11.2 Medical professional liability—claims-made				
12. Earthquake				
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health				
16. Workers' compensation	(51,254)	11,017		(40,237)
17.1 Other liability—occurrence		1	4	(3)
17.2 Other liability—claims-made	(22,023)			(22,023)
17.3 Excess workers' compensation				
18.1 Products liability—occurrence				
18.2 Products liability—claims-made				
19.1,19.2 Private passenger auto liability	(18,854)	710	91	(18,235)
19.3,19.4 Commercial auto liability	147,008	130,915	9,710	268,213
21. Auto physical damage	9,625	17,431	1,249	25,807
22. Aircraft (all perils)				
23. Fidelity				
24. Surety	3,537	10,058	939	12,656
26. Burglary and theft				
27. Boiler and machinery	(1,631)			(1,631)
28. Credit				
29. International				
30. Warranty				
31. Reinsurance-nonproportional assumed property				
32. Reinsurance-nonproportional assumed liability				
33. Reinsurance-nonproportional assumed financial lines				
34. Aggregate write-ins for other lines of business				
35. TOTALS	32,109	485,081	146,262	370,928

DETAILS OF WRITE-IN LINES				
3401.				
3402.				
3403.				
3498. Sum of remaining write-ins for Line 34 from overflow page				
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)				

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A – RECAPITULATION OF ALL PREMIUMS

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1. Fire					
2. Allied lines	134,269				134,269
3. Farmowners multiple peril					
4. Homeowners multiple peril					
5. Commercial multiple peril					
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine					
10. Financial guaranty					
11.1 Medical professional liability—occurrence					
11.2 Medical professional liablity—claims-made					
12. Earthquake					
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation					
17.1 Other liability—occurrence	4				4
17.2 Other liability—claims-made					
17.3 Excess workers' compensation					
18.1 Products liability—occurrence					
18.2 Products liability—claims-made					
19.1,19.2 Private passenger auto liability	91				91
19.3,19.4 Commercial auto liability	9,710				9,710
21. Auto physical damage	1,249				1,249
22. Aircraft (all perils)					
23. Fidelity					
24. Surety	544	395			939
26. Burglary and theft					
27. Boiler and machinery					
28. Credit					
29. International					
30. Warranty					
31. Reinsurance-nonproportional assumed property					
32. Reinsurance-nonproportional assumed liability					
33. Reinsurance-nonproportional assumed financial lines					
34. Aggregate write-ins for other lines of business					
35. TOTALS	145,867	395			146,262
36. Accrued retrospective premiums based on experience					
37. Earned but unbilled premiums					
38. Balance (Sum of Lines 35 through 37)					146,262

DETAILS OF WRITE-IN LINES					
3401.					
3402.					
3403.					
3498. Sum of remaining write-ins for Line 34 from overflow page					
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)					

(a) State here basis of computation used in each case Daily pro rata

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B – PREMIUMS WRITTEN

Line of Business	1 Direct Business (a)	Reinsurance Assumed 2 From Affiliates	 3 From Non-Affiliates	Reinsurance Ceded 4 To Affiliates	 5 To Non-Affiliates	6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
1. Fire	(30,254)	42,256		12,003		(1)
2. Allied lines	302,179	(61,414)	(19,916)	252,781		(31,932)
3. Farmowners multiple peril						
4. Homeowners multiple peril						
5. Commercial multiple peril	4,417	(207,015)		(181,749)	(18,482)	(2,367)
6. Mortgage guaranty						
8. Ocean marine	32,359	(588,312)		(555,953)		
9. Inland marine	(2,755)	1,599,433		1,596,678		
10. Financial guaranty						
11.1 Medical professional liability--occurrence	36,381			36,381		
11.2 Medical professional liability--claims-made	(1,448,417)			(1,448,417)		
12. Earthquake		(717)		(717)		
13. Group accident and health		(445,720)		(445,720)		
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	1,547,189	2,651,332	18,180	4,301,703	(33,747)	(51,255)
17.1 Other liability—occurrence	(102,854)	1,606,157	(2,630)	1,503,492	(2,819)	
17.2 Other liability—claims-made	(153,704)	2,038,187		1,906,506		(22,023)
17.3 Excess workers' compensation						
18.1 Products liability—occurrence	3,751	73,572		77,323		
18.2 Products liability—claims-made						
19.1,19.2 Private passenger auto liability	(1,323)	12,757	(3,426)	(1,080)	27,942	(18,854)
19.3,19.4 Commercial auto liability	(5,425)	42,620	155,376	33,859	11,704	147,008
21. Auto physical damage	107	334	9,141	133	(175)	9,624
22. Aircraft (all perils)						
23. Fidelity	(6,286)	(6,846)		(13,132)		
24. Surety	510,939			507,402		3,537
26. Burglary and theft	(24,166)	716		(23,449)		(1)
27. Boiler and machinery		71,032		71,032	1,631	(1,631)
28. Credit		59,035		59,035		
29. International						
30. Warranty						
31. Reinsurance-nonproportional assumed property	X X X					
32. Reinsurance-nonproportional assumed liability	X X X					
33. Reinsurance-nonproportional assumed financial lines	X X X					
34. Aggregate write-ins for other lines of business						
35. TOTALS	662,138	6,887,407	156,725	7,688,111	(13,946)	32,105

DETAILS OF WRITE-IN LINES						
3401.						
3402.						
3403.						
3498. Sum of remaining write-ins for Line 34 from overflow page						
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)						

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [ ] No [X]

If yes: 1. The amount of such installment premiums $ 0

2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis $ 0

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2 – LOSSES PAID AND INCURRED

Line of Business	Losses Paid Less Salvage 1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)	5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1. Fire	79	1,851,058	1,851,074	63	995	555	503	
2. Allied lines	778,709	4,482,145	5,024,202	236,652	176,110	842,788	(430,026)	(289.083)
3. Farmowners multiple peril	297,427	(1,099)	297,297	(969)	883,768	36,336	846,463	
4. Homeowners multiple peril	110,320	650,243	780,080	(19,517)	1,313,277	1,434,605	(140,845)	
5. Commercial multiple peril	8,151,215	51,412,761	42,814,972	16,749,004	(93,205,699)	(70,971,807)	(5,484,888)	231527.564
6. Mortgage guaranty								
8. Ocean marine	2,346,528	24,585,946	26,923,755	8,719	70,347	79,060	6	
9. Inland marine	725,942	6,826,946	7,552,915	(27)	2,981	(315,727)	318,681	(6373620.000)
10. Financial guaranty								
11.1 Medical professional liability—occurrence	44,297		44,297					
11.2 Medical professional liability—claims-made	1,723,399	(860,000)	863,399					
12. Earthquake								
13. Group accident and health		13,985,069	13,936,776	48,293		69,203	(20,910)	
14. Credit accident and health (group and individual)								
15. Other accident and health								
16. Workers' compensation	31,665,834	50,050,790	52,153,916	29,562,708	189,456,850	186,511,890	32,507,668	(80790.486)
17.1 Other liability—occurrence	6,942,277	119,192,977	110,255,335	15,879,919	32,636,343	42,599,078	5,917,184	(197239466.667)
17.2 Other liability—claims-made	16,944,380	8,226,936	25,316,926	(145,610)	(12,730)		(158,340)	718.976
17.3 Excess workers' compensation								
18.1 Products liability—occurrence	5,137,477	9,478,181	12,573,547	2,042,111	162,877	869,999	1,334,989	
18.2 Products liability—claims-made	557,791	342,902	900,693					
19.1,19.2 Private passenger auto liability	8,951,939	2,703,517	9,707,129	1,948,327	38,971,413	24,254,555	16,665,185	(91391.198)
19.3,19.4 Commercial auto liability	1,741,132	32,333,137	20,968,873	13,105,396	17,424,638	26,020,537	4,509,497	1681.312
21. Auto physical damage	(129,937)	1,352,569	1,288,663	(66,031)	(24)	80,341	(146,396)	(567.272)
22. Aircraft (all perils)		42,587	42,587					
23. Fidelity	228,985	19,044	250,614	(2,585)		(56)	(2,529)	
24. Surety		164,494	(186)	164,680	78,372	(165,476)	408,528	3227.939
26. Burglary and theft		1,000	1,000			(32)	32	
27. Boiler and machinery		41,500	41,500		535	(654)	1,189	(72.900)
28. Credit		1,114,121	1,114,121					
29. International								
30. Warranty								
31. Reinsurance-nonproportional assumed property	XXX	502	502					
32. Reinsurance-nonproportional assumed liability	XXX				77,316	77,316		
33. Reinsurance-nonproportional assumed financial lines	XXX							
34. Aggregate write-ins for other lines of business								
35. TOTALS	86,217,794	327,997,326	334,703,987	79,511,133	188,037,369	211,422,511	56,125,991	15131.236

DETAILS OF WRITE-IN LINES								
3401.								
3402.								
3403.								
3498. Sum of remaining write-ins for Line 34 from overflow page								
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)								

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2A – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

	Reported Losses				Incurred But Not Reported			8	9
	1	2	3	4	5	6	7		
Line of Business	Direct	Reinsurance Assumed	Deduct Reinsurance Recoverable	Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	Direct	Reinsurance Assumed	Reinsurance Ceded	Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	Net Unpaid Loss Adjustment Expenses
1. Fire		514,410	513,409	1,001	15,176,866	(45,651)	15,131,221	995	3,234
2. Allied lines	402,205	2,126,591	2,363,601	165,195	472,342	(48,521)	412,906	176,110	30,929
3. Farmowners multiple peril	2,981,986	1,275,001	3,492,243	764,744	532,934	118,939	532,849	883,768	304,532
4. Homeowners multiple peril	534,234	1,671,477	916,651	1,289,060	103,841	124,561	204,184	1,313,278	107,001
5. Commercial multiple peril	14,513,001	70,594,735	183,628,838	(98,521,102)	14,018,468	33,493,127	42,196,193	(93,205,700)	(13,303,431)
6. Mortgage guaranty									
8. Ocean marine	1,852,785	26,619,164	28,401,602	70,347	1,041,434	4,769,948	5,811,382	70,347	
9. Inland marine	40,251	6,576,681	6,615,131	1,801	347,265	79,001	425,086	2,981	1,677
10. Financial guaranty									
11.1 Medical professional liablity—occurrence	244,710	1	244,711		304,891		304,891		
11.2 Medical professional liablity—claims-made	5,680,696	3	5,680,698	1	7,641,160	829,792	8,470,952	1	
12. Earthquake									
13. Group accident and health		6,822,338	6,822,338		1,495	1,985,454	1,986,949	(a)	
14. Credit accident and health (group and individual)									
15. Other accident and health								(a)	
16. Workers' compensation	245,563,897	240,705,457	342,305,992	143,963,362	49,624,560	49,800,569	53,931,641	189,456,850	6,989,843
17.1 Other liability—occurrence	11,378,885	172,854,346	161,302,436	22,930,795	46,950,287	155,863,449	193,108,188	32,636,343	4,063,680
17.2 Other liability—claims-made	14,889,699	5,122,647	20,025,076	(12,730)	34,622,531	28,011,884	62,634,415	(12,730)	
17.3 Excess workers' compensation									
18.1 Products liability—occurrence	12,406,332	16,244,687	28,608,385	42,634	451,888	380,239,795	380,571,440	162,877	182,405
18.2 Products liability—claims-made		2	2						
19.1,19.2 Private passenger auto liability	53,137,783	14,853,185	44,056,862	23,934,106	16,217,735	401,942	1,582,370	38,971,413	685,943
19.3,19.4 Commercial auto liability	5,289,429	28,916,933	18,333,612	15,872,750	800,312	11,011,102	10,259,527	17,424,637	1,302,092
21. Auto physical damage	23	4,193	6,678	(2,462)	(68)	(56,017)	(58,522)	(25)	13,409
22. Aircraft (all perils)		692,869	692,869			96,477	96,477		
23. Fidelity	253,843	29,506	283,349		935,205	1,280,976	2,216,181		
24. Surety	2	245,628	167,257	78,373	175,417		175,418	78,372	901
26. Burglary and theft					41,071	17,326	58,397		
27. Boiler and machinery		3	3		(45)	(6,356)	(6,936)	535	49
28. Credit						39,249	39,249		
29. International									
30. Warranty									
31. Reinsurance-nonproportional assumed property	X X X	101,168	101,168		X X X	239,137	239,137		
32. Reinsurance-nonproportional assumed liability	X X X	77,316		77,316	X X X			77,316	561
33. Reinsurance-nonproportional assumed financial lines	X X X				X X X				
34. Aggregate write-ins for other lines of business									
35. TOTALS	369,169,761	596,048,341	854,562,911	110,655,191	189,459,589	668,246,183	780,323,595	188,037,368	382,825

DETAILS OF WRITE-IN LINES									
3401.									
3402.									
3403.									
3498. Sum of remaining write-ins for Line 34 from overflow page									
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)									

(a) Including $ 0 for present value of life indemnity claims.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	89,364,968			89,364,968
1.2 Reinsurance assumed	89,730,800			89,730,800
1.3 Reinsurance ceded	168,870,804			168,870,804
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	10,224,964			10,224,964
2. Commission and brokerage:				
2.1 Direct, excluding contingent		607		607
2.2 Reinsurance assumed, excluding contingent		876,599		876,599
2.3 Reinsurance ceded, excluding contingent		966,525		966,525
2.4 Contingent—direct				
2.5 Contingent—reinsurance assumed				
2.6 Contingent—reinsurance ceded				
2.7 Policy and membership fees				
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)		(89,319)		(89,319)
3. Allowances to manager and agents			(1)	(1)
4. Advertising	227	(1,255)	(275)	(1,303)
5. Boards, bureaus and associations	65,686	64,280	(3,229)	126,737
6. Surveys and underwriting reports	23	6	(1,123)	(1,094)
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries	5,491,889	177,935	(103,661)	5,566,163
8.2 Payroll taxes	373,265	10,968	(5,882)	378,351
9. Employee relations and welfare	512,178	15,021	(5,753)	521,446
10. Insurance			(2,843)	(2,843)
11. Directors' fees				
12. Travel and travel items	167,941	(1,463)	(5,271)	161,207
13. Rent and rent items	331,165	(104,227)	(7,841)	219,097
14. Equipment	16,848	1,614	(8,992)	9,470
15. Cost or depreciation of EDP equipment and software	178,859	169,201	(5,556)	342,504
16. Printing and stationery	20,563	(106)	(662)	19,795
17. Postage, telephone and telegraph, exchange and express	43,440	2,449	(2,789)	43,100
18. Legal and auditing	1,118	111,379	(6,355)	106,142
19. Totals (Lines 3 to 18)	7,203,202	445,802	(160,233)	7,488,771
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $ 0		21,497		21,497
20.2 Insurance department licenses and fees	152,560	5,800		158,360
20.3 Gross guaranty association assessments				
20.4 All other (excluding federal and foreign income and real estate)		1,214		1,214
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	152,560	28,511		181,071
21. Real estate expenses			2,086,424	2,086,424
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	5,035,361	14,524		5,049,885
25. Total expenses incurred	22,616,087	399,518	1,926,191	(a) 24,941,796
26. Less unpaid expenses—current year	382,808	(534,811)	144,706	(7,297)
27. Add unpaid expenses—prior year	981,503	2,412,501	22,496	3,416,500
28. Amounts receivable relating to uninsured plans, prior year				
29. Amounts receivable relating to uninsured plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	23,214,782	3,346,830	1,803,981	28,365,593

DETAILS OF WRITE-IN LINES				
2401. Consulting fees and other outside services	5,035,361	14,524		5,049,885
2402.				
2403.				
2498. Sum of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	5,035,361	14,524		5,049,885

(a) Includes management fees of $ 249,102 to affiliates and $ 0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a) 1,508,297	1,267,231
1.1	Bonds exempt from U.S. tax	(a) 38,836	38,861
1.2	Other bonds (unaffiliated)	(a) 1,299,786	999,423
1.3	Bonds of affiliates	(a) 441,814	275,703
2.1	Preferred stocks (unaffiliated)	(b)	
2.11	Preferred stocks of affiliates	(b)	
2.2	Common stocks (unaffiliated)		
2.21	Common stocks of affiliates		
3.	Mortgage loans	(c)	
4.	Real estate	(d) 863,150	863,150
5.	Contract loans		
6.	Cash, cash equivalents and short-term investments	(e) 5,931	5,931
7.	Derivative instruments	(f)	
8.	Other invested assets		
9.	Aggregate write-ins for investment income	431,331	431,331
10.	Total gross investment income	4,589,145	3,881,630
11.	Investment expenses		(g) 1,926,191
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h)
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income		
16.	Total deductions (Lines 11 through 15)		1,926,191
17.	Net investment income (Line 10 minus Line 16)		1,955,439

	DETAILS OF WRITE-IN LINES		
0901.	Misc Investment Income	431,331	431,331
0902.			
0903.			
0998.	Summary of remaining write-ins for Line 09 from overflow page		
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)	431,331	431,331
1501.			
1502.			
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		
1599.	Totals (Lines 1501 through 1503 plus 1598) (Line 15 above)		

(a) Includes $ 54,942 accrual of discount less $ 1,169,468 amortization of premium and less $ 529,489 paid for accrued interest on purchases.
(b) Includes $ 0 accrual of discount less $ 0 amortization of premium and less $ 0 paid for accrued dividends on purchases.
(c) Includes $ 0 accrual of discount less $ 0 amortization of premium and less $ 0 paid for accrued interest on purchases.
(d) Includes $ 0 for company's occupancy of its own buildings; and excludes $ 0 interest on encumbrances.
(e) Includes $ 5,747 accrual of discount less $ 10 amortization of premium and less $ 0 paid for accrued interest on purchases.
(f) Includes $ 0 accrual of discount less $ 0 amortization of premium.
(g) Includes $ 0 investment expenses and $ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes $ 0 interest on surplus notes and $ 0 interest on capital notes.
(i) Includes $ 0 depreciation on real estate and $ 0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds	(1,899,883)		(1,899,883)	(428,080)	
1.1	Bonds exempt from U.S. tax	(46,513)		(46,513)		
1.2	Other bonds (unaffiliated)	215,101	(287,927)	(72,826)		(18,071)
1.3	Bonds of affiliates	1,003,674		1,003,674		
2.1	Preferred stocks (unaffiliated)					
2.11	Preferred stocks of affiliates					
2.2	Common stocks (unaffiliated)					
2.21	Common stocks of affiliates	20,808,444		20,808,444	161,123,528	
3.	Mortgage loans					
4.	Real estate					
5.	Contract loans					
6.	Cash, cash equivalents and short-term investments	814	87,313	88,127		(9,340)
7.	Derivative instruments					
8.	Other invested assets					
9.	Aggregate write-ins for capital gains (losses)					
10.	Total capital gains (losses)	20,081,637	(200,614)	19,881,023	160,695,448	(27,411)

	DETAILS OF WRITE-IN LINES					
0901.						
0902.						
0903.						
0998.	Summary of remaining write-ins for Line 09 from overflow page					
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)					

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E - Part 1), cash equivalents (Schedule E - Part 2), and short-term investments (Schedule DA)			
6. Contract loans			
7. Derivatives (Schedule DB)			
8. Other invested assets (Schedule BA)			
9. Receivables for securities			
10. Securities lending reinvested collateral assets (Schedule DL)			
11. Aggregate write-ins for invested assets			
12. Subtotals, cash and invested assets (Lines 1 to 11)			
13. Title plants (for Title insurers only)			
14. Investment income due and accrued			
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection			
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due			
15.3 Accrued retrospective premiums			
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers			
16.2 Funds held by or deposited with reinsured companies			
16.3 Other amounts receivable under reinsurance contracts			
17. Amounts receivable relating to uninsured plans			
18.1 Current federal and foreign income tax recoverable and interest thereon			
18.2 Net deferred tax asset		2,185,907	2,185,907
19. Guaranty funds receivable or on deposit			
20. Electronic data processing equipment and software		1,691,930	1,691,930
21. Furniture and equipment, including health care delivery assets		41,461	41,461
22. Net adjustment in assets and liabilities due to foreign exchange rates			
23. Receivables from parent, subsidiaries and affiliates	563,758	56,063	(507,695)
24. Health care and other amounts receivable			
25. Aggregate write-ins for other than invested assets	47,883	13,560,979	13,513,096
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	611,641	17,536,340	16,924,699
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
28. Total (Lines 26 and 27)	611,641	17,536,340	16,924,699

DETAILS OF WRITE-IN LINES			
1101.			
1102.			
1103.			
1198. Summary of remaining write-ins for Line 11 from overflow page			
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)			
2501. Sundry balances	47,883	679,340	631,457
2502. Prepaid expenses		12,881,639	12,881,639
2503.			
2598. Summary of remaining write-ins for Line 25 from overflow page			
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	47,883	13,560,979	13,513,096

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Accounting Practices

The accompanying financial statements of the OneBeacon Insurance Company (the Company) have been prepared in conformity with the statutory accounting practices set forth in the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP).

There were no differences between the Company's financial statements prepared according to NAIC SAP and the statutory accounting practices prescribed by the Commonwealth of Pennsylvania which would require disclosure in the Notes to Financial Statements.

B. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the period. Actual results could differ from those estimates.

C. Accounting Policy

The following is a summary of the accounting policies followed by the Company, some of which may not apply to the accompanying financial statements for the year 2013.

Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by the daily pro rata method for direct business and are based on reports received from ceding companies for reinsurance.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

Response to Investment Interrogatory 30.4
Where available, fair values are based upon quoted prices in active markets. In circumstances where quoted prices are unavailable, the Company uses fair value estimates based upon other observable inputs including matrix pricing, benchmark interest rates, market comparables, and other relevant inputs. Where observable inputs are not available, the estimated fair value is based upon internal pricing models using assumptions that include inputs that may not be observable in the marketplace but which reflect management's best judgment given the circumstances and consistent with what other market participants would use when pricing such instruments.

Response to Investment Interrogatory 31.3
The Company's process to assess the reasonableness of the market prices obtained from the outside pricing sources includes, but is not limited to, evaluation of model pricing methodologies on at least an annual basis and analytical reviews of certain prices. The Company also performs back-testing of selected purchases and sales activity to determine whether there were any significant differences between the market price used to value the security prior to the purchase or sale and the actual purchase or sale price on at least an annual basis.

In addition, the Company uses the following accounting policies.

1. Investments which have a maturity of one year or less at the date of purchase are considered short-term investments. Cash, cash equivalents and short-term investments, which include balances held in banks, amounts held in money market funds, interest-bearing short-term notes, and investments with original maturities of three months or less are carried at cost or amortized cost, which approximates fair value.

2. Bonds not backed by other loans are generally stated at amortized cost. Bonds with an NAIC designation of three or lower are stated at the lower of fair value or amortized cost. Premiums and discounts on fixed maturity investments are accreted to income over the anticipated life of the security using the modified scientific method.

   Bonds also include treasury inflation-indexed securities (TIPs). TIPs are direct obligations of the United States government and are backed by the full faith and credit of the government. The principal is protected against, and grows with, inflation. The inflation adjustment is reported as a component of surplus.

3. Common stocks, other than investments in subsidiaries, are carried at fair value. Common stocks of unconsolidated insurance subsidiaries in which the Company has an interest of 20% or more are carried on the equity basis.

NOTES TO FINANCIAL STATEMENTS

4. Preferred stocks are stated in accordance with the guidance provided in Statement of Statutory Accounting Principles (SSAP) No. 32 – Investments in Preferred Stock.

5. The Company does not invest in mortgage loans.

6. Loan–backed securities are stated at either amortized cost or the lower of amortized cost or fair value.

7. The Company does not have any investments in non-insurance subsidiaries.

8. Other invested assets principally include investments in hedge funds and private equity funds which are carried at the underlying GAAP equity of the investments. Results from operations are recorded using the equity method and are reported as a component of surplus.

9. The Company's investment strategy does not include the purchase of derivative financial instruments.

10. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 53 - Property Casualty Contracts – Premiums.

11. Unpaid loss and loss adjustment expenses (LAE) are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. Reserves are typically comprised of (1) case reserves for claims reported and (2) reserves for losses that have occurred but for which claims have not yet been reported, referred to as incurred but not reported (IBNR) reserves, which include a provision for expected future development on case reserves. Case reserves are estimated based on experience and knowledge of claims staff regarding the nature and potential cost of each claim and are adjusted as additional information becomes known or payments are made. IBNR reserves are regarded as the most uncertain reserve segment and are derived by subtracting paid loss and LAE and case reserves from estimates of ultimate loss and LAE using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made. Ultimate loss and LAE expenses may deviate, perhaps materially, from the amounts currently reflected in the reserve balance. If management determines that an adjustment is appropriate, the adjustment is recorded in the accounting period in which such determination is made. Accordingly, should reserves need to be increased or decreased in the future from amounts currently established, future results of operations would be negatively or positively impacted, respectively.

12. The Company has not modified its capitalization policy from the prior period.

13. The Company does not have pharmaceutical rebate receivables.

2. Accounting Changes and Corrections of Errors

On July 1, 2010, the Company completed the sale of its personal lines business to the Tower Group, Inc. (Tower). During the year ended December 31, 2011, the Company and Tower reached agreement on post-closing adjustments. Subsequent to recording the impact of post-closing adjustments, it was determined that income of $2.6 million pre-tax ($1.7 million after tax) should have been recorded for statutory accounting purposes. This correction has been recorded as an adjustment to the Company's unassigned funds (surplus) in accordance with SSAP No. 3 – Accounting Changes and Corrections of Errors in the first quarter of 2012.

3. Business Combinations and Goodwill

A. Statutory Purchase Method

Not applicable.

B. Statutory Merger

1. The Company merged with its wholly-owned subsidiaries, Houston General Insurance Company (HGIC), Traders & General Insurance Company (TGIC), and Camden Fire Insurance Company (CFIA) on August 1, 2013.

2. The transactions were accounted for as statutory mergers.

3. No shares of common stock were issued as the mergers involved subsidiaries of the Company.

NOTES TO FINANCIAL STATEMENTS

4. Pre-merger separate company revenue, net income, and other surplus adjustments for the seven months ending July 31, 2013, were $30,469,755, $16,938,959, and $108,110,775, respectively, for the Company, $86,470, $749, and $(51,529), respectively, for HGIC, $132,846, $846, and $(147,011), respectively, for TGIC, and $162,462, $129,862, and $(55,086), respectively, for CFIA.

5. No adjustments were made directly to the surplus of HGIC, TGIC, or CFIA as a result of the mergers.

C. Impairment Loss

Not applicable.

4. Discontinued Operations

Not applicable.

5. Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

Not applicable.

B. Debt Restructuring

Not applicable.

C. Reverse Mortgages

Not applicable.

D. Loan-Backed Securities

1. Prepayment assumptions for single class and multi-class loan-backed securities were obtained from independent pricing sources.

2. During the year 2013, the Company did not recognize any other-than-temporary impairments on loan-backed securities.

3. During the year 2013, the Company did not recognize any other-than-temporary impairments on loan-backed securities where the present value of cash flows expected to be collected is less than the amortized cost basis of the securities.

4. At December 31, 2013, the Company held loan-backed securities for which the fair value was less than cost or amortized cost and an OTTI had not been recognized in earnings as a realized loss as follows:

a. The aggregate amount of unrealized losses:

1. Less than 12 Months	$	456,036
2. Greater than 12 Months		-

b. The aggregate related fair value of loan-backed securities with unrealized losses:

1. Less than 12 Months	$	64,930,006
2. Greater than 12 Months		-

5. Although the Company held investments in loan-backed securities at December 31, 2013, which were in an unrealized loss position, the Company believes that there were no impairments on these securities and views these decreases in value as being temporary. The Company has the intent and ability to retain such investments until recovery. The Company complied with the requirements of Statement of Statutory Accounting Principles (SSAP) No. 43R – Loan-backed and Structured Securities, and first determined that the Company did not have the intent to sell or the inability to hold all loan-backed securities for a sufficient period of time to recover their amortized cost basis. The Company determined that the declines in fair value of the loan-backed securities were not credit related.

E. Repurchase Agreements and/or Securities Lending Transactions

Not applicable.

F. Real Estate

Not applicable.

NOTES TO FINANCIAL STATEMENTS

G. Low-income housing tax credits

Not applicable.

H. Restricted Assets

(1) Restricted assets (including pledged) summarized by restricted asset category

	Gross Restricted								Percentage	
	Current Year									
	1	2	3	4	5	6	7	8	9	10
Restricted Asset Category	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ Decrease (5 minus 6)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
1. Subject to contractual obligation for which liability is not shown										
2. Collateral held under security lending agreements										
3. Subject to repurchase agreements										
4. Subject to reverse repurchase agreements										
5. Subject to dollar repurchase agreements										
6. Subject to dollar reverse repurchase agreements										
7. Subject to tri-party repurchase agreements										
8. Placed under option contracts										
9. Letter stock or securities restricted as to sale										
10. On deposit with state or other regulatory	68,907,599				68,907,599	74,989,666	(6,082,067)	68,907,599	6.35%	6.35%
11. Pledged as collateral not captured in other categories										
12. Other restricted assets										
13. Total Restricted Assets	68,907,599				68,907,599	74,989,666	(6,082,067)	68,907,599	6.35%	6.35%

(a) Subset of column 1
(b) Subset of column 3

NOTES TO FINANCIAL STATEMENTS

(2) Detail of assets pledged as collateral not captured in other categories (reported on line k above)

	Gross Restricted								Percentage	
	Current Year									
	1	2	3	4	5	6	7	8	9	10
Collateral Agreement	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
			NONE							
Total										

(a) Subset of column 1
(b) Subset of column 3

(3) Detail of other restricted assets (reported on line l above)

	Gross Restricted								Percentage	
	Current Year									
	1	2	3	4	5	6	7	8	9	10
Other Restricted Assets	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
			NONE							
Total										

6. Joint Ventures, Partnerships and Limited Liability Companies

A. Detail for Those Greater than 10% of Admitted Assets

Not applicable.

B. Write-downs for Impairment of Joint Ventures, Partnerships, and LLCs

Not applicable.

7. Investment Income

The Company did not have any due and accrued amounts over 90 days past due excluded from surplus.

8. Derivative Instruments

Not applicable.

9. Income Taxes

The application of SSAP No. 101 - Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10 requires a company to evaluate the recoverability of deferred tax assets and to establish a valuation allowance if necessary to reduce the deferred tax asset to an amount which is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance the Company considers many favors including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) the timing of their reversal; (4) taxable income in prior carry back years as well as projected taxable earnings exclusive of reversing temporary differences and carry-forwards; (5) the length of time that carryovers can be utilized; (6) unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused. The Company assessed the potential realization of the gross deferred tax asset and as a result no statutory valuation allowance was required and no allowance was established as of December 31, 2013, and 2012.

NOTES TO FINANCIAL STATEMENTS

A. Deferred Tax Asset/(Liability)

1. The components of all Deferred Tax Assets (DTAs) and Deferred Tax Liabilities (DTLs) at December 31, 2013, and 2012 are reflected below:

	December 31, 2013			December 31, 2012		
	Ordinary	Capital	Total	Ordinary	Capital	Total
(a) Gross DTAs	$ 18,590,731	$ -	$ 18,590,731	$ 18,159,400	$ -	$ 18,159,400
(b) Statutory valuation allowance adjustment	-	-	-	-	-	-
(c) Adjusted gross DTAs (1a - 1b)	18,590,731	-	18,590,731	18,159,400	-	18,159,400
(d) DTAs nonadmitted	-	-	-	2,186,065	-	2,186,065
(e) Subtotal (Net admitted DTA) (1c - 1d)	18,590,731	-	18,590,731	15,973,335	-	15,973,335
(f) DTLs	(3,244,013)	(478,699)	(3,722,712)	(8,841,417)	(918,194)	(9,759,611)
(g) Net admitted DTAs/(DTLs)	$ 15,346,718	$ (478,699)	$ 14,868,019	$ 7,131,918	$ (918,194)	$ 6,213,724

The changes by tax character in DTAs and DTLs for the year ended December 31, 2013, are reflected below:

	Change in 2013		
	Ordinary	Capital	Total
(a) Gross DTAs	$ 431,331	$ -	$ 431,331
(b) Statutory valuation allowance adjustment	-	-	-
(c) Adjusted gross DTAs (1a - 1b)	431,331	-	431,331
(d) DTAs nonadmitted	(2,186,065)	-	(2,186,065)
(e) Subtotal (Net admitted DTA) (1c - 1d)	2,617,396	-	2,617,396
(f) DTLs	5,597,404	439,495	6,036,899
(g) Net admitted DTAs/(DTLs)	$ 8,214,800	$ 439,495	$ 8,654,295

2. The components of the adjusted gross DTA admissibility calculation are as follows:

	December 31, 2013			December 31, 2012		
	Ordinary	Capital	Total	Ordinary	Capital	Total
SSAP No. 101, 11:						
(a) SSAP No. 101, 11.a	$ -	$ -	$ -	$ 3,074,845	$ -	$ 3,074,845
(b) SSAP No. 101, 11.b (the lesser of 11.b.i and 11.b.ii, below)	15,403,205	-	15,403,205	7,728,518	-	7,728,518
1l.b.i	15,403,205	-	15,403,205	7,728,518	-	7,728,518
11.b.ii			127,698,099			142,187,750
(c) SSAP No. 101, 11.c	3,187,526	-	3,187,526	5,169,972	-	5,169,972
(d) Total (2a + 2b + 2c)	$ 18,590,731	$ -	$ 18,590,731	$ 15,973,335	$ -	$ 15,973,335

The changes of each result or component of the DTA admission calculation for the year ended December 31, 2013, are reflected below:

	Change in 2013		
	Ordinary	Capital	Total
SSAP No. 101, 11:			
(a) SSAP No. 101, 11.a	$ (3,074,845)	$ -	$ (3,074,845)
(b) SSAP No. 101, 11.b (the lesser of 11.b.i and 11.b.ii, below)	7,674,687	-	7,674,687
1l.b.i	7,674,687	-	7,674,687
11.b.ii			(14,489,651)
(c) SSAP No. 101, 11.c	(1,982,446)	-	(1,982,446)
(d) Total (2a + 2b + 2c)	$ 2,617,396	$ -	$ 2,617,396

NOTES TO FINANCIAL STATEMENTS

3. The ratio percentage and adjusted capital and surplus used to determine the recovery period and threshold limitation for the admission calculation are presented below:

	2013	2012
(a) Ratio percentage used to determine recovery period and threshold limitation amount	517%	422%
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)(2) above	$ 851,320,663	$ 875,198,762

4. For the years ended December 31, 2013, and 2012, there were no tax planning strategies considered in the determination of adjusted gross and net admitted DTAs.

B. Deferred Tax Liabilities Not Recognized

Not applicable.

C. Significant Components of Income Taxes

1. Current income tax expense or (benefit) incurred consists of the following major components for the years ended December 31, as follows:

	2013	2012	Change
(a) Federal	$ (10,511,739)	$ (32,007,123)	$ 21,495,384
(b) Foreign	1,995	31,075	(29,080)
(c) Subtotal	(10,509,744)	(31,976,048)	21,466,304
(d) Federal income tax (benefit) on net capital gains/(losses)	(795,064)	4,708,588	(5,503,652)
(e) Utilization of capital loss carry-forwards	-	-	-
(f) Other	-		-
(g) Federal and foreign income taxes incurred	$ (11,304,808)	$ (27,267,460)	$ 15,962,652

NOTES TO FINANCIAL STATEMENTS

2. Deferred tax assets

		2013	2012	Change
(a)	Ordinary:			
(1)	Discounting of unpaid losses	$ 3,463,151	$ 5,512,500	$ (2,049,349)
(2)	Unearned premium reserve	10,239	33,956	(23,717)
(3)	Policyholder reserves	-	-	-
(4)	Investments	-		-
(5)	Deferred acquisition costs	-	-	-
(6)	Policyholder dividends accrual	-	-	-
(7)	Fixed assets	2,577,149	2,625,406	(48,257)
(8)	Compensation and benefits accrual	-	-	-
(9)	Pension accrual	-	-	-
(10)	Receivables - nonadmitted	214,074	5,561,431	(5,347,357)
(11)	Net operating loss carry-forward	12,302,716	-	12,302,716
(12)	Tax credit carry-forward	-	-	-
(13)	Other	-	1,226,877	(1,226,877)
(14)	NY AIP	-	226,867	(226,867)
(15)	Bad debt	23,402	301,700	(278,298)
(16)	Accelerated rent	-	2,670,663	(2,670,663)
(17)	Change in dividend accrual	-	-	-
(18)	Guarantee fund	-	-	-
(99)	Subtotal	$ 18,590,731	$ 18,159,400	$ 431,331
(b)	Statutory valuation allowance adjustment	-	-	-
(c)	Nonadmitted	-	2,186,065	(2,186,065)
(d)	Admitted ordinary DTAs (2a99 - 2b - 2c)	$ 18,590,731	$ 15,973,335	$ 2,617,396
(e)	Capital:			
(1)	Investments	$ -	$ -	$ -
(2)	Net capital loss-forward	-	-	-
(3)	Real estate	-	-	-
(4)	Other	-	-	-
(99)	Subtotal	$ -	$ -	$ -
(f)	Statutory valuation allowance adjustment	-	-	-
(g)	Nonadmitted	-	-	-
(h)	Admitted capital DTAs (2e99 - 2f - 2g)	$ -	$ -	$ -
(i)	Admitted DTAs (2d + 2h)	$ 18,590,731	$ 15,973,335	$ 2,617,396

3. Deferred tax liabilities

		2013	2012	Change
(a)	Ordinary:			
(1)	Investments	$ (3,237,427)	$ (8,750,945)	$ 5,513,518
(2)	Fixed assets	-	-	-
(3)	Deferred and uncollected premiums	-	-	-
(4)	Policyholder reserves	-	-	-
(5)	Other	(6,586)	(90,472)	83,886
(99)	Subtotal	$ (3,244,013)	$ (8,841,417)	$ 5,597,404
(b)	Capital:			
(1)	Investments	$ (478,699)		$ (478,699)
(2)	Real estate	-	-	-
(3)	Other	-	(918,194)	918,194
(99)	Subtotal	$ (478,699)	$ (918,194)	$ 439,495
(c)	Total DTLs (3a99 + 3b99)	$ (3,722,712)	$ (9,759,611)	$ 6,036,899

NOTES TO FINANCIAL STATEMENTS

4. Net deferred tax assets/liabilities

Net DTAs/(DTLs) (2i - 3c)	$ 14,868,019	$ 6,213,724	$ 8,654,295
Tax effect of the change in unrealized gains/(losses)			(918,194)
Change in gross deferred federal income tax excluding effect of unrealized gains			$ 5,550,036

D. Reconciliation of federal income tax rate to actual effective tax rate

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal tax rate to income before income taxes. Among the more significant items causing this difference were the following:

Description	Amount	Tax Effect	Effective Tax Rate
Income/(loss) before taxes	$ (48,248,372)	$ (16,886,930)	35.00%
Tax exempt interest - net of proration	(33,028)	(11,560)	0.02%
Dividend received deduction - net of proration	(1,129)	(395)	0.00%
Change in nonadmitted assets	15,278,162	5,347,357	-11.08%
Other tax adjustments	(15,158,030)	(5,305,311)	11.02%
Total	$ (48,162,397)	$ (16,856,839)	34.94%
Federal income tax incurred		$ (10,511,739)	21.79%
Tax on realized capital gains (losses)		(795,064)	1.65%
Change in gross deferred taxes		(5,550,036)	11.50%
Total statutory income taxes		$ (16,856,839)	34.94%

E. Operating loss and tax credit carry-forwards

1. At December 31, 2013, the Company had $35,350,617 of unused operating loss carry-forwards originating in 2013, which expire if unused in 2033. At December 31, 2013, the Company had no unused capital loss carry-forwards.

2. The following are income taxes incurred in the current and prior year that will be available for recoupment in the event of future net losses:

Year	Ordinary	Capital	Total
2013	$ -	$ -	$ -
2012	-	-	-
2011	-	-	-

3. The Company has not admitted any aggregate amounts of deposits that are included within Section 6603 (deposits made to suspend running of interest on potential underpayments, etc.) of the Internal Revenue Service Code.

NOTES TO FINANCIAL STATEMENTS

F. The Company's federal income tax is consolidated with the following entities:

OneBeacon U.S. Financial Services, Inc. (Parent)
OneBeacon U.S. Enterprises Holdings, Inc.
OneBeacon U.S. Holdings, Inc.
OneBeacon America Insurance Company
The Employers' Fire Insurance Company
The Northern Assurance Company of America
Atlantic Specialty Insurance Company
OneBeacon Insurance Company
Homeland Insurance Company of New York
OneBeacon Midwest Insurance Company
The Camden Fire Insurance Association
Potomac Insurance Company
Traders & General Insurance Company
OneBeacon Specialty Insurance Company
OneBeacon Select Insurance Company
Homeland Insurance Company of Delaware
OBI America Insurance Company
OBI National Insurance Company
OneBeacon Risk Management, Inc.
A.W.G. Dewar, Inc.
OneBeacon Professional Insurance, Inc.
Houston General Insurance Management Company
National Marine Underwriters, Inc.
Houston General Insurance Company

Under the terms of the federal tax allocation agreement effective for the tax period January 1 through December 31, 2013, the affiliated group listed shall compute on or before the date provided by law for the payment of any federal income tax or estimated tax (the Adjustment Date) the amount of income taxes or estimated tax or refund to which each company listed would have to make or to which such member would be entitled if it filed at the time a return, declaration, or refund claim as a separate corporation and had not at the time been a member of the affiliated group. If on any Adjustment Date:

(i) one or more of the members are liable for any amount of income taxes on a separate return basis (Separate Member Tax), such member or members shall pay to OneBeacon U.S. Financial Services, Inc., and amount equal to such Separate Member Taxes is in excess of the tax payment then due from the affiliated group of the U.S. Treasury;

(ii) one or more members would be entitled to a refund on a separate return basis (Separate Member Refund), such member or members shall receive from OneBeacon U.S. Financial Services, Inc., in the full amount equal to the Separate Member Refund.

G. Tax Contingencies

Not applicable.

10. Information Concerning Parent, Subsidiaries and Affiliates

A. Nature of Relationships

The Company is a wholly-owned subsidiary of OneBeacon Insurance Group LLC (OBLLC), an insurance holding company domiciled in the State of Delaware. OBLLC is an indirect wholly-owned subsidiary of OneBeacon Insurance Group, Ltd. (OB), a publicly traded insurance holding company domiciled in Bermuda.

At December 31, 2013, White Mountains Insurance Group, Ltd., also an insurance holding company domiciled in Bermuda, was the ultimate controlling person of OBLLC, and indirectly owned 75.2% of the outstanding shares of OB.

The Company owns 100% of the outstanding common stock of the following property and casualty insurance companies:

OneBeacon America Insurance Company (OBAI) – domiciled in Massachusetts
The Employers' Fire Insurance Company (EFIC) – domiciled in Massachusetts
Atlantic Specialty Insurance Company (ASIC) – domiciled in New York

NOTES TO FINANCIAL STATEMENTS

The Company owns 100% of the outstanding common stock of the following non-insurance company:

OneBeacon Risk Management, Inc. (OBRM) – incorporated in Delaware

B. Detail of Transactions Greater than ½% of Admitted Assets

On March 27, 2013, the Company sold $25,000,000 par value of 4.6% senior secure notes of OneBeacon U.S. Holdings to OneBeacon Select Insurance Company, a wholly-owned subsidiary of Homeland Insurance Company of New York (HONY), then a wholly-owned subsidiary of the Company, with the approval of the Pennsylvania Insurance Department.

On June 30, 2013, the Company sold 100% of the issued and outstanding shares of the common stock of Homeland Insurance Company of New York (HONY), a wholly-owned subsidiary, to ASIC. The purchase price was equal to HONY's June 30, 2013, statutory capital and surplus of $108,072,322.

On September 26, 2013, the Company sold 37,147 shares of ASIC's common stock back to ASIC for $190,001,333.

On September 26, 2013, the Company paid an ordinary dividend of $190,000,000 to OBLLC.

On December 27, 2013, OBLLC contributed $35,000,000 in cash and securities to the Company.

C. Change in Terms of Intercompany Arrangements

The Investment Management Agreement between White Mountain Advisors, LLC, OneBeacon Insurance Group, Ltd and all of its insurance company affiliates was amended (i) effective January 1, 2013, to remove Essentia Insurance Company as a party to the agreement; (ii) effective March 1, 2013, to add Houston General Insurance Company as a party to the Agreement; (iii) effective August 1, 2013, to add Split Rock Insurance, Ltd. to the Agreement and remove Traders & General Insurance Company, Houston General Insurance Company, Camden Fire Association, Northern Assurance Company of America, and OneBeacon Midwest Insurance Company as parties to the Agreement.

The Tax Allocation Agreement between OneBeacon U.S. Financial Services, Inc. and its subsidiaries dated as of December 31, 2011, was (i) amended on July 30, 2013, to add OBI America Insurance Company as a party and (ii) further amended on August 1, 2013, to remove Traders & General Insurance Company, Houston General Insurance Company, Camden Fire Association, Northern Assurance Company of America, and OneBeacon Midwest Insurance Company as parties to the Agreement.

D. Amounts Due to or from Related Parties

At December 31, 2013, and 2012, the Company had $0 and $20,910,097, respectively, due from related parties. The 2013 balance is net of $563,758 of intercompany receivables which were non-admitted in compliance with the guidelines contained in SSAP No. 25 – Accounting for Disclosures about Transactions with Affiliates and Other Related Parties. The Company also had $1,293,066 and $132,533,233 due to related parties at December 31, 2013, and 2012, respectively.

. Intercompany receivables and payables are settled quarterly.

E. Guarantees or Contingencies for Related Parties

Not applicable.

F. Management, Service Contracts or Cost Sharing Arrangements

The Company has an investment management agreement with White Mountains Advisors, LLC (the Advisor), an affiliated company. Under this agreement, the Advisor provides investment management services, including the investment and reinvestment of the Company's investment assets. The fee for these services is paid on a quarterly basis at rates applied to its investment portfolio.

The Company has an Administrative Services Agreement with OB Services which provides administrative and management support services to the Company. As part of the inception of the new intercompany reinsurance agreements and in anticipation of closing on the Runoff Transaction described in Note 10.G below, the Company also utilized the OB Services agreement as a means to settle cash balances that were otherwise due under the new intercompany reinsurance agreements and implemented as part of internal restructuring activities in anticipation of the Runoff Transaction described in Note 10.G below.

The Company has an intercompany reinsurance agreement with ASIC under the terms of which the Company cedes 100% of its Specialty Lines business.

NOTES TO FINANCIAL STATEMENTS

The Company has an intercompany reinsurance agreement with ASIC under the terms of which it assumes 100% of ASIC's Run-off Business.

The Company has intercompany reinsurance agreements with EFIC, OBAI, and Potomac Insurance Company (PICO) under the terms of which the Company pays, or provides services for, all of the non-investment expenses, both underwriting and non-underwriting, for the three companies for no fee or cost as long as the reinsurance agreement is in effect.

The Company has a federal tax allocation agreement that covers the allocation, settlement and financial statement presentation of current federal taxes as disclosed in Note 9.F.

G. Nature of Relationships that Could Affect Operations

The Company is a member of the OneBeacon Insurance Group (the Group), which consists of nine affiliated property and casualty insurance companies operating under common management and control. Operating decisions made and strategies implemented at the Group level could affect the operations of the entire Group or an individual company within the Group.

On October 17, 2012, OBLLC entered into a definitive agreement (the Stock Purchase Agreement) with Trebuchet US Holdings, Inc. (Trebuchet), a wholly owned subsidiary of Armour Group Holdings Limited (Armour), to sell its runoff business (the Runoff Transaction). Runoff business includes non-specialty commercial lines and certain other runoff business including asbestos and environmental reserves. Pursuant to the terms of the Stock Purchase Agreement, at closing OBLLC will transfer to Trebuchet all of the issued and outstanding shares of common stock of certain legal entities that will contain the assets, liabilities (including gross and ceded loss reserves) and capital supporting the runoff business as well as certain elements of the runoff business infrastructure, including staff and office space. The Runoff Transaction is expected to close in mid-2014, subject to regulatory approvals.

H. Amount deducted for Investments in Upstream Companies

Not applicable.

I. Investments in Subsidiary, Controlled or Affiliated Entities Greater than 10% of Admitted Assets

The Company's investments in its insurance subsidiaries are reflected in Schedule D, Part 2, Section 2 and are valued at the underlying statutory equity as reported in their annual statements, adjusted to eliminate realized gains, net of tax, recognized by the subsidiary on securities transferred between the subsidiary and the Company.

The differences between the amounts at which the investments in subsidiaries are carried and the underlying equity in their net assets are due to the amounts of intercompany gains, net of tax. The amount by which the carrying value of the subsidiaries was reduced at December 31, 2013, was: OBAI - $74,857, ASIC - $17,135,300. The carrying value of EFIC was reported at statutory surplus with no adjustments required, and OBRM was reported at equity with no statutory adjustments required.

The subsidiaries are not publicly traded.

The assets, liabilities and net income of the Company's subsidiaries as of and for the year ended December 31, 2013, were $2,371,520,306, $1,597,817,871, and $117,305,132, respectively.

J. Write-down for Impairment of Investments in Subsidiary, Controlled or Affiliated Entities

Not applicable.

K. Investments in Foreign SCA's

Not applicable.

L. Investments in Downstream Non-insurance Holding Companies

Not applicable.

11. Debt

Not applicable.

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

The Company does not participate in retirement plans, or offer a deferred compensation plan, postemployment benefits or postretirement benefits.

NOTES TO FINANCIAL STATEMENTS

13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

A. Capital Stock, Authorized, Issued and Outstanding

The Company has 600,000 shares of common stock with a par value of $10.50 authorized, of which 400,000 were issued and outstanding at December 31, 2013. Of the outstanding shares, 159,307 shares with a par value of $1,672,724 are held by the Company as treasury stock.

B. Dividend Rate of Preferred Stock

Not applicable.

C. Dividend Restrictions

Pursuant to Pennsylvania statute, the maximum dividend and other distributions that an insurer may pay out of its earned surplus in any twelve month period, without prior approval of the Commissioner of the Pennsylvania Insurance Department, is limited to the lesser of 10% of a company's prior year end surplus as regards policyholders or adjusted net investment income as prescribed by statute. Per statute, the maximum amount of dividends the Company may pay to its shareholder without the approval of the Commissioner of the Pennsylvania Insurance Department in 2014 is $86,618,868 which represents 10% of surplus as of December 31, 2013.

D. Dividends Paid

During 2013, the Company paid ordinary dividends of $190,000,000.

E. Restrictions to Profits

Within the limitations of (C.) above, there were no restrictions placed on the portion of Company profits that may be paid as ordinary dividends to stockholders.

F. Restrictions to Unassigned Funds (Surplus)

Not applicable.

G. Surplus Advances of Mutual Reciprocals and Similarly organized entities.

Not applicable.

H. Company Stock Held for Special Purposes

Not applicable.

I. Changes in Special Surplus Funds

Not applicable.

J. Changes in Unassigned Funds

The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains or (losses) is $310,790,135.

K. Surplus Notes

Not applicable.

L. & M. Quasi-Reorganizations

Not applicable.

14. Contingencies

A. Contingent Commitments

Not applicable.

NOTES TO FINANCIAL STATEMENTS

B. Guaranty Fund and Other Assessments

Under existing guaranty fund laws in all states, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. The Company records guaranty fund assessments when such assessments are billed by the respective guaranty funds. In addition, each insurance subsidiary's policy is to accrue for any significant insolvencies when all of the following occur: (1) when an assessment is imposed or it is probable that an assessment will be imposed, (2) when the event obligating an entity to pay an assessment occurs and (3) when the amount of the assessment can be reasonably estimated. The actual amount of such assessments will depend upon the final outcome of rehabilitation proceedings and will be paid over several years. At December 31, 2013, the Company did not have reserves for such assessments attributable to its run-off book of business.

C. Gain Contingencies

Not applicable.

D. Extra Contractual Obligations and Bad Faith Losses

During 2013, the Company made payments in the amount of $914,846 on claims-related extra contractual obligations and bad faith losses stemming from lawsuits. The number of claims was between 1 - 25 and claim count data is disclosed per claimant.

E. Product Warranties

Not applicable.

F. Other Contingencies

Various claims may have been made against the Company in the normal course of its business. Except as noted below, the Company was not a party to any material litigation or arbitration other than routinely encountered in claims activity.

In June 2011, Deutsche Bank Trust Company Americas, Law Debenture Company of New York and Wilmington Trust Company (collectively referred to as "Plaintiffs"), in their capacity as trustees for certain senior notes issued by the Tribune Company ("Tribune"), filed lawsuits in various jurisdictions (the "Noteholder Actions") against numerous defendants including the Company and certain of its affiliates in their capacity as former shareholders of Tribune seeking recovery of the proceeds from the sale of common stock of Tribune in connection with Tribune's leveraged buyout in 2007 (the "LBO"). Tribune filed for bankruptcy in 2008 in the Delaware bankruptcy court (the "Bankruptcy Court"). The Bankruptcy Court granted Plaintiffs permission to commence these LBO-related actions. Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on the basis that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. The Company and certain of its affiliates entered into a joint defense agreement with other affiliates of White Mountains that are defendants in the action. The Company received approximately $0.5 million for Tribune common stock it tendered in connection with the LBO.

The Court granted an omnibus motion to dismiss the Noteholder Actions in September 2013 and Plaintiffs have filed a notice to appeal.

In addition, the Company and certain of its affiliates, in their capacity as former shareholders of Tribune, along with thousands of former Tribune shareholders, have been named as defendants in an adversary proceeding brought by the Official Committee of Unsecured Creditors of the Tribune Company, on behalf of the Tribune Company, which seeks to avoid the repurchase of shares by Tribune in the LBO on a theory of intentional fraudulent transfer (the "Committee Action"). Tribune emerged from bankruptcy in 2012, and a litigation trustee replaced the Committee as plaintiff in the Committee Action. The Committee Action is proceeding, pending lifting of the stay and entry of a further scheduling order

Although the ultimate outcome of claims and non-claims litigation and arbitration, and the amount or range of potential loss at any particular time, is often inherently uncertain, management does not believe that the expected ultimate outcome of such claims and non-claims litigation and arbitration, including the matter described above, will have a material adverse effect on the Company's financial condition and/or cash flows.

15. Leases

A. Lessee Leasing Arrangements

1. The Company leases office facilities under various operating leases that expire through April 2019. Rental expenses for 2013 and 2012 were approximately $1.5 million and $12.5, respectively.

NOTES TO FINANCIAL STATEMENTS

2. Future minimum rental payments are as follows:

Year	Amount
2014	$ 1,508,976
2015	1,291,166
2016	1,289,720
2017	1,103,018
2017 and later	2,786,682
Total	$ 7,979,562

3. The Company has not entered into any sale and leaseback arrangements.

B. Lessor Leasing Arrangements

Not applicable.

16. Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentration of Credit Risk

Not applicable.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities

A. Transfers of Receivables Reported as Sales

None.

B. Transfer and Servicing of Financial Assets

None.

C. Wash Sales

The Company's investment strategy does not include wash sales. There were no wash sale transactions with an NAIC designation of 3 or below in the current year.

18. Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

Not applicable.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

Not applicable.

20. Fair Value Measurement

A. Inputs Used for Assets and Liabilities Measured and Reported at Fair Value

Not applicable.

B. Other Fair Value Disclosures

Not applicable.

C. Fair Values for All Financial Instruments by Levels 1, 2 and 3

Type of Financial Asset	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds	231,232,603	231,089,062	77,464,659	153,767,944		
Preferred Stock						
Unaffiliated Common Stock						
Cash, cash equivalents and short-term investments	17,514,662	17,514,662	17,514,662			
Other Invested assets						
Total assets	248,747,265	248,603,724	94,979,321	153,767,944		

D. Financial Instruments for which Not Practicable to Estimate Fair Value

Not applicable.

NOTES TO FINANCIAL STATEMENTS

21. Other Items

A. Extraordinary Items

None.

B. Troubled Debt Restructuring

Not applicable.

C. Other Disclosures

Not applicable.

D. Business Interruption Insurance Recoveries

Not applicable.

E. State Transferable Tax Credits

Not applicable.

F. Sub-prime Mortgage Related Risk Exposure

At December 31, 2013, the Company did not hold any mortgage-backed securities categorized as sub-prime. The Company considers sub-prime mortgage-backed securities to be those that are issued from dedicated sub-prime shelves, dedicated second-lien shelves or otherwise have underlying loan pools that exhibit weak credit characteristics. The Company considers investments backed primarily by second-liens to be sub-prime risks regardless of credit score or other metrics.

22. Events Subsequent

The Company has not experienced any Type I or Type II subsequent events requiring adjustment or disclosure.

Subsequent events have been considered through February 21, 2014, for the statutory statement filed on March 1, 2013.

23. Reinsurance

A. Unsecured Reinsurance Recoverables

The Company had unsecured aggregate recoverables from entities for losses, paid and unpaid including IBNR, LAE and unearned premium in excess of 3% of policyholders' surplus as follows:

Affiliated entities:

Reinsurer	F.E.I.N.	Amount
Atlantic Specialty Insurance Company	13-3362309	$ 373,261,000

Unaffiliated entities:

Reinsurer	F.E.I.N.	Amount
National Indemnity Company	47-0355979	$ 416,151,000
Hanover Insurance Company	13-5129825	43,869,000
Tokio Marine & Fire	13-6108722	25,834,000

B. Reinsurance Recoverables in Dispute

At December 31, 2013, the Company had no material reinsurance recoverables on paid and unpaid losses in dispute from any company which exceeded 5% of the Company's policyholders' surplus. The aggregate of the Company's disputed items did not exceed 10% of policyholders' surplus.

NOTES TO FINANCIAL STATEMENTS

C. Reinsurance Assumed and Ceded

1. The following table reflects the ceded and assumed unearned premiums and the related commission equity at December 31, 2013:

	Assumed Reinsurance		Ceded Reinsurance		Net	
	(1) Premium Reserve	(2) Commission Equity	(3) Premium Reserve	(4) Commission Equity	(5) Premium Reserve	(6) Commission Equity
Affiliates	$ 1,533,859	$ 191,126	$ 3,643,889	$ 458,757	$ (2,110,030)	$ (267,631)
All Other	67,956	8,468	26,597	3,348	41,359	5,120
Total	$ 1,601,815	$ 199,594	$ 3,670,486	$ 462,105	$ (2,068,671)	$ (262,511)

Direct Unearned Premium Reserve $ 2,214,932

2. The Company did not accrue additional or return commissions, predicated on loss experience or any other form of profit sharing arrangement.

3. The Company has no risks or exposures attributed to protected cells.

D. Uncollectible Reinsurance

Not applicable.

E. Commutation of Ceded Reinsurance

Not applicable.

F. Retroactive Reinsurance

Not applicable.

G. Reinsurance Accounted for as a Deposit

Not applicable.

H. Run-off Agreements

Not applicable.

I. Certified Reinsurer Downgraded or Status Subject to Revocation

Not applicable.

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

Not applicable.

25. Change in Incurred Losses and Loss Adjustment Expenses

At December 31, 2013, net reserves for losses and LAE were $188.4 million, of which reserves for incurred losses and LAE attributable to insured events of prior years were $188.0 million.

During 2013, the Company experienced $49.2 million of unfavorable loss and LAE reserve development on prior accident year loss reserves. This was a result of a comprehensive actuarial study during the fourth quarter of 2013. The increase in loss reserves was concentrated in workers' compensation, personal automobile liability, and excess liability lines of business.

Workers' compensation loss reserves increased $18.9 million due to changes in the evaluation of various estimated settlement rates, mortality, and medical inflation assumptions. Personal automobile liability reserves increased $16.7 million based on a ground-up analysis of unlimited medical automobile no-fault claims from the 1970s and 1980s, which produced a range of estimates at varying medical inflation rates. Other liability loss reserves increased $5.8 million due primarily to adverse development on a few large excess liability claims from 2008 and 2009.

Unpaid loss and LAE are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain.

NOTES TO FINANCIAL STATEMENTS

26. Intercompany Pooling Arrangements

The Company is a party in reinsurance agreements pursuant to the terms of which it assumes 100% of the direct business of OBAI and EFIC and reinsurance agreements under the terms of which the Company cedes Specialty lines business to ASIC and assumes runoff business from ASIC.

27. Structured Settlements

The net amount of loss reserves no longer carried by the Company due to the purchase of annuities from life insurers, where the claimant is payee, and the Company is contingently liable, is as follows:

Loss Reserves Eliminated by Annuities			2013
Aviva Life Insurance Company	108 Myrtle Street	N. Quincy, MA 02171	$ 165,426,766
Genworth Financial	6620 W Broad Street	Richmond, VA 23230	15,691,367
All other life insurers whose individual amounts do not exceed 1% of the Pool's policyholders' surplus			29,526,451
Total for all life insurers			$ 210,644,584

28. Health Care Receivables

Not applicable.

29. Participating Policies

Not applicable.

30. Premium Deficiency Reserves

The Company had no net liability for premium deficiency reserves at December 31, 2013, the date of the most recent evaluation of this liability. The Company uses anticipated investment income in its premium deficiency calculation.

31. High Deductibles

At December 31, 2013, the amount of net reserve credit for high deductibles on unpaid claims was $363,646 and the amount billed on unpaid claims was $116,870.

32. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

The indemnity loss reserves for certain workers' compensation long-term disability and death pension claims are discounted in accordance with state regulations and the rules prescribed by various state reporting bureaus. The rate of interest used for discounting varied by state jurisdiction, ranging from 3% to 3.5%, with the majority of claims at 3.5 %. The Company does not discount unpaid LAE.

At December 31, 2013, tabular discounted liabilities were $131.7 million. There were no non-tabular discounted liabilities.

The amount of discount for tabular reserves by category at December 31, 2013, was as follows:

Tabular Discount (in thousands)		
Sched P Line of Business	**Case**	**IBNR**
Workers' Compensation (excluding Medical Reserves)	$ 47,035	$ 14,629

33. Asbestos/Environmental Reserves

Reserves of the Group include provisions made for claims that assert damages from asbestos and environmental (A&E) related exposures. Asbestos claims relate primarily to injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs obligations, particularly as mandated by Federal and state environmental protection agencies. In addition to the factors described above regarding the reserving process, the Group estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

Reserves for A&E exposures and certain other coverages are covered by a $2.5 billion reinsurance cover purchased through an affiliated company, PICO, by the Group on June 1, 2001, from National Indemnity Company (the NICO Cover).

NOTES TO FINANCIAL STATEMENTS

During 2011, the Group completed a new study of its legacy A&E exposures. Reasonable estimates of potential adverse scenarios continue to be within the $2.5 billion NICO Cover. Based on the results of the study, the Group increased the point estimate of incurred losses ceded to NICO from $2.2 billion to $2.3 billion, an increase of $121.9 million, net of underlying reinsurance. Due to the NICO Cover, there was no impact to income or surplus from the change in estimate. The Company continues to rely primarily on the internal study of legacy A&E exposures completed in 2011 and on subsequent monitoring of quarterly A&E activity, including a comparison of that activity against what was assumed in the most recent study. Through December 31, 2013, the activity has been in line with expectations so the estimate of ultimate payments has not been revised.

At December 31, 2013, the Group estimates that on an incurred basis it has used approximately $2.3 billion to the NICO Cover. Since entering into the NICO Cover, approximately 10% of the $2.3 billion of utilized coverage relates to uncollectible amounts, third party recoverables and settlements on third party recoverables through December 31, 2013. Net losses paid totaled approximately $1.5 billion as of December 31, 2013. Asbestos payments during 2013 reflect payments resulting from intensified efforts by claimants to resolve asbestos claims prior to enactment of potential federal asbestos legislation. To the extent that actual experience differs from the Group's estimate of ultimate A&E losses and third party recoverables, future losses could exceed the $198.3 million of protection remaining under the NICO Cover at December 31, 2013.

Asbestos Losses

The Group has exposure to asbestos losses arising predominantly from commercial liability policies written prior to 1992. The Group estimates the full impact of the asbestos exposure by establishing full case basis reserves on all known losses and computing incurred but not reported losses based on information currently available and on previous experience.

The following exhibit sets forth the Company's estimate of ultimate asbestos reserves on a direct, assumed reinsurance and net of ceded reinsurance basis:

	2009	2010	2011	2012	2013
Direct Basis:					
Beginning Reserves	$ 952,753,616	$ 839,664,375	$ 769,001,296	$ 931,174,309	$ 799,590,636
Incurred Loss & LAE	(9,980,968)	169,216	237,582,874	(1,047,175)	(175,676)
Paid Loss & LAE	103,108,273	70,832,295	75,409,861	130,536,498	61,739,575
Ending Reserves	$ 839,664,375	$ 769,001,296	$ 931,174,309	$ 799,590,636	$ 737,675,385
Assumed Reinsurance Basis:					
Beginning Reserves	$ 145,709,411	$ 145,921,943	$ 134,987,422	$ 143,131,508	$ 129,866,861
Incurred Loss & LAE	10,959,053	(116,586)	19,256,291	778,292	175,676
Paid Loss & LAE	10,746,521	10,817,935	11,112,205	14,042,939	22,594,529
Ending Reserves	$ 145,921,943	$ 134,987,422	$ 143,131,508	$ 129,866,861	$ 107,448,008
Net of Ceded Reinsurance Basis:					
Beginning Reserves	$ 6,498,824	$ 6,507,369	$ 6,409,254	$ 2,214,513	$ 2,440,034
Incurred Loss & LAE	-	20	(4,000,000)	(499,990)	-
Paid Loss & LAE	(8,545)	98,135	194,741	(725,511)	503,631
Ending Reserves	$ 6,507,369	$ 6,409,254	$ 2,214,513	$ 2,440,034	$ 1,936,403

The amount of the ending reserves for Bulk and IBNR included above was:

Direct basis:	$ 574,539,213
Assumed Reinsurance Basis:	115,171,015
Net of Ceded Reinsurance Basis:	450,044

The amount of the ending reserves for LAE (Case, Bulk & IBNR) included above was:

Direct basis:	$ 234,809,976
Assumed Reinsurance Basis:	137,435
Net of Ceded Reinsurance Basis:	697,260

NOTES TO FINANCIAL STATEMENTS

Environmental Losses

The Group has exposure to environmental pollution losses arising predominately from commercial liability policies written prior to 1987, related primarily to pollution and clean-up costs obligations, particularly as mandated by federal and state environmental protection agencies. The Group estimates the full impact of the environmental exposure by establishing full case basis reserves on all known losses and computing incurred but not reported losses based on information currently available and on previous experience.

The following exhibit sets forth the Company's estimate of ultimate environmental asbestos reserves on a direct, assumed reinsurance and net of ceded reinsurance basis:

	2009	2010	2011	2012	2013
Direct Basis:					
Beginning Reserves	$ 403,013,178	$ 285,207,143	$ 55,716,582	$ 257,646,725	$ 214,843,091
Incurred Loss & LAE	4,840,899	6,274,570	269,874,117	(656,627)	(145,000)
Paid Loss & LAE	122,646,934	235,765,131	67,943,974	42,147,007	61,318,880
Ending Reserves	$ 285,207,143	$ 55,716,582	$ 257,646,725	$ 214,843,091	$ 153,379,211
Assumed Reinsurance Basis:					
Beginning Reserves	$ 67,269,959	$ 65,501,928	$ 63,329,195	$ 22,197,211	$ 18,108,431
Incurred Loss & LAE	116,147	(59,257)	(38,046,609)	(289,147)	145,000
Paid Loss & LAE	1,884,178	2,113,476	3,085,375	3,799,633	2,998,323
Ending Reserves	$ 65,501,928	$ 63,329,195	$ 22,197,211	$ 18,108,431	$ 15,255,108
Net of Ceded Reinsurance Basis:					
Beginning Reserves	$ 5,529,030	$ 7,619,774	$ 9,237,388	$ 9,022,783	$ 6,355,288
Incurred Loss & LAE	5,000,000	5,969,776	10,035,001	(500,000)	-
Paid Loss & LAE	2,909,256	4,352,162	10,249,606	2,167,495	2,598,243
Ending Reserves	$ 7,619,774	$ 9,237,388	$ 9,022,783	$ 6,355,288	$ 3,757,045

The amount of the ending reserves for Bulk and IBNR included above was:

Direct basis:	$ 79,725,700
Assumed Reinsurance Basis:	15,412,115
Net of Ceded Reinsurance Basis:	30,281

The amount of the ending reserves for LAE (Case, Bulk & IBNR) included above was:

Direct basis:	$ 75,109,807
Assumed Reinsurance Basis:	87,089
Net of Ceded Reinsurance Basis:	2,063,352

The Group's reserves for A&E losses at December 31, 2013, represent management's best estimate of its ultimate liability based on information currently available. However, significant uncertainties, including but not limited to case law developments, medical and clean-up cost increases and industry settlement practices, limit the Group's management's ability to accurately estimate ultimate liability and the Group may be subject to A&E losses beyond currently estimated amounts. In addition, the Group remains liable for risks reinsured in the event that a reinsurer does not honor its obligations under reinsurance contracts. The Group cannot reasonably estimate at the present time loss reserve additions arising from any such future adverse loss reserve developments and cannot be sure that allocated loss reserves, plus the remaining capacity under the NICO Cover and other reinsurance contracts, will be sufficient to cover additional liability arising from any such adverse loss reserve developments.

34. Subscriber Savings Accounts

Not applicable.

35. Multiple Peril Crop Insurance

Not applicable.

36. Financial Guaranty Insurance

Not applicable.

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

GENERAL

1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [X] No [ ]

If yes, complete Schedule Y, Parts 1, 1A and 2.

1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [X] No [ ] N/A [ ]

1.3 State Regulating? Pennsylvania

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [X]

2.2 If yes, date of change:

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2011

3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2011

3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 06/17/2013

3.4 By what department or departments?
Pennsylvania Insurance Department

3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments? Yes [X] No [ ] N/A [ ]

3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [X] No [ ] N/A [ ]

4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business? Yes [ ] No [X]
4.12 renewals? Yes [ ] No [X]

4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business? Yes [ ] No [X]
4.22 renewals? Yes [ ] No [X]

5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [X] No [ ]

5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile
The Camden FIre Insurance Association	21946	NJ
Houston General Insurance Company	38849	TX
Traders & General Insurance Company	38857	TX

6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [ ] No [X]

GENERAL INTERROGATORIES

6.2 If yes, give full information:

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [X] No [ ]

7.2 If yes,

7.21 State the percentage of foreign control. 100.00 %

7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity
Bermuda	Corporation

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [X]

8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e., the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 FDIC	6 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
PricewaterhouseCoopers, LLP
125 High Street, Boston, MA 02110

10.1 Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation? Yes [ ] No [X]

10.2 If response to 10.1 is yes, provide information related to this exemption:

10.3 Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation? Yes [ ] No [X]

10.4 If response to 10.3 is yes, provide information related to this exemption:

GENERAL INTERROGATORIES

10.5 Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws? Yes [X] No [ ] N/A [ ]

10.6 If the response to 10.5 is no or n/a, please explain:

11. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Brian D. Poole, FCAS, MAAA; Officer of the Reporting Entity
OneBeacon Insurance Group
601 Carlson Parkway, Suite 600, Minnetonka, MN 55305

12.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [X]

12.11 Name of real estate holding company _____

12.12 Number of parcels involved _____

12.13 Total book/adjusted carrying value $ _____

12.2 If yes, provide explanation:

13. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

13.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

13.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [ ]

13.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [ ]

13.4 If answer to (13.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [ ]

14.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
c. Compliance with applicable governmental laws, rules, and regulations;
d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
e. Accountability for adherence to the code. Yes [X] No [ ]

14.11 If the response to 14.1 is no, please explain:

14.2 Has the code of ethics for senior managers been amended? Yes [ ] No [X]

14.21 If the response to 14.2 is yes, provide information related to amendment(s).

GENERAL INTERROGATORIES

14.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [ ] No [X]

14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).

15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance where the issuing or confirming bank is not on the SVO Bank List? Yes [ ] No [X]

15.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

1 American Bankers Association (ABA) Routing Number	2 Issuing or Confirming Bank Name	3 Circumstances That Can Trigger the Letter of Credit	4 Amount

BOARD OF DIRECTORS

16. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate thereof? Yes [X] No [ ]

17. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]

18. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No [ ]

FINANCIAL

19. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes [ ] No [X]

20.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

20.11 To directors or other officers $ _____

20.12 To stockholders not officers $ _____

20.13 Trustees, supreme or grand (Fraternal only) $ _____

20.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

20.21 To directors or other officers $ _____

20.22 To stockholders not officers $ _____

20.23 Trustees, supreme or grand (Fraternal only) $ _____

21.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [ ] No [X]

21.2 If yes, state the amount thereof at December 31 of the current year:

21.21 Rented from others $ _____

21.22 Borrowed from others $ _____

21.23 Leased from others $ _____

21.24 Other $ _____

22.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [ ] No [X]

22.2 If answer is yes:

22.21 Amount paid as losses or risk adjustment $ _____

22.22 Amount paid as expenses $ _____

22.23 Other amounts paid $ _____

GENERAL INTERROGATORIES

23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No [ ]

23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $

INVESTMENT

24.01 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 24.03) Yes [X] No [ ]

24.02 If no, give full and complete information, relating thereto:

24.03 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided):
The Company does not participate in a securities lending program

24.04 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [ ] No [ ] N/A [X]

24.05 If answer to 24.04 is yes, report amount of collateral for conforming programs. $

24.06 If answer to 24.04 is no, report amount of collateral for other programs. $

24.07 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes [ ] No [ ] N/A [X]

24.08 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes [ ] No [ ] N/A [X]

24.09 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes [ ] No [ ] N/A [X]

24.10 For the reporting entity's security lending program, state the amount of the following as of December 31 of the current year:

24.101 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 $

24.102 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 $

24.103 Total payable for securities lending reported on the liability page $

25.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 24.03). Yes [X] No [ ]

25.2 If yes, state the amount thereof at December 31 of the current year:

25.21	Subject to repurchase agreements	$
25.22	Subject to reverse repurchase agreements	$
25.23	Subject to dollar repurchase agreements	$
25.24	Subject to reverse dollar repurchase agreements	$
25.25	Pledged as collateral	$
25.26	Placed under option agreements	$
25.27	Letter stock or securities restricted as to sale	$
25.28	On deposit with state or other regulatory body	$ 68,907,599
25.29	Other	$

25.3 For category (25.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

GENERAL INTERROGATORIES

26.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]

26.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] N/A [X]
If no, attach a description with this statement.

27.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [ ] No [X]

27.2 If yes, state the amount thereof at December 31 of the current year. $ _____

28. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No [ ]

28.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
Bank of New York Mellon	One Mellon Bank Center, Pittsburgh, PA 15258
Wells Fargo Corporate Trust Services	150 East 42nd St, 40th Floor, New York, NY 10017

28.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

28.03 Have there been any changes, including name changes, in the custodian(s) identified in 28.01 during the current year? Yes [ ] No [X]

28.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

28.05 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
104891	White Mountains Advisors LLC	200 Hubbard Road, Guilford, CT 06437

29.1 Does the reporting entity have any diversified mutual funds reported in Schedule D – Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes [ ] No [X]

29.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
29.2999 TOTAL		

GENERAL INTERROGATORIES

29.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation

30. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
30.1 Bonds	236,897,408	237,040,952	143,544
30.2 Preferred stocks			
30.3 Totals	236,897,408	237,040,952	143,544

30.4 Describe the sources or methods utilized in determining the fair values:
Refer to Note 1C of Notes to Financial Statements

31.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes [X] No [ ]

31.2 If the answer to 31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [X] No [ ]

31.3 If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:

32.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes [X] No [ ]

32.2 If no, list exceptions:

OTHER

33.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? $ 1,374,133

33.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Insurance Services Office, Inc	$ 409,279
	$
	$

34.1 Amount of payments for legal expenses, if any? $ 79,010

GENERAL INTERROGATORIES

34.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Mitchell Williams Selig Gates & Woodyard	$ 40,136
Stroock & Stroock & Lavin, LLP	$ 35,487
	$

35.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? $ _____

35.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
	$
	$
	$

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [ ] No [X]

1.2 If yes, indicate premium earned on U.S. business only. $ _____

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? $ _____

1.31 Reason for excluding

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. $ _____

1.5 Indicate total incurred claims on all Medicare Supplement insurance. $ _____

1.6 Individual policies:

Most current three years:

1.61 Total premium earned $ _____

1.62 Total incurred claims $ _____

1.63 Number of covered lives _____

All years prior to most current three years:

1.64 Total premium earned $ _____

1.65 Total incurred claims $ _____

1.66 Number of covered lives _____

1.7 Group policies:

Most current three years:

1.71 Total premium earned $ _____

1.72 Total incurred claims $ _____

1.73 Number of covered lives _____

All years prior to most current three years:

1.74 Total premium earned $ _____

1.75 Total incurred claims $ _____

1.76 Number of covered lives _____

2. Health Test:

		1 Current Year	2 Prior Year
2.1	Premium Numerator	$ _____	$ _____
2.2	Premium Denominator	$ _____	$ _____
2.3	Premium Ratio (2.1/2.2)	_____	_____
2.4	Reserve Numerator	$ _____	$ _____
2.5	Reserve Denominator	$ _____	$ _____
2.6	Reserve Ratio (2.4/2.5)	_____	_____

3.1 Does the reporting entity issue both participating and non-participating policies? Yes [ ] No [X]

3.2 If yes, state the amount of calendar year premiums written on:

3.21 Participating policies $ _____

3.22 Non-participating policies $ _____

4. For Mutual reporting entities and Reciprocal Exchanges only:

4.1 Does the reporting entity issue assessable policies? Yes [ ] No [ ]

4.2 Does the reporting entity issue non-assessable policies? Yes [ ] No [ ]

4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders? _____ %

4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums. $ _____

5. For Reciprocal Exchanges Only:

5.1 Does the exchange appoint local agents? Yes [ ] No [ ]

5.2 If yes, is the commission paid:

5.21 Out of Attorney's-in-fact compensation Yes [ ] No [ ] N/A [X]

5.22 As a direct expense of the exchange Yes [ ] No [ ] N/A [X]

5.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact?

5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred? Yes [ ] No [X]

5.5 If yes, give full information

6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit loss:
The Company has purchased Casualty Clash/Catastrophe reinsurance that provides coverage of $60,000,000 in excess of $1,000,000 in any one casualty catastrophe including Workers' Compensation.

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process:
The Company's predominant catastrophe exposure is from windstorms in the United States. Insured exposures include various specialty commercial lines of business. The Company uses models (primarily AIR Worldwide) to estimate the probability of the occurrence of catastrophic events as well as potential losses under various scenarios in conjunction with other data to manage its exposure to catastrophes.

6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?
The Company has purchased Property Catastrophe reinsurance that provides coverave of $130,000,000 in excess of a $20,000,000 retention.

6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? Yes [X] No [ ]

6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to unreinsured catastrophic loss

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes [ ] No [X]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions. _____

7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes [ ] No [ ]

8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? Yes [ ] No [X]

8.2 If yes, give full information

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
(c) Aggregate stop loss reinsurance coverage;
(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes [ ] No [X]

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:
(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract. Yes [ ] No [X]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
(a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
(c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes [ ] No [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.

9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:
(a) The entity does not utilize reinsurance; or, Yes [ ] No [X]
(b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or Yes [ ] No [X]
(c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement. Yes [ ] No [X]

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? Yes [X] No [ ] N/A [ ]

11.1 Has the reporting entity guaranteed policies issued by any other entity and now in force: Yes [ ] No [X]

11.2 If yes, give full information

12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 15.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:

12.11 Unpaid losses $ _____

12.12 Unpaid underwriting expenses (including loss adjustment expenses) $ _____

12.2 Of the amount on Line 15.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? $ _____

12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? Yes [ ] No [ ] N/A [X]

12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:

12.41 From _____ %

12.42 To _____ %

12.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium notes or promissory notes taken by a reporting entity or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? Yes [ ] No [X]

12.6 If yes, state the amount thereof at December 31 of current year:

12.61 Letters of Credit $ _____

12.62 Collateral and other funds $ _____

13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): $ 10,000,000

13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? Yes [ ] No [X]

13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. 7

14.1 Is the company a cedant in a multiple cedant reinsurance contract? Yes [X] No [ ]

14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants:
The Company is the lead company in the OneBeacon Reinsurance Agreement with serveral of its affiliates. Reinsurance costs and recoverables are allocated among the participants on a proportional basis in accordance with each company's participation.

14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? Yes [ ] No [X]

14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? Yes [X] No [ ]

14.5 If the answer to 14.4 is no, please explain:

15.1 Has the reporting entity guaranteed any financed premium accounts? Yes [ ] No [X]

15.2 If yes, give full information

16.1 Does the reporting entity write any warranty business? Yes [ ] No [X]
If yes, disclose the following information for each of the following types of warranty coverage:

		1 Direct Losses Incurred	2 Direct Losses Unpaid	3 Direct Written Premium	4 Direct Premium Unearned	5 Direct Premium Earned
16.11	Home	$	$	$	$	$
16.12	Products	$	$	$	$	$
16.13	Automobile	$	$	$	$	$
16.14	Other*	$	$	$	$	$

* Disclose type of coverage: _____

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

17.1 Does the reporting entity include amounts recoverable on unauthorized reinsurance in Schedule F – Part 3 that it excludes from Schedule F – Part 5. Yes [ ] No [X]

Incurred but not reported losses on contracts in force prior to July 1, 1984, and not subsequently renewed are exempt from inclusion in Schedule F – Part 5. Provide the following information for this exemption:

17.11	Gross amount of unauthorized reinsurance in Schedule F – Part 3 excluded from Schedule F – Part 5	$
17.12	Unfunded portion of Interrogatory 17.11	$
17.13	Paid losses and loss adjustment expenses portion of Interrogatory 17.11	$
17.14	Case reserves portion of Interrogatory 17.11	$
17.15	Incurred but not reported portion of Interrogatory 17.11	$
17.16	Unearned premium portion of Interrogatory 17.11	$
17.17	Contingent commission portion of Interrogatory 17.11	$

Provide the following information for all other amounts included in Schedule F – Part 3 and excluded from Schedule F – Part 5, not included above.

17.18	Gross amount of unauthorized reinsurance in Schedule F – Part 3 excluded from Schedule F – Part 5	$
17.19	Unfunded portion of Interrogatory 17.18	$
17.20	Paid losses and loss adjustment expenses portion of Interrogatory 17.18	$
17.21	Case reserves portion of Interrogatory 17.18	$
17.22	Incurred but not reported portion of Interrogatory 17.18	$
17.23	Unearned premium portion of Interrogatory 17.18	$
17.24	Contingent commission portion of Interrogatory 17.18	$

18.1 Do you act as a custodian for health savings accounts? Yes [ ] No [X]

18.2 If yes, please provide the amount of custodial funds held as of the reporting date. $

18.3 Do you act as an administrator for health savings accounts? Yes [ ] No [X]

18.4 If yes, please provide the balance of the funds adminstered as of the reporting date. $

FIVE – YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e., 17.6.

	1 2013	2 2012	3 2011	4 2010	5 2009
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	6,467,723	271,581,158	546,554,919	630,027,992	771,094,006
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,814,944	118,001,719	256,681,629	265,536,509	349,419,170
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(687,519)	92,159,831	199,588,003	342,671,848	600,530,719
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	111,122	50,168,953	146,931,763	127,272,428	113,900,969
5. Nonproportional reinsurance lines (Lines 31, 32 & 33)		162,348			
6. Total (Line 35)	7,706,270	532,074,009	1,149,756,314	1,365,508,777	1,834,944,864
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3,19.4)	54,876	125,115,136	293,448,314	268,183,536	402,112,529
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(22,310)	62,142,495	132,847,188	119,480,551	173,277,086
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(3,998)	46,009,337	100,989,578	86,896,229	269,462,984
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	3,537	35,362,755	82,037,407	68,376,995	61,224,708
11. Nonproportional reinsurance lines (Lines 31, 32 & 33)		107,961			
12. Total (Line 35)	32,105	268,737,684	609,322,487	542,937,311	906,077,307
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(78,770,668)	(3,880,639)	12,905,869	33,612,322	66,669,422
14. Net investment gain (loss) (Line 11)	22,631,527	301,193,344	21,745,665	223,317,088	82,082,813
15. Total other income (Line 15)	8,685,835	2,401,296	4,081,696	13,041,026	15,969,926
16. Dividends to policyholders (Line 17)		21,242	41,752	434,476	112,625
17. Federal and foreign income taxes incurred (Line 19)	(10,509,744)	(32,021,258)	(65,959)	6,390,384	46,788,748
18. Net income (Line 20)	(36,943,562)	331,714,017	38,757,437	263,145,576	117,820,788
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 26, Col. 3)	1,085,031,776	1,279,623,886	2,077,595,299	2,351,767,646	3,053,305,633
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 15.1)	9,021,262	10,960,304	80,121,032	100,846,116	174,939,466
20.2 Deferred and not yet due (Line 15.2)			63,780,357	59,972,916	73,266,997
20.3 Accrued retrospective premiums (Line 15.3)					
21. Total liabilities excluding protected cell business (Page 3, Line 26)	218,843,094	404,425,124	1,168,591,426	1,429,726,133	1,699,472,456
22. Losses (Page 3, Line 1)	188,037,368	211,422,511	630,760,857	694,434,023	792,454,813
23. Loss adjustment expenses (Page 3, Line 3)	382,808	981,492	85,392,075	71,981,982	89,296,074
24. Unearned premiums (Page 3, Line 9)	146,261	485,081	299,657,277	264,636,804	454,543,378
25. Capital paid up (Page 3, Lines 30 & 31)	4,200,000	4,200,000	4,200,000	4,200,000	4,200,000
26. Surplus as regards policyholders (Page 3, Line 37)	866,188,682	875,198,762	909,003,873	922,041,513	1,353,833,177
Cash Flow (Page 5)					
27. Net cash from operations (Line 11)	(63,021,556)	(528,665,463)	(164,789,994)	76,323,458	100,292,503
Risk-Based Capital Analysis					
28. Total adjusted capital	866,188,682	959,661,192	909,003,873	922,041,513	1,353,833,177
29. Authorized control level risk-based capital	164,727,899	210,342,163	137,672,395	165,803,475	187,071,888
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 12, Col. 3) x 100.0					
30. Bonds (Line 1)	23.0	21.3	34.0	51.2	42.5
31. Stocks (Lines 2.1 & 2.2)	75.3	74.3	53.5	38.8	42.9
32. Mortgage loans on real estate (Lines 3.1 and 3.2)					
33. Real estate (Lines 4.1, 4.2 & 4.3)			2.6	2.5	2.0
34. Cash, cash equivalents and short-term investments (Line 5)	1.7	4.3	6.7	3.7	10.2
35. Contract loans (Line 6)					
36. Derivatives (Line 7)					XXX
37. Other invested assets (Line 8)			3.2	3.6	2.1
38. Receivables for securities (Line 9)		0.0	0.0	0.2	0.4
39. Securities lending reinvested collateral assets (Line 10)					XXX
40. Aggregate write-ins for invested assets (Line 11)					
41. Cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
42. Affiliated bonds, (Sch. D, Summary, Line 12, Col. 1)		24,970,570	48,834,056	48,516,355	33,825,695
43. Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)					
44. Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)	753,120,985	872,634,936	789,800,952	572,097,210	962,967,592
45. Affiliated short-term investments (subtotals included in Schedule DA Verification, Col. 5, Line 10)					
46. Affiliated mortgage loans on real estate					
47. All other affiliated					
48. Total of above Lines 42 to 47	753,120,985	897,605,506	838,635,008	620,613,565	996,793,287
49. Total investment in parent included in Lines 42 to 47 above					
50. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 48 above divided by Page 3, Col. 1, Line 37 x 100.0)	86.9	93.5			

FIVE – YEAR HISTORICAL DATA

(Continued)

	1 2013	2 2012	3 2011	4 2010	5 2009
Capital and Surplus Accounts (Page 4)					
51. Net unrealized capital gains (losses) (Line 24)	161,648,158	(269,231,238)	30,810,173	(17,970,902)	132,646,348
52. Dividends to stockholders (Line 35)	(190,000,000)	(65,000,000)	(135,000,000)	(513,000,000)	(80,000,000)
53. Change in surplus as regards policyholders for the year (Line 38)	(9,010,080)	(67,540,888)	(13,037,640)	(431,791,664)	189,612,049
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
54. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	295,176,966	786,097,353	467,871,099	709,872,169	583,012,407
55. Property lines (Lines 1, 2, 9, 12, 21 & 26)	15,888,511	124,005,213	126,073,173	139,996,159	138,919,809
56. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	87,637,428	185,836,695	200,530,447	275,022,229	322,562,248
57. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	15,511,713	56,571,492	65,078,963	49,795,919	43,070,547
58. Nonproportional reinsurance lines (Lines 31, 32 & 33)	502				
59. Total (Line 35)	414,215,120	1,152,510,753	859,553,682	1,174,686,476	1,087,565,011
Net Losses Paid (Page 9, Part 2, Col. 4)					
60. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	62,392,851	367,634,019	131,352,634	239,285,633	207,720,163
61. Property lines (Lines 1, 2, 9, 12, 21 & 26)	170,657	76,118,733	62,878,010	74,811,125	72,741,777
62. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	16,737,237	159,318,878	68,588,312	116,971,195	143,979,793
63. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	210,388	58,600,570	34,670,598	26,993,000	23,248,734
64. Nonproportional reinsurance lines (Lines 31, 32 & 33)		(33,632)	(1,933)		
65. Total (Line 35)	79,511,133	661,638,568	297,487,621	458,060,953	447,690,467
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
66. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
67. Losses incurred (Line 2)	15131.2	42.7	40.7	49.1	43.7
68. Loss expenses incurred (Line 3)	6097.2	14.3	18.4	12.8	12.5
69. Other underwriting expenses incurred (Line 4)	107.7	44.0	40.2	35.1	37.6
70. Net underwriting gain (loss) (Line 8)	(21236.1)	(0.7)	2.2	4.6	7.2
Other Percentages					
71. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 35 x 100.0	(25810.1)	91.6	35.8	42.7	35.8
72. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	21228.4	56.9	59.1	62.0	56.2
73. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 35 divided by Page 3, Line 37, Col. 1 x 100.0)	0.0	30.7	67.0	58.9	66.9
One Year Loss Development (000 omitted)					
74. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2-Summary, Line 12, Col. 11)	49,173	14,098	(36,883)	(33,273)	(57,085)
75. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 74 above divided by Page 4, Line 21, Col. 1 x 100.0)	5.6		(4.0)	(2.5)	(4.9)
Two Year Loss Development (000 omitted)					
76. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2-Summary, Line 12, Col. 12)	62,294	(22,640)	(64,950)	(97,924)	(101,253)
77. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 76 above divided by Page 4, Line 21, Col. 2 x 100.0)	6.6	(2.5)	(4.8)	(8.4)	(6.2)

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [X] No [ ]

If no, please explain:

SCHEDULE P – ANALYSIS OF LOSSES AND LOSS EXPENSES

SCHEDULE P – PART 1 – SUMMARY

($000 omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								12
	1	2	3	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	Number of Claims Reported Direct and Assumed
	Direct and Assumed	Ceded	Net (Cols. 1–2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
1. Prior	XXX	XXX	XXX	183,011	158,586	61,299	61,919	6,064	1,486	321	28,383	XXX
2. 2004	1,990,600	373,543	1,617,057	893,933	180,863	85,125	7,748	187,498	3,902	50,632	974,043	XXX
3. 2005	2,073,483	473,400	1,600,083	931,357	245,720	78,902	10,784	160,252	6,768	48,696	907,239	XXX
4. 2006	2,012,913	398,579	1,614,334	861,964	161,185	76,841	10,384	141,031	6,246	42,731	902,021	XXX
5. 2007	1,505,873	472,697	1,033,176	593,000	110,591	66,864	14,388	108,747	7,121	32,949	636,511	XXX
6. 2008	1,525,269	606,553	918,716	717,008	217,695	68,217	20,042	103,211	11,023	32,596	639,676	XXX
7. 2009	1,484,383	681,428	802,955	636,928	190,047	73,474	30,351	95,724	16,395	22,530	569,333	XXX
8. 2010	1,293,377	814,581	478,796	603,909	346,920	62,774	41,323	74,806	27,491	6,549	325,755	XXX
9. 2011	879,765	825,074	54,691	394,471	348,484	44,865	38,126	46,818	25,416	502	74,128	XXX
10. 2012	551,969	543,119	8,850	149,710	143,909	14,919	14,701	32,866	25,926	1	12,959	XXX
11. 2013	73,219	72,848	371	9,608	9,568	523	523	10,878	5,685		5,233	XXX
12. Totals	XXX	XXX	XXX	5,974,899	2,113,568	633,803	250,289	967,895	137,459	237,507	5,075,281	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						Number of Claims Outstanding Direct and Assumed
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	21 Direct and Assumed	22 Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	
1. Prior	700,751	687,315	635,069	574,811	234,261	277,782	132,664	130,490	33,179	11,545		53,981	XXX
2. 2004	4,684	992	649	472	701	67	75	8	279	16	10	4,833	XXX
3. 2005	5,901	1,889	1,674	1,359	448	87	106	64	537	24	23	5,243	XXX
4. 2006	12,075	2,654	1,772	1,188	1,190	275	97	107	1,214	78	43	12,046	XXX
5. 2007	20,973	4,235	2,284	1,827	1,660	615	155	88	2,065	365	92	20,007	XXX
6. 2008	25,813	12,037	10,514	8,130	2,813	1,116	570	433	3,259	490	419	20,763	XXX
7. 2009	46,341	16,241	20,311	12,246	8,793	5,717	1,300	503	2,596	934	530	43,700	XXX
8. 2010	53,035	35,616	35,935	31,022	9,816	8,656	2,663	2,126	2,408	987	740	25,450	XXX
9. 2011	49,059	48,306	51,251	51,056	14,296	14,253	3,659	3,648	2,919	2,908	73	1,013	XXX
10. 2012	39,190	38,351	80,203	80,139	10,885	10,851	4,726	4,727	5,856	5,841	28	951	XXX
11. 2013	7,400	6,929	18,041	18,072	1,454	1,444	1,484	1,493	824	828	1	437	XXX
12. Totals	965,222	854,565	857,703	780,322	286,317	320,863	147,499	143,687	55,136	24,016	1,959	188,424	XXX

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense	Inter-Company Pooling Participation Percentage	35 Losses Unpaid	36 Loss Expenses Unpaid
1. Prior	XXX	XXX	XXX	XXX	XXX	XXX			XXX	73,694	(19,713)
2. 2004	1,172,944	194,068	978,876	58.924	51.953	60.534				3,869	964
3. 2005	1,179,177	266,695	912,482	56.869	56.336	57.027				4,327	916
4. 2006	1,096,184	182,117	914,067	54.458	45.692	56.622				10,005	2,041
5. 2007	795,748	139,230	656,518	52.843	29.454	63.544				17,195	2,812
6. 2008	931,405	270,966	660,439	61.065	44.673	71.887				16,160	4,603
7. 2009	885,467	272,434	613,033	59.652	39.980	76.347				38,165	5,535
8. 2010	845,346	494,141	351,205	65.360	60.662	73.352				22,332	3,118
9. 2011	607,338	532,197	75,141	69.034	64.503	137.392				948	65
10. 2012	338,355	324,445	13,910	61.300	59.737	157.175				903	48
11. 2013	50,212	44,542	5,670	68.578	61.144	1528.302				440	(3)
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX			XXX	188,038	386

Note: Parts 2 and 4 are gross of all discounting, including tabular discounting. Part 1 is gross of only nontabular discounting, which is reported in Columns 32 and 33 of Part 1. The tabular discount, if any, is reported in the Notes to Financial Statements, which will reconcile Part 1 with Parts 2 and 4.

SCHEDULE P – PART 2 – SUMMARY

Years in Which Losses Were Incurred	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										DEVELOPMENT	
	1 2004	2 2005	3 2006	4 2007	5 2008	6 2009	7 2010	8 2011	9 2012	10 2013	11 One Year	12 Two Year
1. Prior	1,961,113	2,027,911	1,999,274	2,079,093	2,059,254	2,042,379	2,037,846	2,059,982	2,069,800	2,110,602	40,802	50,620
2. 2004	854,528	829,711	842,865	819,599	806,497	811,263	805,525	801,597	796,465	795,346	(1,119)	(6,251)
3. 2005	XXX	829,840	817,550	794,369	793,582	766,546	757,527	761,514	759,520	758,588	(932)	(2,926)
4. 2006	XXX	XXX	840,748	803,651	808,183	794,863	773,331	777,535	777,910	778,362	452	827
5. 2007	XXX	XXX	XXX	566,245	572,873	581,324	581,195	564,352	555,294	553,390	(1,904)	(10,962)
6. 2008	XXX	XXX	XXX	XXX	564,009	586,703	585,547	569,344	565,119	566,443	1,324	(2,901)
7. 2009	XXX	XXX	XXX	XXX	XXX	517,389	525,950	512,983	528,796	532,306	3,510	19,323
8. 2010	XXX	XXX	XXX	XXX	XXX	XXX	305,237	288,503	296,836	302,776	5,940	14,273
9. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	53,598	53,798	53,889	91	291
10. 2012	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	6,322	7,331	1,009	XXX
11. 2013	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	915	XXX	XXX
										12. Totals	49,173	62,294

SCHEDULE P – PART 3 – SUMMARY

Years in Which Losses Were Incurred	CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										11	12
	1 2004	2 2005	3 2006	4 2007	5 2008	6 2009	7 2010	8 2011	9 2012	10 2013	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
1. Prior	000	789,967	1,278,005	1,575,745	1,767,580	1,896,938	1,932,318	1,941,360	1,996,135	2,019,940	XXX	XXX
2. 2004	354,447	520,563	611,509	690,139	734,511	766,434	783,765	788,217	789,562	790,447	XXX	XXX
3. 2005	XXX	376,878	530,988	615,657	674,432	708,699	732,307	741,379	751,502	753,755	XXX	XXX
4. 2006	XXX	XXX	415,701	566,254	643,529	701,367	739,625	750,304	764,826	767,236	XXX	XXX
5. 2007	XXX	XXX	XXX	240,507	371,784	428,544	488,642	511,346	528,805	534,885	XXX	XXX
6. 2008	XXX	XXX	XXX	XXX	236,824	375,085	459,040	504,069	536,513	547,488	XXX	XXX
7. 2009	XXX	XXX	XXX	XXX	XXX	200,911	349,985	411,542	465,147	490,004	XXX	XXX
8. 2010	XXX	XXX	XXX	XXX	XXX	XXX	170,741	215,992	259,148	278,440	XXX	XXX
9. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	23,572	52,184	52,726	XXX	XXX
10. 2012	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	6,156	6,019	XXX	XXX
11. 2013	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	40	XXX	XXX

SCHEDULE P – PART 4 – SUMMARY

Years in Which Losses Were Incurred	BULK AND IBNR RESERVES ON NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)									
	1 2004	2 2005	3 2006	4 2007	5 2008	6 2009	7 2010	8 2011	9 2012	10 2013
1. Prior	491,213	343,807	215,478	171,285	177,517	133,078	81,700	71,002	36,342	75,364
2. 2004	234,153	117,293	81,006	31,377	9,191	13,866	9,340	9,892	2,079	246
3. 2005	XXX	185,974	128,047	65,667	50,160	20,090	7,778	9,442	1,233	375
4. 2006	XXX	XXX	220,227	97,793	71,348	43,876	10,347	10,856	2,096	604
5. 2007	XXX	XXX	XXX	152,122	88,461	64,532	38,309	15,470	2,257	637
6. 2008	XXX	XXX	XXX	XXX	163,118	103,314	51,174	19,582	2,823	2,703
7. 2009	XXX	XXX	XXX	XXX	XXX	149,611	72,279	24,516	10,210	9,063
8. 2010	XXX	XXX	XXX	XXX	XXX	XXX	54,150	18,754	5,748	5,661
9. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	12,871	405	336
10. 2012	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(113)	439
11. 2013	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	394

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated By States and Territories

States, Etc.		1 Active Status	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken 2 Direct Premiums Written	3 Direct Premiums Earned	4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
1. Alabama	AL	L	28,576	96,207		1,054,140	106,676	1,971,394		
2. Alaska	AK	L	(2,666)	23,799		30,144	(109,337)	675,884	10	
3. Arizona	AZ	L	4,130	126,094		503,564	(1,165,865)	1,121,609	(7)	
4. Arkansas	AR	L	32,477	45,558		242,304	(406,216)	6,376,471		
5. California	CA	L	485,611	3,565,929		5,298,528	483,985	43,880,120	500	
6. Colorado	CO	L	(23,524)	208,886		646,697	(2,325,440)	3,524,778	30	
7. Connecticut	CT	L	33,673	251,268		6,120,655	166,228	16,353,962	170	
8. Delaware	DE	L	6,131	29,907		74,463	(168,543)	1,506,453		
9. District of Columbia	DC	L	157,954	194,762		577,854	(37,050)	1,431,145	28	
10. Florida	FL	L	220,365	652,206		1,266,258	1,144,522	10,659,050	18	
11. Georgia	GA	L	13,374	317,687		312,993	(392,961)	2,576,764	45	
12. Hawaii	HI	L	(18,296)	31,131		15,055	(57,225)	269,991		
13. Idaho	ID	L	565	31,969		44,474	(11,022)	100,060		
14. Illinois	IL	L	52,768	827,457		4,177,408	(504,929)	18,673,168	40	
15. Indiana	IN	L	(1,780)	51,418		1,341,197	(1,001,714)	5,365,382		
16. Iowa	IA	L	16,981	340,405		607,758	773,681	10,551,833		
17. Kansas	KS	L	77,974	224,696		235,866	(763,395)	1,510,335		
18. Kentucky	KY	L	(554)	35,784		301,495	(12,985)	2,943,051		
19. Louisiana	LA	L	15,566	118,322		2,368,209	125,852	14,226,724		
20. Maine	ME	L	5,356	44,432		754,521	(1,334,975)	2,065,569		
21. Maryland	MD	L	41,275	208,479		3,434,269	62,708	8,630,263	5	
22. Massachusetts	MA	L	(204,673)	1,227,157		4,275,689	(322,341)	11,743,607	54	
23. Michigan	MI	L	52,600	213,253		1,112,892	2,122,931	15,991,329	6	
24. Minnesota	MN	L	13,122	361,858		1,389,291	356,902	12,100,521	290	
25. Mississippi	MS	L	(10,935)	34,332		369,915	367,924	1,652,297		
26. Missouri	MO	L	72,064	195,696		966,255	66,892	7,383,272	114	
27. Montana	MT	L	(16,393)	13,604		70,401	(274)	354,458		
28. Nebraska	NE	L	14,978	24,328		13,778	(118,555)	604,869		
29. Nevada	NV	L	(29,281)	(736)		(203,967)	(693,787)	522,784		
30. New Hampshire	NH	L	(62,567)	32,126		600,161	(166,017)	502,169	15	
31. New Jersey	NJ	L	(125,584)	586,317		16,550,340	4,401,188	71,062,879	50	
32. New Mexico	NM	L	4,169	26,154		42,297	994,327	2,014,552		
33. New York	NY	L	177,855	5,855,432		14,602,985	(11,468,677)	117,761,592	12	
34. North Carolina	NC	L	52,789	196,417		173,583	199,798	2,184,282	15	
35. North Dakota	ND	L	11,537	151,489		155,331	196,334	316,271		
36. Ohio	OH	L	11,029	39,724		1,739,680	2,120,965	14,595,408	(5)	
37. Oklahoma	OK	L	167,140	161,539		1,092,791	36,177	2,590,179		
38. Oregon	OR	L	(24,815)	79,276		290,708	52,190	1,129,606		
39. Pennsylvania	PA	L	(844,084)	527,949		6,991,521	20,805,326	75,128,374	56	
40. Rhode Island	RI	L	633	8,629		361,821	88,220	1,582,971	6	
41. South Carolina	SC	L	42,951	127,415		439,566	(2,883,270)	12,836,592		
42. South Dakota	SD	L	(5,727)	24,678		98,673	(74,550)	1,521,654		
43. Tennessee	TN	L	(165,076)	85,543		719,276	(1,232,203)	5,453,066		
44. Texas	TX	L	439,656	952,985		2,103,537	(9,422,342)	33,088,550	120	
45. Utah	UT	L	38,447	131,307		44,287	445,109	649,326	55	
46. Vermont	VT	L	(11,669)	(2,523)		4,586	(156,856)	44,742		
47. Virginia	VA	L	47,675	446,020		1,831,773	(297,199)	2,883,895	132	
48. Washington	WA	L	52,269	67,950		249,415	(146,187)	1,884,080		
49. West Virginia	WV	L	4,506	16,640		55,590	28,212	1,168,450		
50. Wisconsin	WI	L	(67,406)	51,894	494,038	502,635	(1,416,512)	2,765,712	6	
51. Wyoming	WY	L	107	10,277		10,509	(28,304)	67,379		
52. American Samoa	AS	N								
53. Guam	GU	N								
54. Puerto Rico	PR	L	(119,080)	1,343,622		154,625	58,549	2,620,998		
55. U.S. Virgin Islands	VI	N					(166)	146		
56. Northern Mariana Islands	MP	N								
57. Canada	CAN	N					(2)	3		
58. Aggregate Other Alien	OT	XXX	(54)	1,200			(5,540)	9,322		
59. Totals		(a) 52	662,139	20,417,948	494,038	86,217,796	(1,519,743)	558,629,341	1,765	

DETAILS OF WRITE-INS										
58001. MEX Mexico		XXX					(105)	156		
58002. GBR United Kingdom		XXX	(54)	1,200			(5,435)	9,166		
58003.		XXX								
58998. Summary of remaining write-ins for Line 58 from overflow page		XXX								
58999. Totals (Lines 58001 through 58003 plus 58998) (Line 58 above)		XXX	(54)	1,200			(5,540)	9,322		

(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines In the state; (N) None of the above - Not allowed to write business in the state.

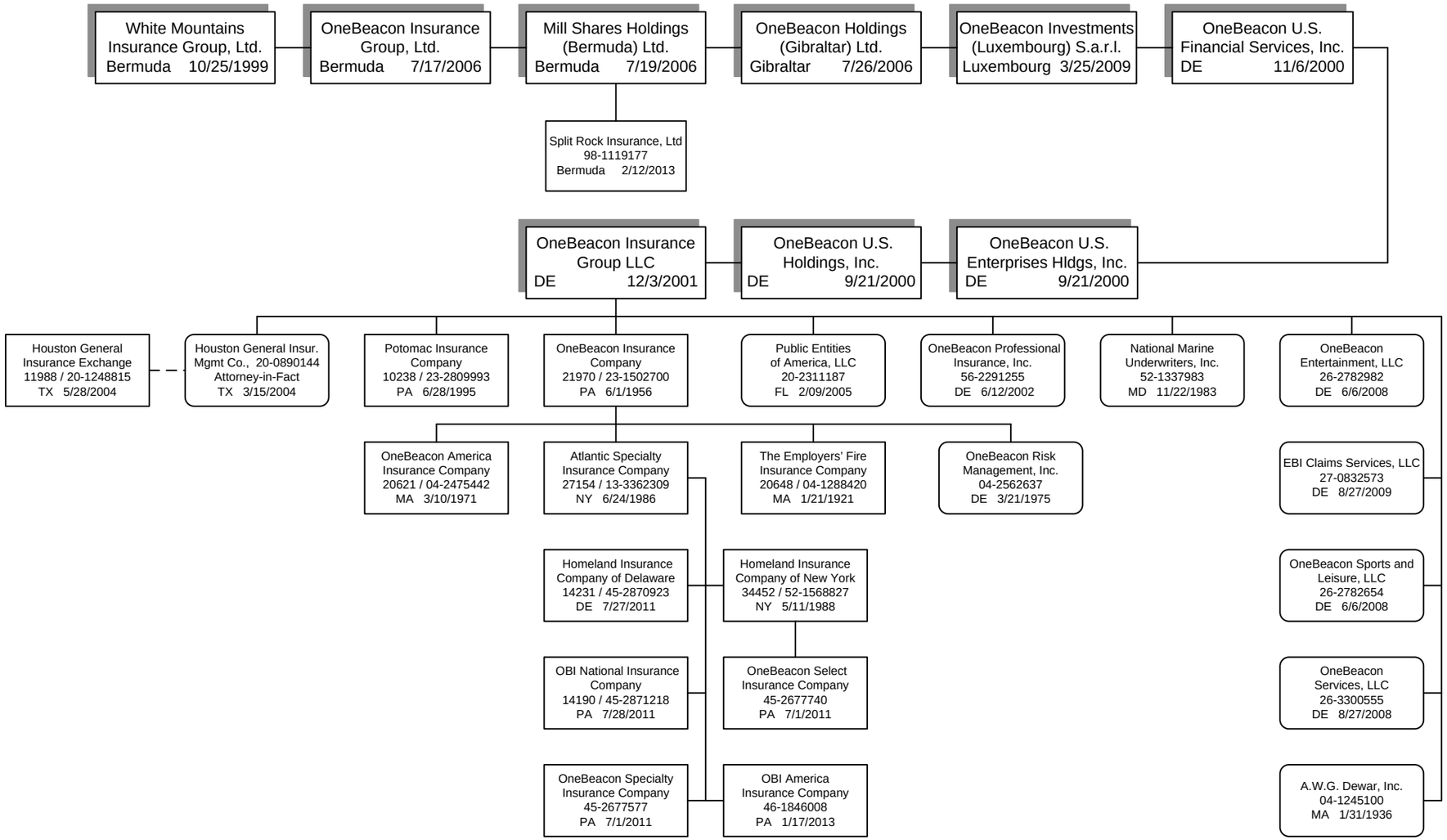
Explanation of basis of allocation of premiums by states, etc.

Allocation of premiums is based on location of risk.

(a) Insert the number of L responses except for Canada and Other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



OVERFLOW PAGE FOR WRITE-INS

Page 2 - Continuation

ASSETS

REMAINING WRITE-INS AGGREGATED AT LINE 25 FOR OTHER THAN INVESTED ASSETS	Current Year 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
2504. HGIC Goodwill				2,000,000
2505. Prepaid expenses				44,929
2597. Totals (Lines 2504 through 2596) (Page 2, Line 2598)				2,044,929

OVERFLOW PAGE FOR WRITE-INS

Page 3 - Continuation

LIABILITIES, SURPLUS AND OTHER FUNDS

REMAINING WRITE-INS AGGREGATED AT LINE 25 FOR LIABILITIES	1 Current Year	2 Prior Year
2504. Unearned L.A.D. service fees		70
2597. Totals (Lines 2504 through 2596) (Page 3, Line 2598)		70

OVERFLOW PAGE FOR WRITE-INS

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STATEMENT OF INCOME

REMAINING WRITE-INS AGGREGATED AT LINE 37 FOR GAINS AND LOSSES IN SURPLUS	1 Current Year	2 Prior Year
3704. Writeoff of HGIC goodwill as result of merger	(2,000,000)	
3797. Totals (Lines 3704 through 3796) (Page 4, Line 3798)	(2,000,000)	

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Business Insurance

February 06, 1995

SECTION: News; Pg. 1

LENGTH: 2452 words

HEADLINE: ZURICH MAY BEEF UP HOME OFFER REGULATORS, INSURERS PRESS FOR MORE POLICYHOLDER PROTECTION

BYLINE: MEG FLETCHER and GAVIN SOUTER

BODY:
Under pressure from state regulators, Zurich Insurance Group is expected to bolster its proposed offer for Home Holdings Inc. to include more guarantees to cover future claims by existing Home policyholders.

As early as this week, Zurich is expected to file a modified version of its earlier proposal-perhaps including reinsurance or payments for the business Zurich would take-with regulators in the seven states that oversee The Home Insurance Co. and several smaller units.

Any or all of those regulators could potentially scuttle the deal or at least force Zurich and Home to modify it.

The outcome of the Home-Zurich negotiations with regulators is likely to be closely watched by the industry, because it could set a precedent for similar deals.

Other major property/casualty insurers-including, sources say, Chubb Corp. and American International Group Inc.-have been pressuring regulators to require the added protection for current policyholders. Those Home competitors argue that without further assurances, claims against The Home may eventually have to be paid by state guaranty funds.

Should regulators ultimately reject the Zurich deal, Home would be left a much weaker company than it was only a few months ago. Some of its more desirable accounts shifted to Zurich at Jan. 1 renewals, leaving the long-tail liabilities to constitute an even larger share of The Home's book of business.

Under the Zurich deal, a group led by Zurich would purchase all the publicly held shares of Home Holdings and between 4.8 million and all 22.5 million of the shares held by its parent, Trygg-Hansa SPP Holding A.B.; a $ 170 million loan from Trygg-Hansa to Home Holdings would be restructured; Zurich American Insurance Group would take over a large block of The Home's business, estimated at more than $ 1 billion of the company's $ 2 billion in gross written premiums; and The Home would cease underwriting and be run off (BI, Jan. 9).

Other insurers' objections to the deal focus on the last two elements.

The common message from insurers voicing concern is: "Make sure Zurich will guarantee the performance of

all of The Home's policies," said Robert M. Solitro, deputy insurance commissioner in New Hampshire, where The Home and The Home Indemnity Co. are domiciled.

Some regulators and other observers have criticized the deal as allowing Zurich to "cherry pick" The Home's best business but then not provide sufficient funds to pay on all the long-tail liability claims.

But negotiations with regulators have gone well, and Zurich is expected to provide extra guarantees, such as reinsurance, to protect The Home policyholders and shareholders, sources close to the talks say.

Whether the added measures are adequate will be a key question for regulators. Once formal takeover documents are filed in the seven states, perhaps as early as this week, the decision making process begins, and may include public hearings.

"I know they are ready to file. What they are looking for are some assurances that the filings won't be rejected on their face and they will have an opportunity to be heard," said Norris Clark, the California Insurance Department's chief of financial surveillance.

If Zurich files the form within 10 days, hearings may be scheduled within 30 days, Mr. Solitro said last week. But, "the transaction may be complicated by Home having publicly traded bonds and stocks which might require additional notification of hearings," he added.

Bondholders, which had initially raised concerns about the deal (BI, Jan. 16), are waiting to see how Zurich may restructure its offer.

Though the regulators' and insurers' goal sounds simple, the deal is certainly not. The size of Home Holdings-which in 1993 had assets of $ 10 billion-as well as its complex corporate structure and long-tail excess liability claims all complicate matters.

Home Holdings comprises six property/casualty companies in an intercompany pooling agreement headed by The Home Insurance Co., with an 86% pool share, and The Home Indemnity Co., with a 10% share. Four smaller units-each with a 1% share, according to A.M. Best Co.-are located in Illinois, Indiana, New Jersey and Wisconsin (see chart).

In 1993, the companies in the pool wrote $ 1.87 billion in net premiums. Of that, The Home Insurance Co. wrote $ 1.6 billion, Home Indemnity wrote $ 187.4 million, and City Insurance Co. in New Jersey and the Home units in Indiana, Wisconsin, and Illinois each wrote $ 18.7 million.

California regulators will also be involved in the approval process. Under California law, The Home Insurance Co. of Indiana is "commercially domiciled" in that state, due to the amount of business it does there. The Home also operates a surplus lines company in Texas, Home Lloyd's Insurance Co. of Texas.

The common pool linkage of these companies makes it impractical to sell off subsidiaries, Mr. Clark said.

Another complicating factor is The Home's pollution and professional liability long-tail business, for which the full value of claims may not be known for many years. Reserve increases for that business helped contribute to a downgrading of its claims-paying ability ratings last fall to B+ by A.M. Best and BBB- by Standard & Poor's Corp. (BI, Nov. 14, 1994). S&P has since downgraded the company to BB.

The situation could be "potentially dangerous," because this is the first large U.S. insurer with an old book of commercial liability business where past claims are threatening the company's solvency, said one state insurance regulator who would not speak for attribution.

Other regulators appear less concerned about that industry problem, though they acknowledge that the biggest hurdle they face is assessing the outcome and value of The Home's pollution liability claims in the next 15 to 20 years. Outside actuaries and consultants have been hired to help them.

The Home takeover is the biggest challenge many regulators have encountered recently, because "the situation is so complex and the decision could set precedent for how other companies could run off (similar books of business)," New Hampshire's Mr. Solitro said.

Concerned that state guaranty funds could ultimately have to pay old claims of The Home, other insurers are pressing regulators to modify the Zurich deal.

AIG and Chubb both have contacted regulators about the deal, sources say. Neither company would comment specifically on any talks.

A Chubb spokeswoman in Warren, N.J., did say that, "Based on the public information we have seen, we don't think that the way the deal is currently structured sufficiently protects the policyholders."

The St. Paul Cos. Inc. in St. Paul, Minn., is also concerned about the transaction, though it has not contacted regulators, a spokesman said.

Douglas W. Leatherdale, chairman of St. Paul, said in a statement: "We are of course not privy to the detailed structure of this transaction, but it does concern us where a type of adverse selection of portions of an insurance company's business is being discussed. That raises the question of the long-term impact on guaranty funds and ultimately policyholders."

A source close to The Home/Zurich discussions said the insurers' criticism is unwarranted.

"What do they think would happen if the Zurich deal didn't go through? Would they prefer The Home to continue to write business and create more exposure to the guaranty fund?" the source said.

Zurich's offer was considered by directors of The Home to be superior to the only other publicly disclosed offer-a buyout bid by an investment group led by John J. Byrne (BI , Dec. 12, 1994).

Insurers critical of the deal are acting out of self-interest because they want the chance to take on The Home's profitable business, the source asserted. "They wanted to pick over The Home's business and they are upset because Zurich is getting a block renewal."

Competitive issues are likely the main factor behind other insurers' concerns, agreed Peter Wade, associate director at Standard & Poor's Insurance Rating Services, New York.

"They see $ 1 billion in premiums limping along, and they would like to take some of that business," Mr. Wade said. "I'm sure that worries about the guaranty funds play a part, but I don't think it is the main reason."

Insurer efforts to lobby regulators over a proposed takeover could be perceived as a conflict of interest, because they are seeking more market share or trying to avoid guaranty fund assessments, agreed Barry B. Schweig, professor of finance at Creighton University in Omaha, Neb.

But, that doesn't concern most regulators. "I don't mind hearing from them," said James W. Schacht, acting director of the Illinois Insurance Department. "I don't think it (the contact) is unusual at all."

To resolve these concerns, regulators "have been in the process of meeting with Zurich to discuss the proposal and get them to enhance it," Mr. Schacht said. The enhancements may include some consideration for the book of business Zurich would obtain, as well as perhaps a reinsurance transaction that would assist The Home meet its remaining obligations, he said.

Sources close to the discussions say that under a slightly restructured deal, Zurich would provide some form of reinsurance to cover the old liabilities.

"We are trying to design something that will protect the policyholders," the source said.

Zurich was still in discussions with regulators last week but the signing of a definitive agreement was imminent, the source said.

"Regulators are trying to maximize the value to the policyholders and provide guarantees" that even long-tail claims will be paid, California's Mr. Clark said.

Most of the regulators in the affected states said The Home's removal from the marketplace will not significantly reduce the availability of insurance in the market.

As Illinois' Mr. Schacht sees it, "There may be some problems with individual risks, here and there, but in the main, I don't think there will be a problem with replacement coverage."

However, he would like to see replacement coverage arranged for current policyholders.

"We think the majority of business that Home writes is very competitive," said New Hampshire's Mr. Solitro. The main issues being discussed among regulators and Zurich are non-renewal of current policyholders and the runoff of old business, he said.

Most regulators believe that it will require a unanimous vote by the seven state insurance commissioners for The Home takeover to be approved as proposed, regardless of the size of the unit domiciled within a state's borders.

"Our goal is consensus," said New Hampshire Insurance Commissioner Sylvio L. Dupuis. However, he said New Hampshire should have "a much larger say" because of the size of the two units domiciled there.

"A negative vote (from any commissioner) would make it much more difficult to consummate the transaction," Mr. Dupuis said. If a lack of consensus persisted, a unit of The Home might even have to move to another, more favorable domicile.

"Right now, I think the cooperation, involvement and activity among the states is good," Mr. Schacht said.

If regulators were to kill the Zurich deal, The Home would be in a frail condition, said S&P's Mr. Wade.

"You would be left with an insurance company that has a weak capital base, thin reserves, little earnings prospects and little flexibility to alter its financial position," he said.

The Home's condition has deteriorated recently, Mr. Wade added. "The Home is a bit like a leaky bucket. So if the Home was unsuccessful with Zurich and it was to go back and try to resuscitate the deal with Fund American or another, it would have a lot less leverage because there is a lot less left in the bucket."

GRAPHIC: The top regulators and the Home units domiciled in their states (graphic)

LOAD-DATE: March 10, 1995

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Business Insurance

April 03, 1995

SECTION: News; Pg. 1

LENGTH: 2279 words

HEADLINE: HOME DEAL'S CRITICS SPEAK OUT REGULATORS TO HEAR ARGUMENTS TO BLOCK ZURICH PLAN

BYLINE: GAVIN SOUTER

BODY:
CONCORD, N.H.-Policyholders, bondholders and competitors of Home Holdings Inc. will use public hearings here this week to slam the proposed takeover of Home Holdings' prime business by Zurich Insurance Group.

At a hearing that opens today and is scheduled through Wednesday, opponents of the deal will urge regulators to block the takeover under its current terms.

Home Holdings' primary operating unit, The Home Insurance Co., is domiciled in New Hampshire, and the other six states where units are domiciled are expected to send representatives to this hearing.

Opponents are expected to argue that Zurich should not be allowed to take over the good business of The Home without standing behind all its other liabilities, and that the Zurich deal will not sufficiently cover future claims.

Competing insurers are also expected to argue that if Zurich does not cover all the claims, other insurers will have to pay policyholder claims that should have been paid by The Home.

Among those scheduled to testify against the plan is Richard E. Stewart, a former president of the National Assn. of Insurance Commissioners who will be speaking on behalf of both a Home competitor, American International Group Inc., and a policyholder, Atlantic Richfield Co.

Also at the hearings, a group of Home bondholders will be urging regulators to adopt an alternative deal under which some Home units would remain ongoing insurers-with a rating high enough to provide policyholders some comfort-and others would be run off.

Home Holdings rejected that proposal last week, saying shareholders would be better off with the Zurich deal, and rating agencies give the bondholders' plan little chance of success.

Under the Zurich offer, Zurich would buy all the publicly traded shares of Home Holdings and many of those held by its parent, Trygg Hansa SPP Holding A.B.

Zurich American Insurance Group would assume about $1 billion of The Home's $2.2 billion written

premiums. The Home would then cease underwriting and be placed in runoff, and Zurich would cover the run-off business with a $1 billion reinsurance program (BI, Feb. 13).

Under an earlier offer, by an investor group led by John J. Byrne, The Home would have remained an active insurance company following a capital injection of $420 million (BI, Dec. 12, 1994).

Executives from Zurich and The Home will be testifying at the hearings. They have said that enhancements added to Zurich's original offer, including an excess-of-loss insurance program and guarantees of returns on Home Holdings notes, were designed to give regulators, policyholders and bondholders greater certainty.

Some policyholders, though, fear that The Home in runoff will not have enough capital to pay all its liabilities on policies, some of which were written decades ago and cover pollution and products liability.

"It is very difficult to estimate with any degree of accuracy the amount of the claims that are presently or potentially pending against The Home on these policies," said Richard E. Poole, a lawyer who will speak at the hearing on behalf of more than 20 commercial policyholders, including American Home Products Co., Hoechst-Celanese Corp., Illinois Power Co., Maricopa and Pima Counties in Arizona, and W.R. Grace & Co.

"The only safe course," Mr. Poole, a partner with Potter, Anderson & Corroon in Wilmington, Del., wrote to New Hampshire regulators, "is to insist that after the acquisition of control by Zurich, the policyholders are able to look to The Home's assets-consisting of the desirable book of business transferred to Zurich-as well as Zurich's own assets, in the event that reserves in the runoff company prove to be insufficient."

Without this guarantee, insurance premiums paid by solvent policyholders would have been wasted. And if policyholders are driven out of business because they cannot collect on their insurance policies, claimants seeking compensation from those defunct policyholders would wind up empty-handed, he said.

In his proposed testimony, Mr. Stewart-who was New York's top regulator from 1967 to 1970 and is now a consultant with Stewart Economics in Chapel Hill, N.C.-recites some figures that have The Home policyholders uneasy.

As of 1993, The Home said in Securities Exchange Commission filings that asbestos and pollution together were reserved at $403 million gross and $189 million net, "including large amounts as bulk reserve and loss adjustment expense," wrote Mr. Stewart. "For a company with 2,100 policies with open asbestos and pollution claims, those are not reassuring numbers."

In the first nine months of 1994, though, The Home increased its pollution and asbestos net reserves to $237 million, a spokesman for the insurer said (BI, Nov. 14, 1994).

The Zurich deal departs from two basic ideas of insurance and insurance regulation, Mr. Stewart says in his planned testimony.

"One is that, when a company is financially precarious, different classes of policyholder and claimant should not be accorded preferential treatment. The other is that the ongoing book of business of any insurance company is one of its principal assets," he says.

Zurich's proposal would favor Zurich and the ongoing business of The Home over policyholders and claimants by shunting certain policyholders into a condemned company without their consent, Mr. Stewart writes.

Other U.S. insurers also stand to lose if the deal goes through, he contends. If The Home fails to meet its liabilities, other insurers on the same programs may have to pay some of The Home's share and many other

companies-including those in unrelated lines under many states' systems-might have to pay increased guaranty fund assessments to cover the shortfall.

What's more, Mr. Stewart argues, allowing the Zurich deal might encourage other companies to funnel bad risks into some newly created pool when claims reach a high level and, with a mind-set that that could be done, insurance companies may underwrite carelessly.

Many insurers today have similar problems to The Home and the Zurich proposal may be used as a model for future transactions, Mr. Stewart's testimony says.

"Government should not encourage managements of fiduciary businesses to take catastrophic risks and pursue disaster-prone strategies," he contends.

Also at the public hearing will be representatives of Home Holdings' bondholders who have put forward an alternative proposal to the Zurich deal. The bondholders committee is headed by Robert Beach, a vp with Cargill Financial Services in Minneapolis.

The bondholders in the group own more than 67% of the $280 million issue of Home Holdings senior notes, which represents all outstanding public debt except what is owed to Trygg-Hansa.

The group proposes to split The Home's current nine-member intercompany pool into two entities: A Pool, which would continue as an ongoing insurer writing both new and renewal business; and B Pool, which would be responsible for the long-term management of existing Home policies.

The stronger A Pool would be capitalized through a $350 million subsidy from the weaker B Pool companies, a move designed to insure that A Pool secures a rating of at least A-, the point at which brokers can normally place business without obtaining special approval from risk managers.

The bondholders propose that the A Pool company would then be able to take on about $1 billion in premiums from existing business written by The Home. Under the Zurich deal, Zurich has been using cut-through endorsements and similar arrangements to stand behind The Home's policies. But Zurich's offer also specifies that if the deal does not go through, The Home will be allowed to retrieve that business, unless policyholders wish to switch insurers.

Also under the proposal, $170 million of notes securing a loan by Trygg Hansa to Home Holdings, along with 25% of the $280 million of the bondholders' notes, would be converted into new common stock of Home Holdings. That would make the bondholders owners of 17% of Home Holdings stock.

The management at The Home would also be changed, said J. Andrew Rahl, head of bankruptcy and restructuring at Anderson Kill Olick & Oshinsky, the New York-based law firm that is representing the bondholders.

The bondholders' proposal is a model and changes could be made after discussions with regulators and rating agencies to ensure that the A Pool company would receive an A- rating, said Edward Whiting, managing director of Whitman Heffernan Rhein & Co Inc. in New York, who is advising the bondholders.

"How much capital we will need and how much business we will write will be determined through discussions with regulators and A.M. Best. The Form A we filed was for modeling purposes," Mr. Whiting said.

The B Pool would run-off existing policies of The Home and write business that is not credit sensitive, he said.

The B Pool companies would be able to pay future claims through their existing reserves and a $590 million stop-loss reinsurance policy already in place, Mr. Whiting said.

"We believe that that could be sufficient," he said.

Recently, CIGNA Corp. used a similar segregation strategy to secure an A- rating from A.M. Best Co. for some of its units (BI, Feb. 20).

However, officials of Oldwick, N.J.-based Best are not so optimistic of the bondholders' proposal.

The proposal for The Home is "too little, too late," said Senior Vp John Snyder. "An A rating is based on a company first being a viable business, and right now the company is in run-off mode."

Also, The Home will probably not be able to retrieve the large chunk of its profitable business that has already gone to Zurich, Mr. Snyder said.

"It's hard to envision a scenario that the credit holders are proposing that would satisfy the capital structure for an A rating and much less address operations, management and franchise issues," he said.

Best did not know details of the proposal before it was released, said Mr. Snyder. "It was very presumptuous of them to think that they would get an A rating."

Standard & Poor's Corp. in New York would not favor a proposal like the bondholders' plan, said Peter Wade, associate director.

"We have not seen the details, but we have given some thought to this kind of structure and we think it would be a very difficult transaction to do," he said.

Even if the companies could be completely segregated, policyholders in the ongoing company would be unlikely to stay if the runoff company were to stop paying its old claims, according to Mr. Wade.

"How do you insure XYZ company but still have an old policy with it which you are not paying the claims on? That problem doesn't exist with the Zurich proposal," he said.

It would be highly unlikely that the new company would receive an adequate S&P rating for it to attract business, Mr. Wade said.

The main aim of the bondholders seems to be to set up a company with more funds to repay the notes than they would receive under the Zurich proposal, he said.

LOAD-DATE: April 13, 1995

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Business Insurance

September 25, 1995

SECTION: News; Pg. 1

LENGTH: 1560 words

HEADLINE: ZURICH CEO DENIES OBLIGATION TO HOME;HUEPPI SEES DUTY TO CURRENT POLICIES, NOT TO POLICIES ZURICH DIDN'T RENEW

BYLINE: GAVIN SOUTER

BODY:
Zurich Insurance Group will not meet the claims on The Home Insurance Co. policies it chose not to acquire if it turns out there are insufficient funds to pay those claims, says Zurich's chief executive.

"We have nothing whatsoever to do with the policies that were issued by The Home," Rolf Hueppi, Zurich's chairman and CEO, told Business Insurance recently.

If Zurich had any intention of meeting The Home's outstanding liabilities, it would have taken over the whole company, Mr. Hueppi said.

Beyond the opportunity to garner some attractive insurance business, the acquisition of key Home business also helps flesh out Mr. Hueppi's plan to expand Zurich's other capabilities, such as runoff management services.

In the future, Mr. Hueppi explained, insurance companies will need to offer myriad risk financing solutions to clients rather than simply insurance products, and Zurich's recent acquisitions are part of an overall strategy to offer those solutions.

In particular, insurers will need to be able to offer sophisticated financial products and asset management skills to meet the demands of their customers.

The acquisition of Kemper Corp. this year and of Centre Reinsurance (Bermuda) Ltd. last year were also part of the process of building Zurich's resources in this direction, Mr. Hueppi said.

But it was the takeover of The Home's profitable business that was the center of attention for insurers and policyholders this year.

The controversial acquisition of The Home's profitable business was sealed in June, despite criticism from several policyholders and competing insurance companies (BI, April 10).

Opponents of the deal argued that Zurich should not be allowed to "cherry pick" the profitable business of The Home, and instead should be required to take over the entire company or none of it.

Over the course of six months, Zurich gradually improved its offer and included a $1.59 billion reinsurance program for The Home.

But Zurich would not hesitate to walk away if The Home's assets and the reinsurance program were insufficient to pay outstanding claims, Mr. Hueppi said.

"Certainly we would walk away. Absolutely certainly," he said.

However, he added, Zurich believes that existing funds will be adequate to meet The Home's liabilities. "We have quite a significant bet on the fact that there will be sufficient funds in The Home Insurance Co. to satisfy the liabilities over time. If that is the case, we have a potentially significant upside for us."

Under the deal to assume The Home's profitable business, Zurich has an option to take over The Home if the conditions are favorable (BI, Jan. 2).

The takeover of The Home has three significant benefits for Zurich, he said:

It obtained a significant book of specialty lines and major-account business.

It allowed Zurich to significantly expand its runoff management business.

It allowed Zurich to expand its investment activities with the opportunity to invest The Home's funds.

The acquisition of The Home's profitable business was just one part of Zurich's strategy of becoming an insurer that can offer numerous solutions to meet different client needs, according to Mr. Hueppi.

"The corporate customer is not interested in whether he has a fire claim or a liability claim; he is interested in the fact that he has an impact on his profit and loss statement or his balance sheet. Our job is to help him come up with solutions given the capacity market, given derivative tools that are available, rather than saying that we have an insurance product for that," he said.

To ensure that Zurich is able to provide those services, it has been necessary to make acquisitions, Mr. Hueppi explained.

"When we do acquire a company, it would be because we would believe it to be more efficient and more effective to add specific companies and specific franchises to our system so that we can implement our strategy," he said.

The acquisitions usually bring new skills.

For example, Zurich's acquisition of Centre Reinsurance (Bermuda) Ltd. (BI, Jan. 10, 1994) gave Zurich specialized financial skills.

"These are generic competencies that we need, not just in one of our core businesses, but in more than one.....Some of the moves you have seen us make are making sure that we have these core competencies in-house in our group," Mr. Hueppi said.

Once the companies are part of Zurich, they are left to develop as businesses in their own right. They are not integrated into a single Zurich corporate culture, he said.

The managers go through Zurich management training programs and have access to all of the insurer's resources, but they are allowed to act largely independently of the rest of the group, Mr. Hueppi said.

"The reason that is essential is that our CEOs of our business units have to be people that draw on the actual business for their knowledge and their feel of the strategic moves that they have to make for their customers. I don't believe in lots of holding company structures; I like flat management structures," he said.

The senior executives of the individual businesses are held responsible for the profits, and their compensation is linked to their performance.

"They have an ownership type of feeling for the business that they run," Mr. Hueppi said.

The management even has the naming rights for the company. For example, Universal Underwriters Insurance Co., a Zurich unit in Kansas, chooses not to incorporate the Zurich name in its title, he said.

"Some say they want the name, but Universal is not a company that would like to have the Zurich name-and we don't force them to have it," Mr. Hueppi said.

In the future, insurance companies will need a variety of skills to take advantage of socio-economic changes in the world, he said.

These changes include an increase in individual responsibility and the gradual bankruptcy of many social security systems, Mr. Hueppi said.

"The demands of customers of product and service providers will be much more specific and much more individual. This will call for very different ways of addressing customer needs than the traditional product approach that the financial services industry has," he said.

This includes corporate customers as well as individuals, he said.

"We believe that our future products will satisfy customers' risk protection as well as their investment needs. But with much more clarity and much more professionalism than they are traditionally used to from an insurance organization," he said.

Insurers will need to protect and manage assets, Mr. Hueppi said.

The acquisition of Kemper Corp. strengthened Zurich's asset management capabilities, Mr. Hueppi said (BI, April 17).

Zurich remains interested in acquisitions, but it has its U.S. operations in place, he said.

Zurich only buys companies for strategic reasons, not for the sake of increased volume, he added.

"In the U.S., I think we are very well positioned in the businesses in which we want to be. I don't see the need for any major acquisitions," Mr. Hueppi said.

Outside the United States, there are still areas where Zurich might make more acquisitions over the next 12 months, he said.

GRAPHIC: Mr. Hueppi

LOAD-DATE: September 28, 1995

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Business Insurance

February 13, 1995

SECTION: News; Pg. 1

LENGTH: 1399 words

HEADLINE: ZURICH SWEETENS ITS OFFER FOR HOME

BYLINE: GAVIN SOUTER

BODY:
NEW YORK-Zurich Insurance Group hopes a strengthened offer for Home Holdings Inc. will placate regulators, bondholders and others who were concerned about the adequacy of its earlier offer.

Zurich is enhancing its offer by including a $ 1 billion reinsurance program to cover The Home Insurance Co.'s old liabilities, as well as setting up mechanisms to guarantee investment returns and debt payments.

The improved offer was made after talks with state insurance regulators, who had stressed that they would not approve the deal if The Home's policyholders were not sufficiently protected (BI, Feb. 6).

The new offer also is designed to stave off legal action by bondholders, who had opposed Zurich's initial offer as inadequate.

But the most crucial question will be whether regulators deem the enhanced offer sufficient to protect policyholders, analysts say.

Meanwhile, John J. Byrne, whose own offer for The Home was topped by Zurich, is setting up a new property/casualty in surer (see related story).

Zurich, Home Holdings and Trygg-Hansa SPP Holding A.B. announced the enhancements as part of a definitive agreement last Friday.

The new features of the deal are:

An excess-of-loss reinsurance program led by Centre Reinsurance Holdings Ltd. that will provide a minimum of $ 1 billion of reinsurance protection.

An external funding mechanism, provided by an unnamed Zurich unit, that will allow The Home to make interest payments on its public debt for two years after close of the agreement.

An agreement for an unnamed subsidiary of Zurich to guarantee a minimum net fixed return on The Home's investment portfolio at a rate of 7.5% a year for a four-year period.

"I'm convinced that the details of the agreement will bring a lot of enhanced certainty to all the constituencies involved," said Lars-Goran Nilsson, president and chief executive officer of Home Holdings.

The $ 1 billion reinsurance program will significantly increase the protection of the policyholders, he said. "That was one of the key things in the Zurich's discussions with regulators."

The $ 1 billion reinsurance contract replaces a previous stop-loss reinsurance treaty that was led by Centre Re. The aggregate amount recoverable under the old agreement was $ 590 million and the premium charged was $ 159 million.

The interest payment guarantees will ensure that The Home continues to generate adequate investment income to meet its liabilities, while the funding mechanism for public debt will offer similar guarantees to Home bondholders, he said.

The enhancements to Zurich's offer should satisfy the seven regulators who need to approve the deal, Mr. Nilsson said.

"We had many meetings with them and we listened very carefully and this is how we responded to those discussions. By making the changes we think we are in very good shape going forward," he said.

The rest of the elements of the original offer made in December remain unchanged: Zurich will purchase all the publicly held shares of Home for $ 10 a share and between 4.8 million and all 22.5 million of the shares held by its parent, Trygg-Hansa; a $ 170 million loan from Trygg-Hansa to Home Holdings will be restructured; Zurich will assume roughly $ 1 billion of The Home's more than $ 2 billion in gross written premiums; and The Home will cease underwriting and be placed in run-off.

A new Zurich subsidiary, Risk Enterprise Management Ltd., will manage the run-off.

"REM will provide all of the claims and administrative services necessary for Home Insurance's clients. To achieve this, it is expected that REM will be staffed to a large extent with Home professionals," said Steven M. Gluckstern, president and CEO of Zurich Centre Investments Ltd., the holding company for Centre Re and other Zurich units.

State insurance regulators would not comment on the new offer late last week.

"Our main concern is that policyholders will be sufficiently covered and we will have to review that," said Robert M. Solitro, deputy insurance commissioner in New Hampshire, where The Home Insurance Co. and The Home Indemnity Co. are domiciled.

A hearing on the new offer will likely take place within a month, he said.

Regulators will now have to estimate whether The Home has sufficient resources and when it will likely have to pay its claims, said James W. Schacht, acting director of the Illinois Insurance Department, which is another of the seven states that will have to sign off on the deal.

"We have to get a better handle on how the claims are going to run-off and when the claims are going to be paid," he said.

The timing of claims are a crucial part of the calculation, agreed Peter Wade, associate director at Standard & Poor's Insurance Rating Services in New York.

"It depends on the claims pattern. I'm sure that Zurich thinks that the $ 1 billion in reinsurance will be enough, but should there be an acceleration in claims or if large claims have to be paid early then they could be forced to pay it all out," he said.

Both S&P and A.M. Best Co. of Oldwick, N.J., are reviewing the new offer.

The Home bondholders who had opposed the initial Zurich deal are also reviewing the offer, said Lawrence Kill, a senior partner at Anderson Kill Olick & Oshinsky in New York, who represents the bondholders.

"We are looking for meaningful protection for the bondholders. If that is provided then that would be wonderful, but if it is not then we are prepared to take aggressive action," he said.

The bondholders have previously threatened to force The Home to repurchase of the notes at a premium above par (BI, Jan. 16).

The enhanced offer does not alter the offer of $ 10 a share to The Home's public shareholders. Last month a class action suit was filed by public shareholders alleging that Home Holdings' directors are breaching their fiduciary duty by accepting the Zurich offer over the $ 10.50 a share offer made by the Byrne group.

Last Friday, Home executives explained the deal in face-to-face meetings with New York brokerage executives. Brokers have been concerned about the security of The Home ever since the company was downgraded last November. Earlier this month, for example, Sedgwick James Inc. removed The Home from its list of secure insurance companies.

The Zurich proposal for The Home is not as good for the company as the Fund American-led proposal, which would have injected more money into the insurer, according to Mr. Byrne, who added that it beats having no deal at all.

"We will not know whether the $ 1 billion will be enough to pay all the claims for about another 15 years, but my feeling is, yes, it will be enough," he said.

LOAD-DATE: February 27, 1995

Group Affiliation: Royal & Sun Alliance Insurance Group plc

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AMB#: 18566

BEST'S RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Rating of C++ (Marginal). The group's Financial Size Category is Class XI.

RATING UNIT MEMBERS

Royal & SunAlliance USA Insurance Pool (AMB# 18566):

AMB#	COMPANY	RATING	POOL%
02438	Royal Indemnity Company	C++ p	70.00
02457	Security Ins Co of Hartford	C++ p	25.00
00443	Guaranty National Insurance Co	C++ p	5.00

RATING RATIONALE

Rating Rationale: The rating applies to the pooling members of the Royal & SunAlliance USA Insurance Pool, led by Royal Indemnity Company, and is based on the consolidated financial results of the pool and the pool's separately rated Royal Surplus Lines Insurance Company subsidiary (RSLIC). The rating reflects the pool's poor operating performance, driven by unfavorable loss reserve development, diminished level of capitalization and lack of business profile as the pool is in run-off. The rating also reflects the ancillary nature of the U.S. operations to the ultimate parent, Royal & Sun Alliance Insurance Group plc (R&SA). These negative rating factors are slightly offset by the modest improvement in overall capitalization through year-end 2005 due to a $1.0 billion decrease in net loss reserves and the significant reduction in premium volume and ceded liabilities. The parent placed the U.S. operations into run-off in late 2003 with only a modest book of non-standard auto business remaining as active until late 2005 when that business was sold to Sentry Insurance A Mutual Company. The non-standard auto book was underwritten through Viking Insurance Company, which was sold to Sentry as well. A.M. Best's outlook reflects the rapid decline in capitalization experienced in recent years as well as the elevated level of uncertainty regarding the ultimate outcome of a number of significant issues currently being litigated by the group.

Loss reserves have proven deficient by sizable margins in recent years, with reserves for asbestos and environmental (A&E) exposures adjusted upwards by nearly $600 million since 2001. The pool recorded an additional reserve charge (non-A&E) of $240 million in late 2004 after parental reinsurance which further weakened an already vulnerable capitalization position. Further adverse loss reserve development was recorded during 2005. Additional reserve development is likely, in A.M. Best's opinion, given the significant and lengthy history of reserve deficiencies experienced by the U.S. entities. Another area of uncertainty is the potentially negative impact on the U.S. companies' surplus if current litigation over a student loan guarantee program, as well as certain other issues in litigation, are decided against Royal.

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Best's Rating: C++ **Outlook: Negative**

FIVE YEAR RATING HISTORY

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Date	Best's Rating
05/09/06	C++
02/24/05	C++
06/22/04	B
11/25/03	B
09/26/03	B+ u
09/04/03	A- u
06/25/03	A-
11/07/02	A-
08/27/02	A-
01/16/02	A
10/05/01	A+

KEY FINANCIAL INDICATORS

	Statutory Data ($000)		
Period Ending	Direct Premiums Written	Net Premiums Written	Pretax Operating Income
2001	4,467,327	2,886,552	-801,129
2002	4,983,410	3,009,680	-540,052
2003	3,804,262	843,273	-562,842
2004	271,858	196,397	-478,968
2005	93,534	-31,655	-425,521
03/2005	53,041	77,604	-61,441
03/2006	6,182	-2,392	-30,707

	Statutory Data ($000)		
Period Ending	Net Income	Total Admitted Assets	Policy-holders' Surplus
2001	-525,502	9,289,523	1,799,527
2002	-417,768	9,082,272	1,407,212
2003	-276,974	8,643,179	1,474,733
2004	-859,804	7,115,252	1,059,694
2005	-256,011	5,448,161	858,835
03/2005	-60,159	6,667,379	1,011,779
03/2006	-24,972	5,203,805	829,184

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	Profitability			Leverage			Liquidity	
Period Ending	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev	Overall Liq (%)	Oper. Cash-flow (%)
2001	140.8	5.3	-28.8	69.4	1.6	5.7	126.5	91.4
2002	128.7	4.9	-18.9	39.0	2.1	7.5	120.6	91.6
2003	167.9	3.5	-36.8	11.1	0.6	5.2	121.7	52.0
2004	254.5	2.9	-57.4	17.9	0.2	5.5	119.3	26.2
2005	190.7	3.9	-99.9	10.2	…	4.9	120.8	4.2
5-Yr Avg	151.9	4.1	-34.8	…	…	…	…	…
03/2005	204.9	XX	-75.5	XX	0.3	5.7	119.9	8.4
03/2006	-99.9	XX	-99.9	XX	-0.1	5.0	121.3	5.8

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings. Within several financial tables of this report, this group is compared against the Commercial Casualty Composite.

BUSINESS REVIEW

The RSAUSA Pool consists of 3 inactive insurance companies that, until 2003, provided commercial property and casualty, personal and specialty coverages throughout the country. The RSAUSA Pool represents the U.S.-based operations ("RSAUSA") of the British international insurance group, Royal & Sun Alliance Insurance Group plc ("RSA").

In 2002, RSA implemented a restructuring plan designed to strengthen its capital base and position the company for long-term profitability and growth, both globally and in the U.S. The plan was further refined during 2003 to include the sale of most of the U.S. operations' businesses. Effective July 1, 2003, the RSAUSA's surplus lines business, including related infrastructure (Royal Specialty Underwriting Inc.), was sold on a new and renewal basis to Alleghany Insurance Holdings LLC (a subsidiary of Alleghany Corporation). Existing policy liabilities remain with RSAUSA. In early September 2003, the group announced the sale to Travelers Property Casualty of the renewal rights to RSAUSA's standard and preferred personal insurance, Risk Management casualty and domestic business, middle market commercial lines segments, including the group's Marsh Advantage America program which is designed to serve as Marsh & McLennan's premier marketing facility providing full service property and casualty operations to clients in the lower mid-market. Other lines sold to Travelers include RSAUSA's farm and marine programs, the latter representing coverage for international cargo, commercial hull and property and liability. Again, all existing policyholder obligations remain with RSAUSA. The last remaining business, representing non-standard automobile business written through the formerly affiliated Viking Insurance Company of Wisconsin, Viking County Mutual Insurance Company, and Peak Property and Casualty Insurance Company, was sold to Sentry Insurance A Mutual Company on November 1, 2005, along with the aforementioned insurers (Viking and Peak).

2005 BUSINESS PRODUCTION AND PROFITABILITY ($000)

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Product Line	Premiums Written Direct	Premiums Written Net	% of Total NPW	Pure Loss Ratio	Loss & LAE Reserves
Priv Pass Auto Liab	85,781	74,678	-99.9	61.1	71,023
Auto Physical	26,930	24,312	-76.8	47.9	3,967
Comm'l Auto Liab	-596	3,221	-10.2	-99.9	120,108
Fire	1,454	2,142	-6.8	-99.9	18,511
Com'l MultiPeril	-1,769	765	-2.4	-99.9	366,808
Surety	198	668	-2.1	999.9	265,848
Homeowners	3,134	483	-1.5	299.2	18,126
Oth Liab Occur	3,919	-20,536	64.9	839.9	493,490
All Other	-25,516	-117,389	370.8	-0.5	1,367,155
Totals	93,534	-31,655	100.0	326.1	2,725,037

Major 2005 Direct Premium Writings By State ($000): North Carolina, $23,513 (25.1%); South Carolina, $18,791 (20.1%); Utah, $10,397 (11.1%); Idaho, $8,401 (9.0%); West Virginia, $7,739 (8.3%); Wyoming, $6,836 (7.3%); Wisconsin, $6,696 (7.2%); Arizona, $6,123 (6.5%); Iowa, $4,995 (5.3%); 43 other jurisdictions, $88 (0.1%); Canada, $-59 (-0.1%); Aggregate Alien, $13 (0.0%).

FINANCIAL PERFORMANCE

Overall Earnings: RSAUSA's financial performance has suffered in recent years due to catastrophe losses, adverse loss reserve development, weakening equity markets and the lingering effects of prolonged soft market of the 1990s. Operating returns since 2001 have been adversely impacted by ongoing reserve development on RSAUSA's discontinued operations as well as catastrophe losses. Operating losses in 2005 were due to adverse development on loss reserves (non-A&E) while losses in 2004 and 2003 were also impacted by ongoing adverse loss reserve development on both asbestos and environmental (A&E) in 2003 as well as core loss reserves, an arbitration settlement relating to Royal's participation in an underwriting pool and restructuring charges. Losses in 2002 include additional reserve strengthening on both A&E exposures and the WTC disaster as well as losses on the group's equity investments. Heavy operating losses during 2001 were attributable to Tropical Storm Allison during the second quarter of the year, the WTC attack in the third quarter and A&E reserve strengthening taken in the fourth quarter. The group also experienced high losses prior to 2001.

A.M. Best remains concerned about the adequacy of RSAUSA's loss reserve position, particularly with regard to A&E liabilities. In addition, and until 2002, a sizable portion of RSAUSA's invested asset base had been represented by equities. With the prolonged worldwide downturn in equity markets, the group's total investment returns suffered as well. With significant divestures of common stockholdings during 2002 and 2003, investment leverage has improved considerably, thus dampening the impact on earnings from additional equity market turmoil. A.M. Best expects overall earnings to continue to be negative as reserves likely develop adversely in years to come. Somewhat offsetting this is the earnings to be generated from the group's fixed income portfolio.

PROFITABILITY ANALYSIS

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	Company				Industry Composite			
Period Ending	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio
2001	-28.8	-45.6	140.8	127.7	-4.0	-6.3	118.5	104.0
2002	-18.9	-36.1	128.7	117.2	1.8	-4.2	108.5	95.9
2003	-36.8	-21.5	167.9	152.7	5.1	12.7	104.2	92.1
2004	-57.4	-41.9	254.5	233.2	6.9	12.1	103.2	92.0
2005	-99.9	-25.1	190.7	-56.6	9.2	8.8	103.5	90.1
5-Yr Avg	-34.8	-35.5	151.9	135.9	4.4	5.4	106.9	94.3
03/2005	-75.5	XX	204.9	157.5	XX	XX	XX	XX
03/2006	-99.9	XX	-99.9	-99.9	XX	XX	XX	XX

UNDERWRITING EXPERIENCE

	Net Undrw	Loss Ratios			Expense Ratios				
Year	Income ($000)	Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.	Div. Pol.	Comb Ratio
2001	-1,168,826	84.7	21.8	106.5	9.3	23.1	32.4	1.9	140.8
2002	-868,583	72.5	23.6	96.1	9.7	21.5	31.2	1.4	128.7
2003	-751,671	96.8	28.4	125.2	-15.8	57.7	41.9	0.9	167.9
2004	-497,613	95.1	35.3	130.4	4.5	119.6	124.1	0.0	254.5
2005	-469,106	326.1	224.7	550.8	42.5	-99.9	-99.9	0.0	190.7
5-Yr Avg	…	86.1	27.1	113.1	6.2	31.3	37.5	1.3	151.9
03/2005	-83,124	100.5	45.1	145.6	XX	XX	59.3	…	204.9
03/2006	-47,766	474.9	53.0	527.9	XX	XX	-99.9	…	-99.9

INVESTMENT INCOME ANALYSIS ($000)

	Company		
Year	Net Inv Income	Realized Capital Gains	Unrealized Capital Gains
2001	364,563	226,495	-410,890
2002	327,786	3,109	-161,036
2003	232,509	262,147	-32,269
2004	177,968	-370,962	328,880
2005	194,809	161,340	15,025
03/2005	38,606	814	-526
03/2006	46,854	5,578	-324

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	Company			Industry Composite	
Year	Inv Inc Growth (%)	Inv Yield (%)	Total Return (%)	Inv Inc Growth (%)	Inv Yield (%)
2001	-13.0	5.3	2.6	-14.3	5.3
2002	-10.1	4.9	2.5	-0.2	5.1
2003	-29.1	3.5	7.1	6.4	4.9
2004	-23.5	2.9	2.2	1.6	4.4
2005	9.5	3.9	7.5	21.4	4.8
5-Yr Avg	-14.7	4.1	4.2	2.7	4.9
03/2005	XX	XX	0.7	XX	XX
03/2006	XX	XX	1.2	XX	XX

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2005 Inv Assets ($000)	% of Invested Assets 2005	% of Invested Assets 2004	Annual % Chg
Long-Term bonds	3,989,344	89.5	84.4	-18.5
Stocks	110,647	2.5	1.8	3.5
Affiliated Investments	22,731	0.5	1.4	-72.9
Other Inv Assets	333,519	7.5	12.3	-53.4
Total	4,456,242	100.0	100.0	-23.2

2005 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt Val to Stmt Val(%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments	30.3	-1.6	4.9	100.0	…	…	…
States, terr & poss	9.8	-2.1	19.8	100.0	…	4.3	2.1
Corporates	59.9	0.4	5.9	98.5	1.5	21.8	65.3
Total all bonds	100.0	-0.5	7.0	99.1	0.9	13.5	67.4

CAPITALIZATION

Surplus has deteriorated over 60% during the past five years as a result of the downturn in equity markets, soft market conditions and adverse loss reserve development. Adverse loss reserve development continued to impact the pool's capitalization in 2005, thus driving surplus down an additional 19%. The reduction in surplus over the period was partially offset by $933 million in capital contributions from the parent.

The U.S. operations have historically benefited from the financial support and commitment of the group's U.K. parent. However, following a strategic review during 2003, the parent announced (on September 4, 2003) a major shift in the strategic direction of the worldwide operations of Royal & Sun Alliance Group plc. As a result of this review, the U.S. operations were ultimately put into run-off with large segments of ongoing operations sold to third party insurers. The parent company also announced a significant reserve strengthening, a sizable portion of which related to the U.S. operations, as well as the commitment to maintain minimum NAIC risk-based capital (RBC) requirements for its U.S. companies. Recognizing the reduced commitment from the U.K. parent, A.M. Best views the U.S. group's capitalization as marginal, albeit acceptable relative to its current rating level. With consolidated surplus down by 60% since 2000, underwriting, investment, and reinsurance leverage measures have risen to

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levels considerably higher than RSAUSA's commercial casualty peers. In addition, the U.S. group faces a number of contingent exposures, of which a student loan program represents the most significant threat to the group's capitalization. This program is currently being litigated by RSAUSA.

Capital Generation: Surplus has deteriorated over the period as a result of the downturn in equity markets, soft market conditions and weakening loss reserve position. Adverse loss reserve development once again plagued the pool's capitalization in 2004 when it recorded $300 million of gross reserve charges ($240 million after reinsurance) which further eroded the pool's already vulnerable surplus position. Surplus declined by more than $1.0 billion in 1999 as a result of a $1.12 billion dividend to Royal Group, Inc. That extraordinary dividend was used to fund the acquisition of Orion. Worsening operating results and declining equity markets further served to reduce surplus during the 2000 through 2002 period, despite a number of sizable capital contributions from the U.K. parent. As a result, surplus has declined by 60% since 2000. The reduction in surplus during 2002 was due to ongoing operating and investment losses that were only partially offset by $250 million in capital contributions from the parent. Consolidated surplus grew just 5% in 2003 due to $324 million in capital contributions from the U.K. parent. With continued loss reserve weakness, particularly in regard to RSAUSA's exposures to ongoing A&E losses, A.M. Best anticipates that RSAUSA will continue to suffer earnings drag from inadequately reserved accident years on discontinued lines of business.

CAPITAL GENERATION ANALYSIS ($000)

	Source of Surplus Growth		
Year	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital
2001	-801,129	-184,395	302,877
2002	-540,052	-157,927	250,000
2003	-562,842	229,878	324,000
2004	-478,968	-42,081	56,483
2005	-425,521	176,365	620
5-Yr Total	-2,808,513	21,840	933,979
03/2005	-61,441	288	…
03/2006	-30,707	5,254	…

	Source of Surplus Growth		
Year	Other, Net of Tax	Change in PHS	PHS Growth (%)
2001	176,483	-506,165	-22.0
2002	55,664	-392,315	-21.8
2003	76,485	67,521	4.8
2004	49,528	-415,039	-28.1
2005	47,676	-200,859	-19.0
5-Yr Total	405,836	-1,446,857	…
03/2005	13,237	-47,916	-4.5
03/2006	-4,199	-29,651	-3.5

Overall Capitalization: The U.S. operations have historically benefited from the financial support and commitment of the group's U.K. parent. However, following a strategic review during 2003, the parent announced (on September 4, 2003) a major shift in the strategic direction of the worldwide operations of Royal & Sun Alliance Group plc. As a result of this review, the U.S. operations underwent a major restructuring with the majority of Rasa's ongoing businesses being sold to Travelers Property Casualty. Most of the U.S. group's remaining lines (excluding non-standard auto) have been reclassified as discontinued

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operations. The parent company also announced a significant reserve strengthening, a sizable portion of which related to the U.S. operations, as well as the commitment to maintain minimum NAÏF risk-based capital (RIB) requirements for its U.S. companies. Recognizing the reduced commitment from the U.K. parent, A.M. Best no longer considers RASA as strategic to the parent and views Rasa's capitalization marginal relative to its current rating level. With consolidated surplus down by 60% since 2000, underwriting, investment, and reinsurance leverage measures have risen to levels considerably higher than Rasa's commercial casualty peers. In addition, the U.S. group faces a number of contingent exposures, of which a student loan program represents the most significant threat to the group's capitalization. This program is currently being litigated by RASA.

QUALITY OF SURPLUS ($000)

		% of PHS			Dividend Requirements		
Year	Year-End PHS	Cap Stk/ Contrib. Cap.	Other	Un-assigned Surplus	Stock-holder Divs	Div to POI (%)	Div to Net Inc. (%)
2001	1,799,527	119.7	…	-19.7	…	…	…
2002	1,407,212	169.6	1.6	-71.2	…	…	…
2003	1,474,733	183.6	30.2	-99.9	…	…	…
2004	1,059,694	261.1	45.8	-99.9	0	0.0	0.0
2005	858,835	322.3	66.3	-99.9	…	…	…
03/2005	1,011,779	273.6	48.0	-99.9	…	…	…
03/2006	829,184	333.8	68.7	-99.9	…	…	…

LEVERAGE ANALYSIS

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
2001	1.6	2.6	5.7	8.9	1.2	1.9	4.2	5.9
2002	2.1	3.4	7.5	12.3	1.4	2.0	4.6	6.5
2003	0.6	2.9	5.2	11.3	1.3	1.9	4.3	6.0
2004	0.2	3.6	5.5	10.2	1.2	1.9	4.1	5.6
2005	…	3.2	4.9	9.2	1.1	1.8	3.9	5.3
03/2005	0.3	3.4	5.7	XX	XX	XX	XX	XX
03/2006	-0.1	3.0	5.0	XX	XX	XX	XX	XX

Current BCAR: 76.7

PREMIUM COMPOSITION & GROWTH ANALYSIS

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Period	DPW		GPW	
Ending	($000)	(% Chg)	($000)	(% Chg)
2001	4,467,327	11.4	4,546,636	8.5
2002	4,983,410	11.6	5,029,167	10.6
2003	3,804,262	-23.7	3,856,024	-23.3
2004	271,858	-92.9	298,764	-92.3
2005	93,534	-65.6	117,354	-60.7
5-Yr CAGR	…	-52.8	…	-51.1
5-Yr Change	…	-97.7	…	-97.2
03/2005	53,041	-32.0	207,932	-22.8
03/2006	6,182	-88.3	13,010	-93.7

Period	NPW		NPE	
Ending	($000)	(% Chg)	($000)	(% Chg)
2001	2,886,552	4.1	2,776,919	0.8
2002	3,009,680	4.3	2,851,863	2.7
2003	843,273	-72.0	1,528,478	-46.4
2004	196,397	-76.7	834,635	-45.4
2005	-31,655	-99.9	78,768	-90.6
5-Yr CAGR	…	-99.9	…	-50.9
5-Yr Change	…	-99.9	…	-97.1
03/2005	77,604	336.5	81,406	-74.6
03/2006	-2,392	-99.9	3,854	-95.3

Reserve Quality: RSAUSA's carried loss reserve position has weakened in recent years, with adverse development recorded in workers' compensation, personal lines and general liability lines. During 2000, RSAUSA exhausted the aggregate stop loss reinsurance protection it had purchased to protect its balance sheet against unfavorable workers' compensation reserve development. Reserves, particularly as relates to A&E exposures, continued to prove deficient through year-end 2003. The group has not posted any development on A&E reserves since 2003. WTC claims were strengthened by $100 million during 2002 while workers' compensation, general liability and A&E reserves were boosted by approximately $366 million during 2003, including approximately $143 million for asbestos reserves. Reserve charges were taken again in 2004 and 2005.

According to A.M. Best's estimates, RSAUSA ranks among the top 25 insurers in the nation with an approximate 3% historical market share in commercial lines that are exposed to ongoing asbestos and environmental (A&E) claims emergence. Because a strict market share analysis of potential liability may overestimate the group's ultimate liabilities, A.M. Best adjusts its analysis by factoring in accelerated loss payments and survival ratio methodologies. Nevertheless RSAUSA's three-year survival ratios continue to compare unfavorably with A.M. Best's undiscounted ultimate industry expected survival ratio of 20 times. Following a ground-up review of its A&E reserves by a leading independent actuarial firm, RSAUSA brought its A&E reserves to the actuarial mid-point in late 2002 at a cost of $188 million and again in 2003 at an additional cost of $143 million. While Best views this strengthening positively, A.M. Best's own analysis of RSAUSA's published A&E reserve data indicates that RSAUSA's A&E reserves may still fall short of ultimate funding needs.

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR ($000)

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Calendar Year	Original Loss Reserves	Developed Reserves Thru 2005	Develop. to Orig.(%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @ 12/2005	Unpaid Resrv. to Dev.(%)
2000	4,328,743	5,664,480	30.9	57.9	205.7	1,149,631	20.3
2001	4,623,991	5,504,823	19.0	48.9	200.9	1,398,617	25.4
2002	4,769,473	5,091,780	6.8	22.9	186.7	1,789,059	35.1
2003	4,134,880	4,567,183	10.5	29.3	337.3	2,293,228	50.2
2004	3,605,753	3,784,616	5.0	16.9	607.0	2,510,085	66.3
2005	2,541,319	2,541,319	…	…	999.9	2,541,319	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2005	Develop. to Orig.(%)	Unpaid Reserves @12/2005	Acc Yr. Loss Ratio	Acc Yr. Comb Ratio
2000	1,141,326	1,806,378	58.3	268,830	106.0	140.9
2001	1,402,427	1,444,650	3.0	248,986	90.6	125.0
2002	1,258,983	1,393,116	10.7	390,442	78.6	111.3
2003	1,354,664	1,060,071	-21.7	504,169	131.3	174.1
2004	660,878	365,310	-44.7	216,857	104.5	228.6
2005	31,234	31,234	…	31,234	637.5	277.4

ASBESTOS & ENVIRONMENTAL (A&E) RESERVES ANALYSIS

	_____ Company _____		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net IBNR Mix (%)
2001	517,010	86.9	…
2002	648,016	76.2	…
2003	748,410	70.8	…
2004	703,071	70.0	…
2005	663,410	69.7	71.8

	_____ Company _____			_____ Industry Composite _____		
Year	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)
2001	…	9.5	…	…	1.4	…
2002	…	6.6	…	…	2.3	…
2003	12.4	9.4	8.3	8.5	1.7	1.8
2004	14.6	…	6.3	7.8	1.4	1.8
2005	15.6	…	5.9	8.0	1.0	1.4

Reinsurance Utilization: Reinsurance recoverables have grown rapidly since the late 1990s, both nominally and as a percentage of surplus, due to increased reliance on the use of ceded reinsurance as well as a rise in catastrophe losses and adverse loss reserve development. Net reinsurance recoverables (paid, unpaid and IBNR losses and unearned premium reserves) rose significantly during the early part of the latest five-year period, primarily as a result of the WTC loss, but also due to Tropical Storm Allison and A&E reserve strengthening. Recoverables peaked at $5.8 billion in 2003 and have since come down to $3.6 billion (including approximately $685 million from the U.K. parent). Due to the extremely high leverage of reinsurance recoverables-to-surplus, RSAUSA remains exposed to potential reinsurance disputes, especially as regards its WTC losses as

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well as actual disputes regarding the reinsurance of certain financial insurance contracts.

CEDED REINSURANCE ANALYSIS ($000)

	Company				Industry Composite		
Year	Ceded Reins Total	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS (%)	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS(%)
2001	5,851,489	62.1	228.1	325.2	70.7	128.4	177.8
2002	6,830,106	59.0	327.3	485.4	70.8	138.4	194.8
2003	9,084,941	21.9	394.2	616.0	71.9	122.1	174.5
2004	4,910,477	37.4	427.5	463.4	75.8	108.1	148.3
2005	3,727,155	-27.0	416.9	434.0	76.3	104.0	138.4

2005 REINSURANCE RECOVERABLES ($000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates	1,328,321	1,303,609	79,768	-284,198	2,427,500
Foreign Affiliates	542,360	884,069	…	-742,599	683,830
US Insurers	1,046,846	803,999	43,764	-15,759	1,878,850
Pools/Associations	170,876	26,036	3,807	-349	200,370
Other Non-US	647,362	482,171	10,776	-323,020	817,289
Total (ex US Affils)	2,407,444	2,196,275	58,347	-1,081,727	3,580,339
Grand Total	3,735,765	3,499,884	138,115	-1,365,925	6,007,839

* Includes Commissions less Funds Withheld

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affl Inv. Lev.	Affil Inv.	Class 3-6 Bonds	Common Stocks
2001	1.2	8.3	5.8	54.1	69.4	15.8	10.4	24.1
2002	4.0	10.0	4.0	21.1	39.0	10.2	10.3	17.9
2003	2.9	4.2	3.5	0.5	11.1	7.5	8.5	19.2
2004	8.4	6.0	2.7	0.7	17.9	7.9	6.8	19.7
2005	4.6	0.6	3.3	1.8	10.2	2.6	6.9	18.5

LIQUIDITY

RSAUSA's quick and current liquidity ratios are in line with industry averages, although operating cash flows remain negative. The very large negative cash flows have been due to catastrophe losses as well as the acceleration of the group's run-off program. Operating cash flows, which have been negative since 1997, were significantly impacted in 2003 with the implementation of RSAUSA's aggregate excess of loss cover with its U.K. parent. Cash flows since then continue to slide as the pool continues to run off its loss reserves without benefit of offsetting premium income.

LIQUIDITY ANALYSIS

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	Company				Industry Composite			
Year	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)
2001	23.9	88.4	126.5	36.0	22.8	101.1	135.7	18.1
2002	29.3	86.8	120.6	38.5	24.1	99.1	133.4	18.6
2003	61.1	96.6	121.7	12.1	26.1	102.4	134.7	14.8
2004	38.0	99.6	119.3	12.1	23.9	104.6	135.4	14.4
2005	34.6	105.0	120.8	5.6	22.1	107.4	137.0	13.0
03/2005	XX	93.6	119.9	13.1	XX	XX	XX	XX
03/2006	XX	95.7	121.3	4.7	XX	XX	XX	XX

CASH FLOW ANALYSIS ($000)

	Company					Industry Composite	
Year	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper Cash Flow (%)	Underw Cash Flow (%)	Oper Cash Flow (%)
2001	-1,127,455	-321,224	-12,013	69.9	91.4	87.8	103.2
2002	-831,890	-328,209	583,604	78.6	91.6	102.1	114.2
2003	-1,709,263	-1,433,788	1,847,169	42.8	52.0	113.5	124.0
2004	-1,713,408	-1,651,176	-2,259,161	23.4	26.2	128.7	137.3
2005	-1,666,179	-1,604,614	-320,451	0.2	4.2	117.2	127.3
03/2005	-422,802	-392,521	-231,202	1.3	8.4	XX	XX
03/2006	-390,096	-366,918	-24,423	-0.1	5.8	XX	XX

HISTORY

Royal & SunAlliance Insurance Group plc was formed on July 19, 1996 by the merger of Royal Insurance Group plc and SunAlliance Group plc. The history involves the histories of many companies, including Sun (founded in 1710), Alliance (founded in 1824) and Royal (founded in 1845).

The Royal & SunAlliance Insurance Group's history can be traced back to the formation of Sun Insurance Office Limited in 1710, London Assurance in 1720, Alliance Assurance Company, Ltd in 1824 and Royal Insurance Company Ltd., Liverpool, England, in 1845. In 1891, Royal merged with the Queen Insurance Company of Liverpool, England, and thereby acquired the Royal Insurance Company of America (known at that time, under a previous charter, as the Queen Insurance Company of America). Through another British merger, namely the 1908 acquisition of the British and Foreign Marine Insurance Company of England by Royal of Liverpool, the American and Foreign Insurance Company (then known as the American and Foreign Marine Insurance Company under a previous charter) joined the Royal Insurance Group. The London-based parent formed the Royal Indemnity Company in 1911, acquired the direct stock ownership of the demutualized Newark Insurance Company in 1917, and indirectly acquired ownership of the Globe Indemnity Company in 1919 upon the acquisition of the Liverpool and London and Globe Insurance Company, Ltd. The latter was also formed in Liverpool, England in 1836.

More recent changes to the group include the 1961 indirect acquisition of the Safeguard Insurance Company (upon the acquisition of the London and Lancashire Insurance Group); the 1980 formation of Royal Lloyd's of Texas; the 1982 demutualization and acquisition of the Milbank Insurance Company, which was sold to State Automobile Mutual Insurance Company, Columbus, Ohio on July 1, 1993 for $50 million in cash; the 1982 formation of the Royal Surplus Lines Insurance Company; the 1983 acquisition of American Royal Reinsurance Company (formerly American Overseas Reinsurance Company), which was sold to QBE Insurance Group, Inc., a publicly-traded Australian general insurance and reinsurance company on November 24, 1993; the 1984 acquisition of the Silvey Corporation and its subsidiaries, Tri-State Insurance Company, Farmers and Merchants Insurance Company, and Midwestern Insurance Company, which were sold as a group in 1990; and the 1985

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formation of the Royal Special Risks Insurance Company which was sold as a "shell" in 2000. The demutualization and acquisition of the Royal Maccabees Life Insurance Company (formerly Maccabees Life Insurance Company) and its subsidiary were completed in early 1989. Royal Maccabees Life Insurance Company was sold to Swiss Re in 1999. On December 30, 1996 Newark Insurance Company was sold to Eagle Insurance Company. In 1999, the group acquired Orion Capital Corporation, a specialty personal and commercial lines writer, for $1.36 billion plus the assumption of approximately $460 million in outstanding debt. In addition, a former 100%-reinsured pool member, Connecticut Specialty Insurance Company, was sold as a shell to AXIS Specialty US Holdings, Inc. on October 1, 2002.

In 2004, there were several changes to the pool's members in order to simplify RSAUSA's organizational structure. The changes were as follows: Phoenix Assurance Company of New York was merged into Royal Insurance Company of America; American and Foreign Insurance Company, Globe Indemnity Company and Royal Insurance Company of America were merged into Royal Indemnity Company; Safeguard Insurance Company, The Connecticut Indemnity Company and the Fire and Casualty Insurance Company of Connecticut were merged into Security Insurance Company of Hartford; Carolina American Insurance Company was merged into Unisun Insurance Company; Unisun Insurance Company, Guaranty National Insurance Company of Connecticut, Atlantic Indemnity Company, Atlantic Security Insurance Company were merged into Guaranty National Insurance Company; the Sea Insurance Company of America assumed the liabilities and assets of Tariff Reinsurances Limited (U.S. Branch) through a reinsurance, assignment and assumption agreement, and purchased the remaining assets and assumed any remaining liabilities from Tariff Reinsurances Limited; Tariff Reinsurances Limited (U.S. Branch) simultaneously surrendered its New York insurance license; the Sea Insurance Company of America also purchased Financial Structures Insurance Company from Financial Structures Limited, Financial Structures was then merged into the Sea Insurance Company of America.

During 2005 and early 2006, a number of affiliates were sold. In January 2006, Marine Indemnity Insurance Company of America was sold. Effective November 1, 2005, Viking Insurance Company of Wisconsin, it's 100%-reinsured and managed affiliate, Viking County Mutual Insurance Company, and Peak Property and Casualty Insurance Corp., were all sold to Sentry Insurance a Mutual Company (Sentry), along with the non-standard personal automobile business underwritten by those companies.

MANAGEMENT

Ownership of the RSAUSA Pool is held by the Royal Group, Inc., a Delaware holding company, which is directly owned by Royal & SunAlliance USA, Inc. and ultimately owned by Royal & Sun Alliance Insurance Group plc, London, England.

Operations of the companies that comprise the RSAUSA Pool have been under the direction of John Tighe, president and chief executive officer, since October 1, 2003. Previously, Mr. Tighe served in various capacities within the company. Most recently, he was the Chief Risk Officer; prior to that, he was President of the company's risk management global division.

CONSOLIDATED BALANCE SHEET ($000)

ADMITTED ASSETS	12/31/2005	12/31/2004	2005 %	2004 %
Bonds	3,989,344	4,896,581	73.2	68.8
Preferred stock	95,516	99,226	1.8	1.4
Common stock	15,131	7,699	0.3	0.1
Cash & short-term invest	260,255	580,706	4.8	8.2
Real estate, investment	4,767	5,150	0.1	0.1
Other non-affil inv asset	28,229	86,897	0.5	1.2
Investments in affiliates	22,731	81,420	0.4	1.1
Real estate, offices	…	2,450	…	0.0
Total invested assets	4,415,973	5,760,130	81.1	81.0
Premium balances	80,087	187,875	1.5	2.6
Accrued interest	40,269	43,538	0.7	0.6
All other assets	911,832	1,123,709	16.7	15.8
Total assets	5,448,161	7,115,252	100.0	100.0

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LIABILITIES & SURPLUS	12/31/2005	12/31/2004	2005 %	2004 %
Loss & LAE reserves	2,725,037	3,767,756	50.0	53.0
Unearned premiums	59,736	170,160	1.1	2.4
Conditional reserve funds	79,415	92,669	1.5	1.3
All other liabilities	1,725,138	2,024,973	31.7	28.5
Total liabilities	4,589,326	6,055,557	84.2	85.1
Total policyholders' surplus	858,835	1,059,694	15.8	14.9
Total liabilities & surplus	5,448,161	7,115,252	100.0	100.0

CONSOLIDATED SUMMARY OF 2005 OPERATIONS ($000)

STATEMENT OF INCOME	12/31/2005
Premiums earned	78,768
Losses incurred	256,872
LAE incurred	177,015
Undrw expenses incurred	113,002
Other expense incurred	987
Div to policyholders	-2
Net underwriting income	-469,106
Net investment income	194,809
Other income/expense	-151,224
Pre-tax oper income	-425,521
Realized capital gains	161,340
Income taxes incurred	-8,169
Net income	-256,011

FUNDS PROVIDED FROM OPERATIONS	12/31/2005
Premiums collected	2,605
Benefit & loss related pmts	1,152,130
LAE & undrw expenses paid	516,656
Other income/expense	…
Div to policyholders	-2
Undrw cash flow	-1,666,179
Investment income	219,174
Other income/expense	-151,224
Pre-tax cash operations	-1,598,230
Income taxes pd (recov)	6,385
Net oper cash flow	-1,604,614

INTERIM BALANCE SHEET

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ADMITTED ASSETS	03/31/2006		
Cash & short term invest	235,831	…	…
Bonds	3,704,136	…	…
Preferred stock	91,795	…	…
Common stock	28,103	…	…
Other investments	28,642	…	…
Total investments	4,088,507		
Premium balances	78,414	…	…
Reinsurance funds	821,028	…	…
Accrued interest	38,036	…	…
All other assets	177,820	…	…
Total assets	5,203,805		

LIABILITIES & SURPLUS	03/31/2006		
Loss & LAE reserves	2,448,173	…	…
Unearned premiums	53,491	…	…
Conditional reserve funds	82,963	…	…
All other liabilities	1,789,994	…	…
Total liabilities	4,374,621		
Capital & assigned surp	3,337,754	…	…
Unassigned surplus	-2,508,570	…	…
Policyholders' surplus	829,184		
Total liabilities & surplus	5,203,805		

INTERIM INCOME STATEMENT

	Period Ended 3/31/2006	Period Ended 3/31/2005	Increase/ Decrease
Premiums earned	3,854	81,406	-77,552
Losses incurred	18,302	81,804	-63,502
LAE incurred	2,041	36,742	-34,701
Underwriters expenses incurred	31,141	45,648	-14,506
Other expenses incurred	135	336	-201
Net underwriting income	-47,766	-83,124	35,358
Net investment income	46,854	38,606	8,248
Other income/expenses	-29,796	-16,923	-12,873
Pre-tax operating income	-30,707	-61,441	30,733
Realized capital gains	5,578	814	4,764
Income taxes incurred	-156	-467	311

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Net income	-24,972	-60,159	35,187

INTERIM CASH FLOW

	Period Ended 3/31/2006	Period Ended 3/31/2005	Increase/ Decrease
Premiums collected	-528	5,537	-6,064
Benefit & loss related pmts	286,714	269,829	16,886
Undrw expenses paid	102,853	158,510	-55,657
Underwriting cash flow	-390,096	-422,802	32,707
Investment income	52,973	47,204	5,769
Other income/expense	-29,796	-16,923	-12,873
Pre-tax cash operations	-366,918	-392,521	25,603
Net oper cash flow	-366,918	-392,521	25,603

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Press Release - SEPTEMBER 28, 2006

A.M. Best Places Ratings of Royal & Sun Alliance Under Review With Positive Implications

Print this article

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FOR IMMEDIATE RELEASE

OLDWICK, N.J., SEPTEMBER 28, 2006
A.M. Best Co. has placed the financial strength rating (FSR) of A- (Excellent) and the issuer credit ratings (ICR) of "a-" of **Royal & Sun Alliance Insurance Group plc** (R&SA) (United Kingdom) and its rated subsidiaries under review with positive implications. At the same time, the ratings of R&SA's debt instruments and preferred stock have also been placed under review with positive implications. (See link below for a detailed list of ratings.)

These rating actions have been taken pending completion of the proposed sale of R&SA's U.S. operation to Arrowpoint Capital, a new company formed by R&SA's U.S. management team. A.M. Best will review the impact of the transaction on R&SA's risk adjusted capitalisation, particularly the impact of the removal of the U.S. technical reserves from its balance sheet. A.M Best anticipates that this will result in a reduction in potential volatility, although prior to 2004 the company suffered shortfalls in its non-U.S. reserves (as well as it U.S. reserves).

A.M. Best believes that after completion of the sale, R&SA's continuing exposure to the U.S. operation will be largely limited to timing risk relating to an adverse development cover and the maintenance of existing letter of credit facilities. (The U.S. operation has a USD 150 million letter of credit from its UK parent.). If the U.S. business were to draw down on this facility then repayment would have priority before any distribution could be made, subject to a limit of USD 100 million.

The under review status of the ratings has positive implications, reflecting A.M. Best's view that the review will most likely result in an affirmation or upgrade of R&SA's existing ratings. A.M. Best anticipates finalising its review in line with R&SA's timeframe for completion of the sale which is expected by year-end 2006.

For a complete list of Royal & Sun Alliance Insurance Group plc's FSRs, ICRs and debt ratings, please visit R&SA.

For Best's Ratings, an overview of the rating process and rating methodologies, please visit Best's Rating Center.

A.M. Best Co., established in 1899, is the world's oldest and most authoritative insurance rating and information source.

View a list of companies related to this press release. The list will include Best's Ratings along with links to additional company specific information including related news and reports.

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Press Release - SEPTEMBER 28, 2006

A.M. Best Places Ratings of the Royal & SunAlliance USA Under Review With Developing Implications

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FOR IMMEDIATE RELEASE

OLDWICK, N.J., SEPTEMBER 28, 2006
A.M. Best Co. has placed the financial strength ratings (FSR) of C++ (Marginal) and the issuer credit ratings (ICR) of "b" of the **Royal & SunAlliance USA Insurance Pool** (R&SAUS) and **Royal Surplus Lines Insurance Company** (RSLIC) under review with developing implications pending the completion of the proposed sale of these operations to Arrowpoint Capital, a new company formed by the existing management team of these operations. All the above companies are domiciled in Wilmington, DE. R&SAUS and RSLIC are U.S. subsidiaries of **Royal & Sun Alliance Insurance Group plc** (R&SA) (London, England). (See below for a detailed list of the ratings.)

As part of this transaction, R&SA will infuse $287.5 million into its U.S. subsidiaries to facilitate the ongoing run-off of R&SAUS and RSLIC's existing liabilities. Subsequently, Arrowpoint Capital is purchasing R&SAUS and RSLIC for $300 million in deferred consideration, which will be based on the future performance of the run-off of the liabilities being transferred in the sale. R&SAUS and RSLIC ceased writing new business in 2003 and have been in run-off since then.

A.M. Best will review the impact of this transaction on the U.S. subsidiaries' risk-adjusted capitalization as well as management's operational plans for the newly formed company.

A.M. Best anticipates finalizing its review following the completion of the sale to Arrowpoint Capital and discussions with management, which are expected by year-end 2006.

The FSR of C++ (Marginal) and the ICRs of "b" have placed under review with developing implications for **Royal & SunAlliance USA Insurance Pool** and its following members:
-- Royal Indemnity Company
-- Security Insurance Company of Hartford
-- Guaranty National Insurance Company

The FSR of C++ (Marginal) and the ICR of "b" have placed under review with developing implications for **Royal Surplus Lines Insurance Company**.

For Best's Ratings, an overview of the rating process and rating methodologies, please visit Best's Rating Center.

For current Best's Ratings, independent data and analysis on more than 3,000 individual property/casualty companies and A.M. Best groups, please visit Best's Property/Casualty Center.

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Thursday September 28, 05:25 PM

REUTERS

Royal & Sun offloads U.S. unit

LONDON (Reuters) - Insurer Royal & Sun Alliance Insurance Group (RSA) <RSA.L> is selling its U.S. arm to the unit's management, providing the British company with a long-awaited exit from its U.S. unit and pushing its shares up.

RSA said on Thursday it agreed to sell the business to Arrowpoint Capital, a vehicle set up by its U.S. management team, for 158 million pounds, although RSA will provide the U.S. unit with a 151 million-pound capital injection as part of the deal.

The second-largest UK commercial insurer said the deal would be funded from the future performance of the U.S. operation, though the capital injection and the writeoff of U.S. net assets and other costs will lead to a pretax loss on the disposal of 443 million pounds.

"'Sold' is a polite description as in effect RSA has paid Arrowpoint to take the business away," Royal Bank of Scotland (LSE: RBSPF3.L - news) fixed income analyst Corinne Cunningham said in a note.

RSA said it had given "minimal representations and warranties" as part of the disposal, but that it effectively represents a "clean exit from the U.S.".

"It's absolutely the right transaction for shareholders," RSA's Chief Executive Andy Haste told journalists on a conference call. "It's clean, it's certain and it brings finality to the U.S. exposure."

Analysts said they were surprised at the cost of exiting its U.S. unit, which would be more expensive than the market had anticipated, but were cheered that the company had managed to agree a clean break from its American arm.

RSA shares, which closed up 4.33 percent at 150-3/4 pence, have risen nearly 11 percent since the beginning of June, outperforming the FTSE <.FTSE> by the same amount during the period, according to Reuters data.

BID TARGET?

RSA's U.S. operation, which has haemorrhaged hundreds of millions of dollars due to escalating claims, was closed to new business in September 2003 and a strategic plan to wind the unit up and eventually sell it has been one of Haste's priorities.

Analysts have suggested a sale of the U.S. arm could make RSA an attractive bid target for rivals, such as AIG <AIG.N> or Zurich Financial Services <ZURN.VX>, who would be interested in acquiring its well-established UK and Scandinavian businesses.

"This means that the group is now well and truly on the M&A radar," RBS (LSE: RBS.L - news) 's Cunningham said.

Haste refused to comment on whether the move would make it more likely to be sold.

RSA said the adverse development reinsurance cover it arranged with its U.S. arm would remain in place. This deal offers protection from the group to the unit of up to $1.2 billion (640 million pounds), but RSA said the policy was at its limits so would have no further risk of future payments.

Concluding the U.S. deal would prompt the board to reconsider its dividend policy, Haste told analysts, but declined to comment on whether it could increase its payout.

Litigation against the U.S. unit, primarily involving motor giant General Motors Corp (NYSE: GMW - news) . <GM.N>, will remain with that unit after being spun off, Haste said, although RSA may have some exposure if the lawsuits are successful.

RSA's 8.5 percent sterling bond callable in 2014 rose sharply and was bid at 145 basis points over gilts by 3:55 p.m., a trader in London said, some 12 basis points tighter on the day, as hopes built that the rating agencies would upgrade the company.

Credit rating agencies welcomed the move. Moody's and A.M. Best placed their ratings on RSA group on review for possible upgrade following the deal, while Standard & Poor's kept its "A-" rating, but said that it viewed the development positively.

RSA proposes to cancel its New York Stock Exchange listing, its ADR programme and its SEC registration, which it expects would save it around 10 million pounds per year.

The deal requires the consent of regulators and its shareholders. RSA plans to hold a shareholders' meeting in early to mid-November to gain their agreement.

(Additional reporting by Richard Barley in London)

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September 28, 2006 Thursday 12:33 PM GMT

LENGTH: 224 words

HEADLINE: RSA credit rating **placed** on review by Moody's; upgrade 'possible'

BODY:

LONDON (AFX) - Moody's Investor Service said that it has **placed** Royal & Sun Alliance's Baa1 credit rating on review with regard to a possible upgrade after the UK insurer sold off its US operation for 158 mln stg to Arrowpoint, a buyout vehicle created by its US management team.

The deal will give Royal and Sun Alliance a clean break from all its legal liabilities in the USA, said Andy Haste, **RSA's** chief executive.

Moody's added that the upgrade would be dependent on the successful completion of the sale of the US book.

The deal 'will also largely eliminate the Group's future exposure to the US operations, which have produced significant underwriting losses in recent years and have weighed on the Group's ratings' the ratings agency said.

Under the deal, **RSA** will provide a 151 mln stg capital injection to the US business, and will receive 158 mln stg out of the future revenues over the next four years. The net effect of the deal is a 433 mln stg loss, reflecting the write-off of assets.

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af/af/rar

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Ultimate Parent: Arrowpoint Capital Corp

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Web:www.arrowpointcapital.com

Tel: 704-522-2000 **Fax:** 704-522-3200
AMB#: 002438 **NAIC#:** 24678
Ultimate Parent#: 055269 **FEIN#:** 13-5358230

BEST'S FINANCIAL STRENGTH RATING

The company is assigned the classification of NR-3 (Rating Procedure Inapplicable) as our normal rating procedure does not properly apply to this company's business and/or operations.

FIVE YEAR RATING HISTORY

Date	Best's FSR
06/22/10	NR-3
06/16/09	NR-3
03/31/08	NR-4
03/09/07	NR-4
03/09/07	C+ p
09/28/06	C++pu
05/09/06	C++p

KEY FINANCIAL INDICATORS

	Statutory Data ($000)		
Period Ending	Direct Premiums Written	Net Premiums Written	Pretax Operating Income
2005	94,953	-25,726	-402,501
2006	12,585	-7,152	-195,135
2007	-802	-1,845	-351,816
2008	-7,131	-5,738	-161,576
2009	-5,477	-9,024	-83,510
09/2009	2,254	1,123	-62,241
09/2010	892	-3,952	-67,427

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	Statutory Data ($000)		
Period Ending	Net Income	Total Admitted Assets	Policy-holders' Surplus
2005	-240,062	5,291,523	897,796
2006	-266,724	4,228,290	576,409
2007	-362,064	2,998,163	445,627
2008	-101,319	2,510,706	331,460
2009	-24,970	2,227,585	337,956
09/2009	-49,393	2,298,468	319,109
09/2010	-47,130	2,038,030	300,895

	Profitability			Leverage			Liquidity	
Period Ending	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev	Overall Liq (%)	Oper. Cash-flow (%)
2005	27.9	3.5	-99.9	9.1	…	4.5	122.4	12.1
2006	-99.9	6.9	-99.9	7.2	…	5.7	118.3	27.3
2007	-99.9	6.0	-99.9	9.4	…	5.6	120.6	28.8
2008	-99.9	4.6	999.9	28.8	…	6.4	118.5	19.5
2009	-99.9	4.2	999.9	17.5	…	5.4	121.5	47.5
5-Yr Avg	999.9	5.0	-99.9	…	…	…	…	…
09/2009	999.9	XX	-99.9	XX	0.0	6.0	119.8	46.2
09/2010	-99.9	XX	999.9	XX	0.0	5.5	121.3	22.4

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

2009 BUSINESS PRODUCTION AND PROFITABILITY ($000)

Product Line	Premiums Written Direct	Premiums Written Net	% of Total NPW	Pure Loss Ratio	Loss & LAE Reserves
Oth Liab CM	142	97	-1.1	999.9	70,506
All Other	-5,619	-9,121	101.1	-99.9	894,268
Totals	-5,477	-9,024	100.0	-99.9	964,774

Geographical breakdown of direct premium writings ($000): New York, $1,001 (-18.3%); New Jersey, $239 (-4.4%); Alabama, $199 (-3.6%); Wisconsin, $186 (-3.4%); Oregon, $163 (-3.0%); 46 other jurisdictions, $-180 (3.3%); Canada, $115 (-2.1%); Aggregate Alien, $-7,200 (131.5%).

INVESTMENT INCOME ANALYSIS ($000)

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	Company		
Year	Net Inv Income	Realized Capital Gains	Unrealized Capital Gains
2005	171,918	160,078	-7,184
2006	259,933	-78,659	-90,094
2007	175,144	-59,104	-72,558
2008	107,881	-25,364	-8,031
2009	84,698	24,201	-3,891
09/2009	63,972	2,550	-637
09/2010	57,185	11,784	7,912

	Company			Industry Composite	
Year	Inv Inc Growth (%)	Inv Yield (%)	Total Return (%)	Inv Inc Growth (%)	Inv Yield (%)
2005	7.6	3.5	6.7	19.3	4.9
2006	51.2	6.9	2.4	9.6	4.9
2007	-32.6	6.0	1.5	9.8	5.0
2008	-38.4	4.6	3.2	-6.4	4.7
2009	-21.5	4.2	5.3	-8.8	4.4
5-Yr Avg	-8.6	5.0	4.0	3.6	4.8
09/2009	XX	XX	3.3	XX	XX
09/2010	XX	XX	4.1	XX	XX

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2009 Inv Assets ($000)	% of Invested Assets 2009	% of Invested Assets 2008	Annual % Chg
Long-Term bonds	1,717,521	85.6	81.5	-1.4
Stocks	21,282	1.1	4.1	-75.6
Affiliated Investments	156,354	7.8	7.2	1.7
Other Inv Assets	111,855	5.6	7.2	-27.3
Total	2,007,012	100.0	100.0	-6.1

2009 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt Val to Stmt Val(%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments	25.6	1.2	6.2	100.0	…	…	…
States, terr & poss	0.0	0.5	1.5	100.0	…	…	…
Special Revenue	15.9	3.2	17.5	100.0	…	8.6	7.3
Corporates	58.4	2.6	6.6	96.3	3.7	26.6	82.5
Total all bonds	100.0	2.3	8.3	97.8	2.2	16.9	89.7

CAPITAL GENERATION ANALYSIS ($000)

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	Source of Surplus Growth		
Year	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital
2005	-402,501	152,894	-5,171
2006	-195,135	-168,753	24,263
2007	-351,816	-131,662	287,500
2008	-161,576	-33,395	…
2009	-83,510	20,309	1,127
5-Yr Total	-1,194,538	-160,607	307,719
09/2009	-62,241	1,913	1,127
09/2010	-67,427	19,696	…

	Source of Surplus Growth		
Year	Other, Net of Tax	Change in PHS	PHS Growth (%)
2005	39,174	-215,603	-19.4
2006	18,238	-321,387	-35.8
2007	65,196	-130,782	-22.7
2008	80,804	-114,167	-25.6
2009	68,570	6,496	2.0
5-Yr Total	271,982	-775,443	…
09/2009	46,851	-12,351	-3.7
09/2010	10,669	-37,061	-11.0

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period	DPW		GPW	
Ending	($000)	(% Chg)	($000)	(% Chg)
2005	94,953	-66.0	228,834	-75.6
2006	12,585	-86.7	15,712	-93.1
2007	-802	-99.9	-1,342	-99.9
2008	-7,131	-99.9	-5,129	-99.9
2009	-5,477	23.2	-1,527	70.2
5-Yr CAGR	…	-99.9	…	-99.9
5-Yr Change	…	-99.9	…	-99.9
09/2009	2,254	304.4	9,586	999.9
09/2010	892	-60.4	-3,986	-99.9

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Period	NPW		NPE	
Ending	($000)	(% Chg)	($000)	(% Chg)
2005	-25,726	-99.9	84,574	-89.9
2006	-7,152	72.2	20,729	-75.5
2007	-1,845	74.2	11,929	-42.5
2008	-5,738	-99.9	-850	-99.9
2009	-9,024	-57.3	-6,915	-99.9
5-Yr CAGR	…	-99.9	…	-99.9
5-Yr Change	…	-99.9	…	-99.9
09/2009	1,123	999.9	3,623	3.2
09/2010	-3,952	-99.9	-3,129	-99.9

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2009	Develop. to Orig.(%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/2009	Unpaid Resrv. to Dev.(%)
2004	3,410,613	4,090,396	19.9	61.1	657.4	871,435	21.3
2005	2,374,275	2,908,099	22.5	59.5	999.9	876,144	30.1
2006	1,758,793	2,150,742	22.3	68.0	999.9	874,021	40.6
2007	1,317,615	1,427,717	8.4	24.7	999.9	872,157	61.1
2008	966,752	968,012	0.1	0.4	…	870,154	89.9
2009	932,701	932,701	…	…	…	932,701	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2009	Develop. to Orig.(%)	Unpaid Reserves @12/2009	Acc Yr. Loss Ratio	Acc Yr. Comb Ratio
2004	659,912	348,342	-47.2	58,578	101.2	222.2
2005	31,234	30,154	-3.5	4,709	486.2	47.3
2006	8,596	4,597	-46.5	-2,123	147.5	-99.9
2007	64,274	7,698	-88.0	-1,864	253.9	-99.9
2008	96,427	50,076	-48.1	-2,003	-99.9	-99.9
2009	62,547	62,547	…	62,547	-99.9	-99.9

2009 REINSURANCE RECOVERABLES ($000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates	11,955	10,981	…	-3,316	19,620
US Insurers	421,044	227,363	370	-1,145	647,632
Pools/Associations	126,067	9,288	…	-364	134,991
Other Non-US	433,573	615,647	2	-633,357	415,865
Total (ex US Affils)	980,684	852,298	372	-634,866	1,198,488
Grand Total	992,639	863,279	372	-638,182	1,218,108

* Includes Commissions less Funds Withheld

LIQUIDITY ANALYSIS

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	Company				Industry Composite			
Year	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)
2005	33.8	97.6	122.4	5.5	20.8	102.7	137.8	12.0
2006	40.8	95.8	118.3	3.1	23.9	109.2	141.7	11.9
2007	31.3	99.0	120.6	…	22.0	111.3	144.9	10.4
2008	30.4	93.6	118.5	…	19.2	104.7	140.4	12.2
2009	25.7	100.9	121.5	…	21.4	110.9	145.5	9.3
09/2009	XX	97.8	119.8	…	XX	XX	XX	XX
09/2010	XX	101.6	121.3	…	XX	XX	XX	XX

HISTORY

On March 3, 2007, Royal & Sun Alliance Insurance Group plc (United Kingdom) completed the sale of its U.S. operations to Arrowpoint Capital Corp. (Arrowpoint Capital), a registered Delaware corporation founded by Royal & Sun Alliance U.S. senior managers and outside directors. Royal & Sun Alliance USA Pool's name was then changed to Arrowpoint Capital Pool (Arrowpoint Pool). The Arrowpoint Pool was terminated effective September 30, 2007 following the merger of the two remaining pool members, Arrowood Indemnity Company (formerly known as Royal Indemnity Company) and Security Insurance Company of Hartford. Arrowood Indemnity Company and its 100% subsidiary Arrowood Surplus Lines Insurance Company have been in run-off since 2003. As part of the transaction, the former U.K. parent contributed $287.5 million in additional capital to the group. Arrowpoint Capital acquired the U.S. operations for $300 million in deferred consideration, payment of which will be based on the future performance of the run-off.

The company was incorporated on December 3, 1979 under the laws of Delaware under the temporary title of Royal Indemnity Company (a Delaware corporation) to act as the vehicle for the transfer of the corporate domicile of the Royal Indemnity Company from New York, New York, to Wilmington, Delaware, effective March 31, 1980. The predecessor company was incorporated September 30, 1910 under the laws of New York. It commenced business February 15, 1911 under the sponsorship of the Royal Insurance plc, London, (currently known as RSA Insurance Group plc). The current title was adopted on September 15, 2007.

In 1949, all the outstanding capital stock of its companion carrier, Eagle Indemnity Company of New York, was contributed to this company by the parent organization, Royal Insurance plc, London, England. The two companies were merged on June 30, 1950. In July 1996, the company's ultimate parent, Royal Insurance Holdings plc, merged with Sun Alliance Group plc of London, England to form Royal & Sun Alliance Insurance Group plc. Paid-up capital of $5,000,000 consists of 50,000 common shares at $100 par value each. All authorized shares are outstanding.

MANAGEMENT

Officers: President and Chief Executive Officer, John Tighe; Senior Vice President and Chief Operating Officer, Dennis W. Cahill; Senior Vice President and Chief Financial Officer, Sean A. Beatty; Senior Vice President and Chief Investment Officer, David D. Shumway; Senior Vice President and Chief Claim Officer, Julie A. Fortune; Senior Vice President and General Counsel, James F. Meehan; Senior Vice Presidents, Catherine A. Carlino, Robert J. Dixon, Andre Lefebvre; Vice President and Chief Actuary, Daniel R. Keddie; Vice President and Controller, David M. Davenport; Secretary, Linda Y. Pettigrew (Corporate); Treasurer, Gwyn W. Fuller.

Directors: Sean A. Beatty, Dennis W. Cahill, Catherine A. Carlino, Michael J. Crall, Robert J. Dixon, Julie A. Fortune, Daniel R. Keddie, Andre Lefebvre, James F. Meehan, Edward J. Muhl, David D. Shumway, Larry G. Simmons, John Tighe (Chairman).

REGULATORY

An examination of the financial condition was made as of December 31, 2007 by the Insurance Department of Delaware. The 2009 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Daniel R. Keddie, Vice President and Chief Actuary.

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TERRITORY

The company is licensed in the District of Columbia, Guam and all states. The company is also licensed in Canada.

BALANCE SHEET ($000)

ADMITTED ASSETS	12/31/2009	12/31/2008	2009 %	2008 %
Bonds	1,717,521	1,741,856	77.1	69.4
Preferred stock	7,099	20,373	0.3	0.8
Common stock	14,183	66,920	0.6	2.7
Cash & short-term invest	87,139	125,875	3.9	5.0
Other non-affil inv asset	5,997	7,225	0.3	0.3
Investments in affiliates	156,228	153,645	7.0	6.1
Real estate, offices	126	138	0.0	0.0
Total invested assets	1,988,293	2,116,033	89.3	84.3
Premium balances	1,830	1,719	0.1	0.1
Accrued interest	18,719	20,737	0.8	0.8
All other assets	218,743	372,217	9.8	14.8
Total assets	2,227,585	2,510,706	100.0	100.0

LIABILITIES & SURPLUS	12/31/2009	12/31/2008	2009 %	2008 %
Loss & LAE reserves	964,774	1,007,109	43.3	40.1
Unearned premiums	9,481	12,847	0.4	0.5
Conditional reserve funds	56,976	61,132	2.6	2.4
All other liabilities	858,398	1,098,157	38.5	43.7
Total liabilities	1,889,629	2,179,246	84.8	86.8
Capital & assigned surplus	3,677,348	3,676,222	165.1	146.4
Unassigned surplus	-3,339,392	-3,344,761	-99.9	-99.9
Total policyholders' surplus	337,956	331,460	15.2	13.2
Total liabilities & surplus	2,227,585	2,510,706	100.0	100.0

SUMMARY OF 2009 OPERATIONS ($000)

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STATEMENT OF INCOME	12/31/2009
Premiums earned	-6,915
Losses incurred	91,257
LAE incurred	-2,092
Undrw expenses incurred	21,994
Other expense incurred	0
Net underwriting income	-118,074
Net investment income	84,698
Other income/expense	-50,134
Pre-tax oper income	-83,510
Realized capital gains	24,201
Income taxes incurred	-34,340
Net income	-24,970

FUNDS PROVIDED FROM OPERATIONS	12/31/2009
Premiums collected	-3,748
Benefit & loss related pmts	245,556
LAE & undrw expenses paid	111,980
Other income/expense	…
Undrw cash flow	-361,284
Investment income	96,914
Other income/expense	-7,588
Pre-tax cash operations	-271,958
Income taxes pd (recov)	-80,312
Net oper cash flow	-191,646

INTERIM BALANCE SHEET ($000)

ADMITTED ASSETS	03/31/2010	06/30/2010	09/30/2010
Cash & short term invest	53,995	49,514	35,274
Bonds	1,694,596	1,668,696	1,620,687
Preferred stock	7,212	6,480	4,658
Common stock	171,549	172,603	176,432
Other investments	16,430	20,285	17,854
Total investments	1,943,781	1,917,578	1,854,905
Premium balances	1,805	1,808	2,005
Reinsurance funds	136,225	102,029	102,505
Accrued interest	16,563	16,771	14,509
All other assets	61,364	59,054	64,106
Total assets	2,159,738	2,097,240	2,038,030

LIABILITIES & SURPLUS	03/31/2010	06/30/2010	09/30/2010
Loss & LAE reserves	965,667	970,390	985,410
Unearned premiums	9,206	8,929	8,657
Conditional reserve funds	56,976	56,976	56,976
All other liabilities	795,482	733,258	686,092
Total liabilities	1,827,332	1,769,553	1,737,135
Capital & assigned surp	3,677,348	3,677,348	3,677,348
Unassigned surplus	-3,344,943	-3,349,661	-3,376,453
Policyholders' surplus	332,406	327,687	300,895
Total liabilities & surplus	2,159,738	2,097,240	2,038,030

INTERIM INCOME STATEMENT ($000)

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	Period Ended 09/30/2010	Period Ended 09/30/2009	Increase/ Decrease
Premiums earned	-3,129	3,623	-6,752
Losses incurred	23,078	45,915	-22,837
LAE incurred	-553	-5,473	4,920
Underwriters expenses incurred	49,015	51,332	-2,317
Other expenses incurred	…	0	0
Net underwriting income	-74,668	-88,151	13,482
Net investment income	57,185	63,972	-6,787
Other income/expenses	-49,943	-38,063	-11,881
Pre-tax operating income	-67,427	-62,241	-5,185
Realized capital gains	11,784	2,550	9,233
Income taxes incurred	-8,513	-10,298	1,785
Net income	-47,130	-49,393	2,263

INTERIM CASH FLOW ($000)

	Period Ended 09/30/2010	Period Ended 09/30/2009	Increase/ Decrease
Premiums collected	-565	221	-786
Benefit & loss related pmts	85,077	205,562	-120,484
Undrw expenses paid	114,539	116,648	-2,109
Underwriting cash flow	-200,181	-321,989	121,808
Investment income	68,816	74,726	-5,910
Other income/expense	-26,917	-4,493	-22,424
Pre-tax cash operations	-158,283	-251,756	93,474
Income taxes pd (recov)	-3,299	-78,340	75,041
Net oper cash flow	-154,983	-173,416	18,433

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A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor do they address the suitability of any particular financial obligation for a specific purpose or purchaser.

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002438 - Arrowood Indemnity Company

Report Revision Date: 04/10/2014

Rating and Commentary [1]	*Financial* [2]	*General Information* [3]
Best's Credit Rating: N/A	**Time Period:** 1st Quarter - 2014	**Corporate Structure:** N/A
Rating Rationale: N/A	**Last Updated:** 05/28/2014	**States Licensed:** 04/25/2012
Report Commentary: 05/10/2006	**Status:** Quality Cross Checked	**Officers and Directors:** 04/10/2014

Best's Credit Rating Methodology | Disclaimer | Best's Rating Guide

Additional Online Resources

Related News
Rating Activity and Announcements
Company Overview
Archived AMB Credit Reports
Corporate Changes &Retirements
AMB Country Risk Reports - United States

[1] The **Rating and Commentary** dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report.

[2] The **Financial** dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks".

[3] The **General Information** dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

Ultimate Parent: Arrowpoint Capital Corp

Arrowood Indemnity Company

Wilmington, Delaware, United States 19808
Exec. Office: 3600 Arco Corporate Drive, Charlotte, North Carolina, United States 28273-8135
Mailing Address: P.O. Box 1000, Charlotte, North Carolina, United States 28201-1000

Tel.: 704-522-2000 **Web:** www.arrowpointcap.com **Fax:** N/A

AMB #: 002438 **Ultimate Parent:** 055269 **NAIC #:** 24678 **FEIN#:** 13-5358230

Best's Credit Ratings

Best's Financial Strength Rating: NR **Outlook:** N/A

Best's Issuer Credit Rating: NR **Outlook:** N/A

Rating Effective Date: N/A

Financial Size Category: N/A

Report Revision Date: 04/10/2014

Key Financial Indicators

Period Ending	Statutory Data ($000)					
	Premiums Written		Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
	Direct	Net				
2013	-11	1,484	-18,272	-3,218	1,539,954	260,451
2012	-3,710	-2,609	-47,743	-18,344	1,554,883	273,442
2011	-386	457	-59,421	-32,535	1,727,423	294,404
2010	197	-4,514	-96,762	-57,774	1,975,022	321,182
2009	-5,477	-9,024	-83,510	-24,970	2,227,585	337,956
03/2014	-25	-23	-20,325	-16,798	1,537,342	249,662
03/2013	-95	-120	52,753	55,725	1,522,275	334,336

Key Financial Indicators (Continued ...)

	Profitability			Leverage			Liquidity	
Period Ending	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2013	999.9	3.3	-99.9	96.4	...	4.7	125.2	545.0
2012	-99.9	3.8	999.9	93.0	...	4.5	126.7	23.2
2011	999.9	3.7	-99.9	100.0	...	4.7	124.7	38.8
2010	-99.9	4.1	999.9	21.0	...	5.0	122.7	24.9
2009	-99.9	4.2	999.9	17.5	...	5.4	121.5	47.5
5-Yr Avg	...	3.9	999.9	...	...	...	...	...
03/2014	-99.9	3.0	-99.9	99.1	...	5.0	124.0	999.9
03/2013	-99.9	3.9	999.9	75.9	...	3.4	133.3	-99.9

(*) Within several financial tables of this report, this company is compared against the Workers' Compensation Composite.
(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

Scope of Operations

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Net Premiums Earned	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2013	-11	99.7	-52	-99.9	-1,548	-49.8	1,484	156.9	2,459	252.4
2012	-3,710	-99.9	69	-68.2	-1,033	-65.0	-2,609	-99.9	-1,614	-99.9
2011	-386	-99.9	216	104.4	-626	-99.9	457	110.1	2,234	169.8
2010	197	103.6	-4,901	-99.9	-189	-99.9	-4,514	50.0	-3,200	53.7
2009	-5,477	23.2	3,950	97.3	7,497	999.9	-9,024	-57.3	-6,915	-99.9
5-Yr CAGR	XX	-72.5	XX	-99.9	XX	-99.9	XX	-99.9	XX	-99.9
03/2014	-25	73.6	9	704.1	7	-73.5	-23	81.0	226	85.5
03/2013	-95	-99.9	1	-95.4	27	10.0	-120	-99.9	122	-32.0

Territory

The company is licensed in the District of Columbia and all states. The company is also licensed in Canada.

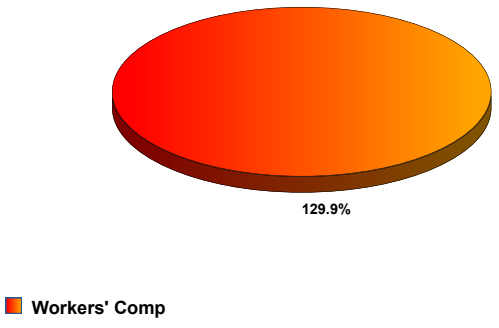
Business Trends

2013 By-Line Business ($000)

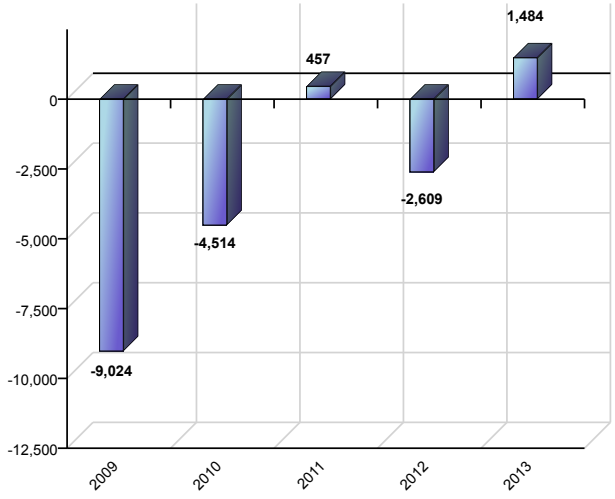
Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention
	($000)	(%)	($000)	(%)	($000)	(%)	($000)	(%)	(%)
Workers' Comp	3,163	-99.9	-29	54.9	1,205	-77.9	1,929	129.9	61.5
Oth Liab Occur	-3,188	999.9	-56	107.7	-2,827	182.7	-417	-28.1	12.8
All Other	14	-99.9	33	-62.6	74	-4.8	-28	-1.9	-60.0
Total	-11	100.0	-52	100.0	-1,548	100.0	1,484	100.0	-99.9

Business Trends (Continued ...)

2013 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



By-Line Reserve ($000)

Product Line	2013	2012	2011	2010	2009
Workers' Comp	522,527	521,722	452,599	381,919	327,641
Oth Liab Occur	242,151	273,146	285,810	279,511	268,690
All Other	329,664	274,014	266,833	319,673	368,443
Total	1,094,342	1,068,881	1,005,242	981,103	964,774

Market Share / Market Presence

Market Share / Market Presence (Continued ...)

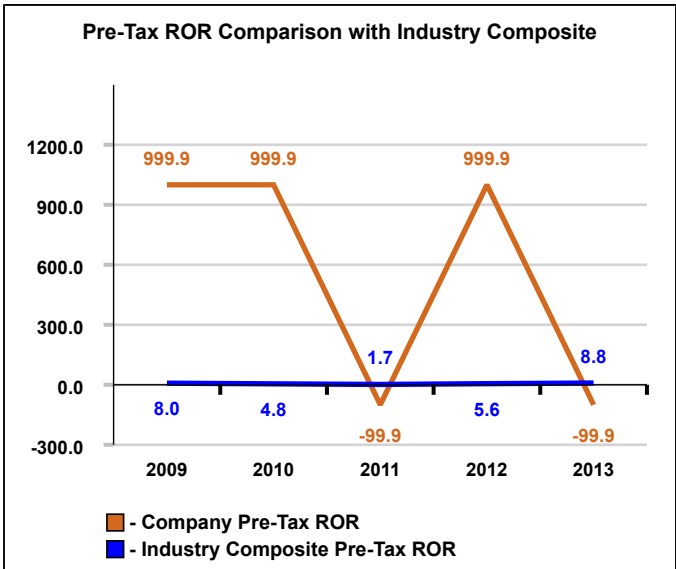
Geographical Breakdown By Direct Premium Writings ($000)

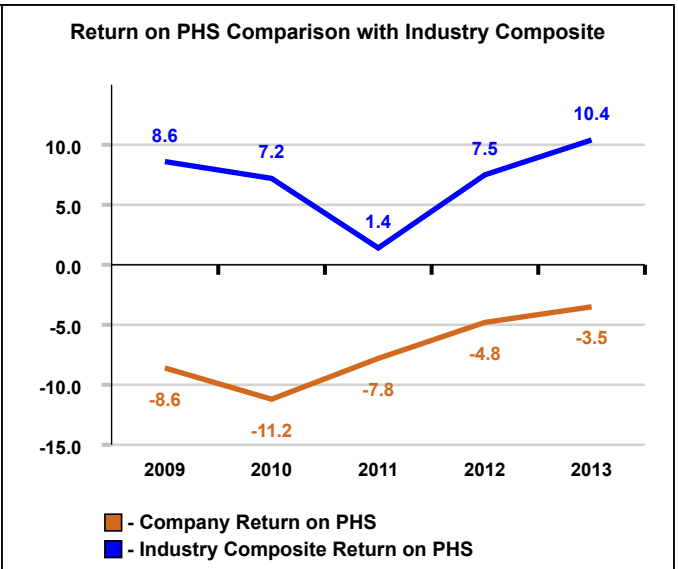
	2013	2012	2011	2010	2009
New York	851	-122	166	95	1,001
Aggregate Alien	700	...	-1,000	11,200	-7,200
California	341	-799	534	36	-91
Alabama	165	295	216	-36	199
Michigan	65	-51	129	-26	63
Arkansas	51	-39	6	7	2
Oregon	22	-6	21	35	163
Kentucky	10	11	21	56	22
Arizona	3	7	39	31	9
Alaska	...	...	...	...	...
All Other	-2,217	-3,006	-518	-11,201	356
Total	-11	-3,710	-386	197	-5,477

Operating Performance

Profitability Analysis

Period Ending	Company							Industry Composite		
	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2013	-18,272	-12,115	-3,218	-9,464	-99.9	-3.5	999.9	8.8	10.4	76.8
2012	-47,743	-27,665	-18,344	-13,670	999.9	-4.8	-99.9	5.6	7.5	93.4
2011	-59,421	-45,915	-32,535	-23,871	-99.9	-7.8	999.9	1.7	1.4	96.9
2010	-96,762	-77,556	-57,774	-36,935	999.9	-11.2	-99.9	4.8	7.2	94.1
2009	-83,510	-49,171	-24,970	-28,861	999.9	-8.6	-99.9	8.0	8.6	91.3
5-Yr Avg/Tot	-305,708	-212,421	-136,841	-112,802	999.9	-7.4	...	5.9	7.1	90.0
03/2014	-20,325	-20,328	-16,798	-11,787	-99.9	-25.4	-99.9	XX	XX	XX
03/2013	52,753	53,707	55,725	53,059	999.9	13.6	-99.9	XX	XX	XX





Underwriting Results

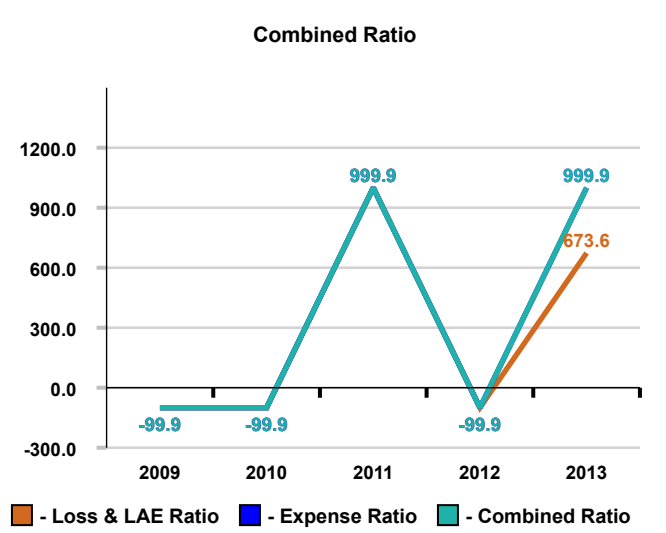
Underwriting Results (Continued ...)

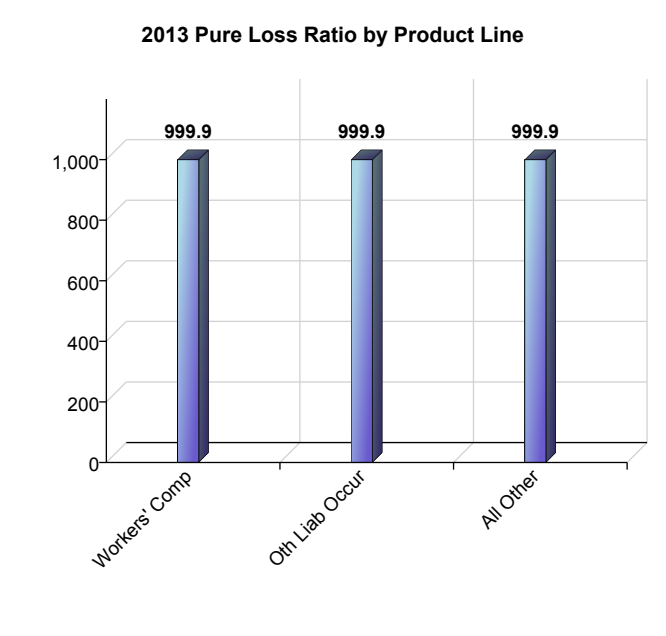
Underwriting Experience

	Company									Industry Composite
		Loss Ratios			Expense Ratios					
Year	Net Undrw Income ($000)	Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.	Div. Pol.	Comb. Ratio	Comb. Ratio
2013	-53,316	-99.9	999.9	673.6	19.2	999.9	999.9	...	999.9	93.5
2012	-85,150	-99.9	-11.0	-99.9	-19.2	-99.9	-99.9	...	-99.9	114.3
2011	-94,380	999.9	-99.9	999.9	98.7	999.9	999.9	...	999.9	120.8
2010	-114,317	-99.9	-99.9	-99.9	-49.3	-99.9	-99.9	...	-99.9	119.9
2009	-118,074	-99.9	30.3	-99.9	-6.7	-99.9	-99.9	...	-99.9	116.8
5-Yr Avg	-465,237	-99.9	-99.9	...	-28.6	-99.9	...	...	...	112.3
03/2014	-29,463	999.9	999.9	999.9	XX	XX	-99.9	...	-99.9	XX
03/2013	44,685	-99.9	-99.9	-99.9	XX	XX	-99.9	...	-99.9	XX

Loss Ratio By Line

Product Line	2013	2012	2011	2010	2009	5-Yr. Avg.
Workers' Comp	999.9	999.9	999.9	342.5	-99.9	999.9
Oth Liab Occur	999.9	999.9	-99.9	-38.4	-99.9	875.7
All Other	999.9	999.9	-99.9	288.4	-99.9	-99.9
Total	-99.9	-99.9	999.9	-99.9	-99.9	-99.9





Underwriting Results (Continued ...)

Direct Loss Ratios By State

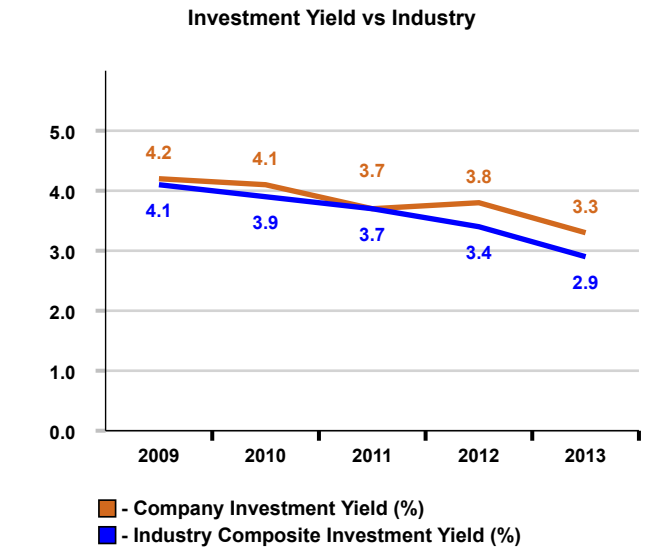
	2013	2012	2011	2010	2009	5-Yr. Avg.
New York	999.9	-99.9	999.9	-99.9	859.6	999.9
Aggregate Alien	-82.1	...	421.1	-1.9	11.6	-99.9
California	999.9	-99.9	999.9	999.9	-99.9	999.9
Alabama	999.9	420.1	781.4	999.9	-99.9	637.7
Michigan	999.9	-99.9	781.7	999.9	-99.9	999.9
Arkansas	-99.9	263.2	999.9	309.2	-99.9	579.5
Oregon	999.9	-99.9	999.9	397.4	999.9	999.9
Kentucky	999.9	999.9	999.9	-99.9	-99.9	999.9
Arizona	-99.9	-99.9	999.9	999.9	999.9	999.9
Alaska	...	...	...	...	999.9	-99.9
All Other	-99.9	740.9	-99.9	-99.9	999.9	-99.9
Total	-99.9	-99.9	-99.9	999.9	-99.9	-99.9

Investment Results

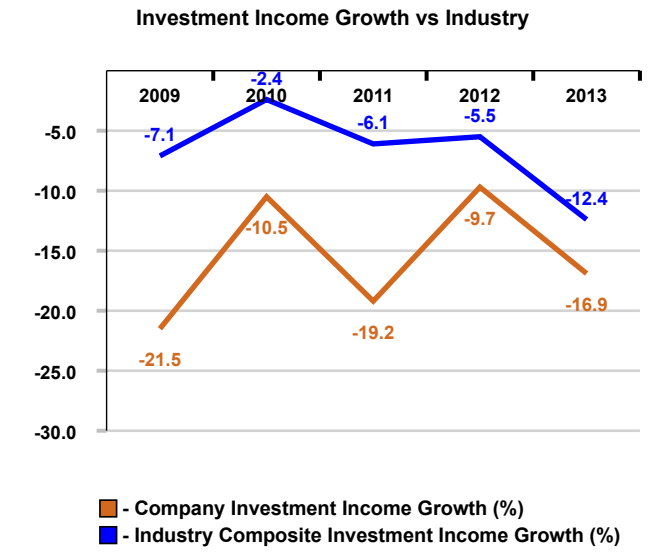
Investment Gains ($000)

	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2013	45,975	8,897	-6,245	-16.9	3.3	4.0	3.5	-12.4	2.9
2012	55,323	9,320	4,674	-9.7	3.8	4.4	4.8	-5.5	3.4
2011	61,259	13,380	8,663	-19.2	3.7	4.5	5.1	-6.1	3.7
2010	75,838	19,782	20,839	-10.5	4.1	5.2	6.4	-2.4	3.9
2009	84,698	24,201	-3,891	-21.5	4.2	5.5	5.3	-7.1	4.1
5-Yr Avg/Tot	323,093	75,581	24,039	-16.1	3.9	4.8	5.1	-6.6	3.6
03/2014	10,063	3,531	5,011	-27.5	3.0	3.8	3.9	XX	XX
03/2013	13,871	2,018	-2,666	6.8	3.9	4.6	4.2	XX	XX

Investment Results (Continued ...)



* Industry Composite - Workers' Compensation Composite



* Industry Composite - Workers' Compensation Composite

Balance Sheet Strength

Capitalization

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2013	-18,272	8,897	-6,158	-6,245	...	-3,527	-12,991	-4.8
2012	-47,743	9,320	-20,078	4,674	...	-7,291	-20,961	-7.1
2011	-59,421	13,380	-13,506	8,663	...	-2,907	-26,779	-8.3
2010	-96,762	19,782	-19,206	20,839	...	20,161	-16,774	-5.0
2009	-83,510	24,201	-34,340	-3,891	1,127	34,231	6,496	2.0
5-Yr Total	-305,708	75,581	-93,287	24,039	1,127	40,666	-71,009	-4.7
03/2014	-20,325	3,531	3	5,011	...	997	-10,790	-4.1
03/2013	52,753	2,018	-955	-2,666	...	7,835	60,894	22.3

Quality of Surplus ($000)

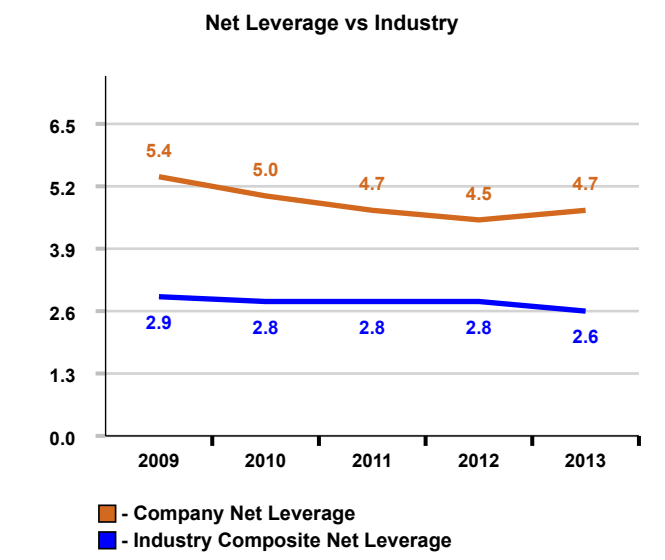
Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2013	...	...	3,200,653	-2,940,202	260,451	49,812	310,264
2012	...	...	3,322,718	-3,049,275	273,442	54,461	327,903
2011	...	...	3,518,400	-3,223,997	294,404	48,221	342,624
2010	...	...	3,677,348	-3,356,166	321,182	43,755	364,938
2009	...	...	3,677,348	-3,339,392	337,956	56,976	394,932
03/2014	...	...	3,163,048	-2,913,386	249,662	47,928	297,589
03/2013	...	...	3,261,323	-2,926,987	334,336	45,981	380,317

Underwriting Leverage

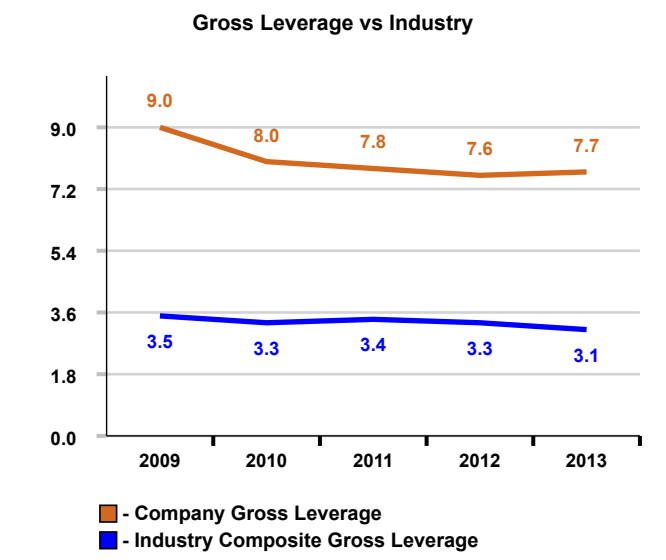
Underwriting Leverage (Continued ...)

Leverage Analysis

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2013	...	4.2	4.7	7.7	0.5	1.6	2.6	3.1
2012	...	3.9	4.5	7.6	0.5	1.8	2.8	3.3
2011	...	3.4	4.7	7.8	0.5	1.9	2.8	3.4
2010	...	3.1	5.0	8.0	0.4	1.9	2.8	3.3
2009	...	2.9	5.4	9.0	0.5	2.0	2.9	3.5
03/2014	...	4.4	5.0	XX	XX	XX	XX	XX
03/2013	...	3.0	3.4	XX	XX	XX	XX	XX



* Industry Composite - Workers' Compensation Composite



* Industry Composite - Workers' Compensation Composite

Ceded Reinsurance Analysis ($000)

Year	Company				Industry Composite		
	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2013	781,946	-99.9	300.8	300.2	66.2	34.9	46.2
2012	856,403	71.6	313.6	313.2	68.5	39.0	49.8
2011	912,636	-99.9	310.3	310.0	71.7	42.4	52.2
2010	970,477	96.0	302.1	302.2	73.3	43.0	52.2
2009	1,205,984	999.9	354.6	356.8	73.7	47.1	56.4

Underwriting Leverage (Continued ...)

2013 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	8,367	3,507	...	...	11,874
Foreign Affiliates	...	...	...	...	...
US Insurers	258,859	67,860	163	-695	326,187
Pools/Associations	83,038	8,298	...	-364	90,972
Other Non-Us	160,219	208,381	...	-2,266	366,334
Total(ex Us Affils)	502,116	284,539	163	-3,325	783,493
Grand Total	510,483	288,046	163	-3,325	795,367

* Includes Commissions less Funds Withheld

Loss Reserves

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2013	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2013	Unpaid Reserves to Development (%)
2013	1,063,304	1,063,304	...	...	999.9	1,063,304	100.0
2012	1,044,080	1,010,960	-3.2	-12.1	...	1,037,991	102.7
2011	985,379	946,169	-4.0	-13.3	999.9	1,039,565	109.9
2010	956,435	945,624	-1.1	-3.4	...	1,041,571	110.1
2009	932,701	949,373	1.8	4.9	...	1,043,398	109.9
2008	966,752	1,047,184	8.3	24.3	...	1,045,422	99.8

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2013	Development to Original (%)	Unpaid Reserves @ 12/2013	Accident Year Loss Ratio	Accident Year Comb. Ratio
2013	25,313	25,313	...	25,313	999.9	999.9
2012	42,585	-944	-99.9	-1,574	-99.9	-99.9
2011	51,546	-1,024	-99.9	-2,006	174.4	999.9
2010	63,010	-1,727	-99.9	-1,827	-99.9	-99.9
2009	62,547	47	-99.9	-2,024	-99.9	-99.9
2008	96,427	58,884	-38.9	4,548	-99.9	-99.9

Loss Reserves (Continued ...)

Asbestos And Environmental Reserves Analysis

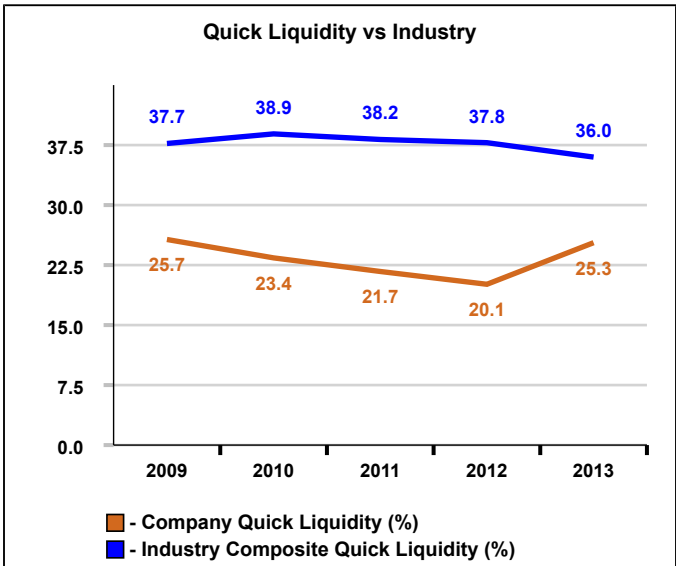
	Company						Industry Composite		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net Incurred But Not Reported (IBNR) Mix (%)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)
2013	377,106	68.0	52.4	7.6	999.9	999.9	9.4	0.6	0.5
2012	348,088	82.2	41.5	5.4	-99.9	-99.9	9.1	0.5	0.6
2011	411,494	81.8	45.6	7.7	...	-99.9	9.1	0.5	0.6
2010	472,246	82.0	61.5	XX	-99.9	XX	XX	0.7	XX
2009	512,787	81.8	67.2	XX	...	XX	XX	0.6	XX

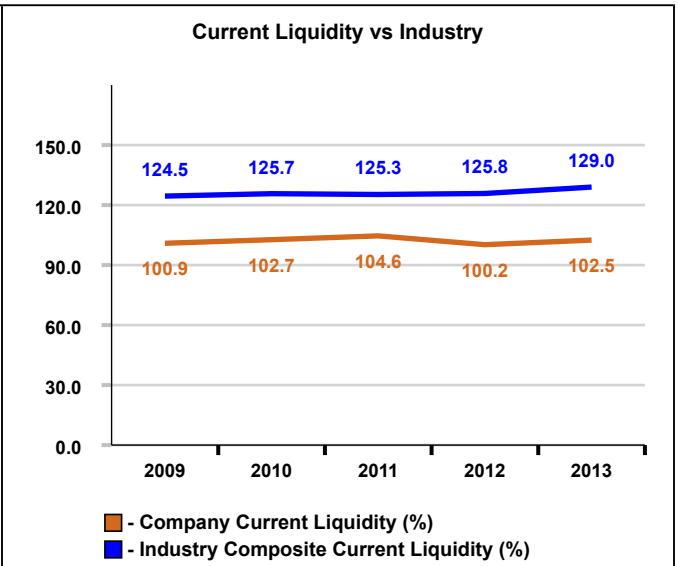
Liquidity

Liquidity Analysis

	Company				Industry Composite			
Year	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2013	25.3	102.5	125.2	...	36.0	129.0	145.4	6.2
2012	20.1	100.2	126.7	...	37.8	125.8	142.7	5.8
2011	21.7	104.6	124.7	...	38.2	125.3	141.3	5.1
2010	23.4	102.7	122.7	...	38.9	125.7	141.6	4.6
2009	25.7	100.9	121.5	...	37.7	124.5	140.6	4.3
03/2014	XX	103.4	124.0	...	XX	XX	XX	XX
03/2013	XX	108.4	133.3	...	XX	XX	XX	XX

Liquidity (Continued ...)





Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2013	-299	52,449	52,605	74.1	545.0	102.3	115.0
2012	-299,515	-239,089	-8,236	-0.9	23.2	87.3	107.0
2011	-286,851	-183,734	28,964	1.2	38.8	82.6	103.0
2010	-289,889	-224,401	-45,855	-7.0	24.9	79.7	101.3
2009	-361,284	-191,646	-38,737	-1.0	47.5	83.8	104.3
5-Yr Total	-1,237,838	-786,421	-11,259	...	...	...	...
03/2014	-1,031	8,709	-15,003	-21.8	999.9	XX	XX
03/2013	1,866	15,527	39,672	-81.8	-99.9	XX	XX

Investments

Investments (Continued ...)

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2013	66.0	...	3.4	27.0	96.4	58.5	4.4	30.1
2012	71.7	...	1.1	20.1	93.0	54.3	4.9	25.4
2011	79.3	...	1.2	19.4	100.0	62.8	5.0	23.3
2010	14.4	...	1.3	5.3	21.0	54.7	4.3	22.7
2009	11.5	...	1.7	4.2	17.5	46.3	4.2	21.0

Investments - Bond Portfolio

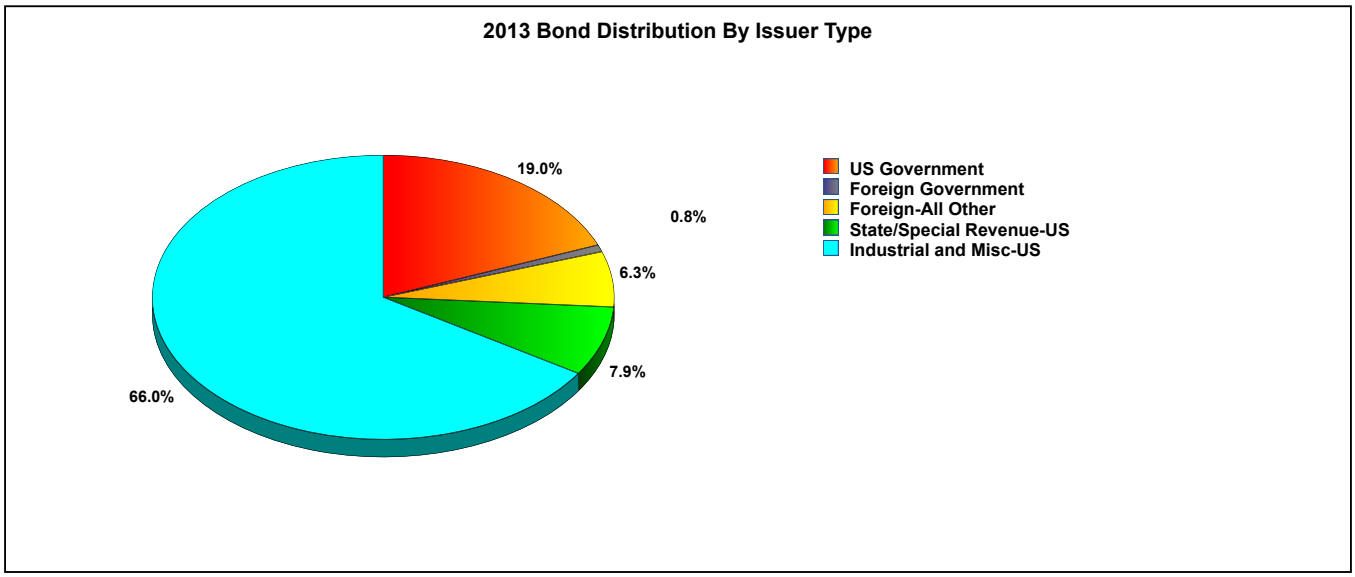
2013 Distribution By Maturity

	Years					
	0-1	1-5	5-10	10-20	20+	Years Average Maturity
Government	4.3	6.2	3.8	3.5	3.8	9.1
Government Agencies & Muni.	1.7	3.3	1.8	0.3	0.1	4.4
Industrial & Misc.	8.2	30.6	21.0	6.2	4.6	6.5
Hybrid Securities	...	...	...	...	0.5	25.0
Total	14.2	40.2	26.6	10.0	9.0	7.0

Bond Distribution By Issuer Type

	2013	2012	2011	2010	2009
Bonds ($000)	1,044,106	1,096,553	1,299,659	1,549,275	1,717,521
US Government	19.0	18.1	12.5	20.1	21.5
Foreign Government	0.8	1.4	2.9	4.8	5.2
Foreign-All Other	6.3	5.8	4.5	3.1	1.8
State/Special Revenue-US	7.9	10.2	11.4	13.6	16.6
Industrial and Misc-US	66.0	64.5	68.8	52.4	49.1
Credit Tenant Lns-US	...	...	...	6.0	5.7

Investments - Bond Portfolio (Continued ...)



Bond Percent Private vs Public

	2013	2012	2011	2010	2009
Private Issues	27.7	29.9	27.6	12.2	7.1
Public Issues	72.3	70.1	72.4	87.8	92.9

Bond Quality Percent

	2013	2012	2011	2010	2009
Class 1	63.2	64.7	65.4	83.8	86.5
Class 2	21.6	18.0	17.3	13.2	11.3
Class 3	5.9	6.8	8.4	1.7	1.0
Class 4	8.9	10.4	8.5	1.3	1.1
Class 5	0.3	0.3	0.3	...	...
Class 6	...	...	...	...	...

Investments - Equity Portfolio

	2013	2012	2011	2010	2009
Total Stocks ($000)	235,916	205,056	247,703	197,300	177,510
Unaffiliated Common	29.8	26.9	23.1	8.6	8.0
Affiliated Common	64.6	72.3	74.6	88.9	88.0
Unaffiliated Preferred	5.6	0.8	2.3	2.5	4.0

Investments - Mortgage Loans And Real Estate

	2013	2012	2011	2010	2009
Total Mortgage Loans and Real Estate ($000)	119	139	158	177	196
Mortgage Loans	32.9	34.2	35.0	35.5	35.8
Property Occupied by Company	67.1	65.8	65.0	64.5	64.2

Investments - Other Invested Assets

	2013	2012	2011	2010	2009
Total Other Invested Assets ($000)	125,398	67,856	74,895	68,441	93,065
Cash	42.5	65.8	40.8	40.8	14.9
Short-Term	48.9	25.6	53.0	19.5	78.7
Schedule BA Assets	7.0	4.6	4.8	6.3	6.3
All Other	1.6	4.0	1.4	33.4	0.1

History

Date Incorporated: 09/30/1910 **Date Commenced:** 1911 **Domicile:** DE

On March 3, 2007, Royal & Sun Alliance Insurance Group plc (United Kingdom) completed the sale of its U.S. operations to Arrowpoint Capital Corp. (Arrowpoint Capital), a registered Delaware corporation founded by Royal & Sun Alliance U.S. senior managers and outside directors. Royal & Sun Alliance USA Pool's name was then changed to Arrowpoint Capital Pool (Arrowpoint Pool). The Arrowpoint Pool was terminated effective September 30, 2007 following the merger of the two remaining pool members, Arrowood Indemnity Company (formerly known as Royal Indemnity Company) and Security Insurance Company of Hartford. Arrowood Indemnity Company and its 100% subsidiary Arrowood Surplus Lines Insurance Company have been in run-off since 2003. As part of the transaction, the former U.K. parent contributed $287.5 million in additional capital to the group. Arrowpoint Capital acquired the U.S. operations for $300 million in deferred consideration, payment of which will be based on the future performance of the run-off.

The company was incorporated on December 3, 1979 under the laws of Delaware under the temporary title of Royal Indemnity Company (a Delaware corporation) to act as the vehicle for the transfer of the corporate domicile of the Royal Indemnity Company from New York, New York, to Wilmington, Delaware, effective March 31, 1980. The predecessor company was incorporated September 30, 1910 under the laws of New York. It commenced business February 15, 1911 under the sponsorship of the Royal Insurance plc, London, (currently known as RSA Insurance Group plc). The current title was adopted on September 15, 2007.

In 1949, all the outstanding capital stock of its companion carrier, Eagle Indemnity Company of New York, was contributed to this company by the parent organization, Royal Insurance plc, London, England. The two companies were merged on June 30, 1950. In July 1996, the company's ultimate parent, Royal Insurance Holdings plc, merged with Sun Alliance Group plc of London, England to form Royal & Sun Alliance Insurance Group plc. Paid-up capital of $5,000,000 consists of 50,000 common shares at $100 par value each. All authorized shares are outstanding.

Officers And Directors

Officers

President and CEO: John Tighe **Treasurer:** Gwyn W. Fuller
Secretary: Linda Y. Pettigrew (Corporate)

Regulatory

An examination of the financial condition was made as of December 31, 2010, by the insurance department of Delaware. The 2013 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Daniel R. Keddie, Vice President & Chief Actuary, Arrowpoint Indemnity Company.

Balance Sheet ($000)

Admitted Assets	12/31/2013	12/31/2012	2013 %	2012 %
Bonds	1,044,106	1,096,553	67.8	70.5
Preferred Stock	13,155	1,711	0.9	0.1
Common Stock	70,356	55,086	4.6	3.5
Cash & Short-Term Invest	114,616	62,011	7.4	4.0
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	10,821	5,893	0.7	0.4
Investments in Affiliates	152,404	148,259	9.9	9.5
Real Estate, Offices	80	91	...	...
Total Invested Assets	1,405,538	1,369,604	91.3	88.1
Premium Balances	1,102	1,005	0.1	0.1
Accrued Interest	7,691	8,418	0.5	0.5
All Other Assets	125,623	175,856	8.2	11.3
Total Assets	1,539,954	1,554,883	100.0	100.0

Liabilities & Surplus	12/31/2013	12/31/2012	2013 %	2012 %
Loss & LAE Reserves	1,094,342	1,068,881	71.1	68.7
Unearned Premiums	4,818	5,737	0.3	0.4
Conditional Reserve Funds	49,812	54,461	3.2	3.5
Derivatives	...	...	...	...
All Other Liabilities	130,530	152,361	8.5	9.8
Total Liabilities	1,279,503	1,281,441	83.1	82.4
Surplus notes	...	...	...	...
Capital & Assigned Surplus	3,200,653	3,322,718	207.8	213.7
Unassigned Surplus	-2,940,202	-3,049,275	-99.9	-99.9
Total Policyholders' Surplus	260,451	273,442	16.9	17.6
Total Liabilities & Surplus	1,539,954	1,554,883	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2014
Bonds	1,071,807
Preferred Stock	16,010
Common Stock	227,211
Cash & Short-Term Invest	99,612
Other Investments	12,003
Total Invested Assets	1,426,644
Premium Balances	995
Accrued Interest	7,911
Reinsurance Funds	91,707
All Other Assets	10,084
Total Assets	1,537,342

Liabilities & Surplus	03/31/2014
Loss & LAE Reserves	1,106,642
Unearned Premiums	4,569
Conditional Reserve Funds	47,928
All Other Liabilities	128,542
Total Liabilities	1,287,680
Capital & Assigned Surp	3,163,048
Unassigned Surplus	-2,913,386
Total Policyholders' Surplus	249,662
Total Liabilities & Surplus	1,537,342

Summary Of 2013 Operations ($000)

Statement of Income	12/31/2013	Funds Provided from Operations	12/31/2013
Premiums earned	2,459	Premiums collected	857
Losses incurred	-11,534	Benefit & loss-related pmts	-59,233
LAE incurred	28,097		
Undwr expenses incurred	39,211	LAE & undwr expenses paid	60,389
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	-53,316	Underwriting cash flow	-299
		Net transfer	...
Net investment income	45,975	Investment income	50,720
Other income/expense	-10,932	Other income/expense	-10,632
Pre-tax operating income	-18,272	Pre-tax cash operations	39,790
Realized capital gains	8,897		
Income taxes incurred	-6,158	Income taxes pd (recov)	-12,659
Net income	-3,218	Net oper cash flow	52,449

Interim Income Statement ($000)

	Period Ended 03/31/2014	Period Ended 03/31/2013	Increase / Decrease
Premiums earned	226	122	104
Losses incurred	6,511	-52,072	58,583
LAE incurred	9,176	-9,035	18,211
Undwr expenses incurred	14,002	16,544	-2,542
Other expenses incurred	...	...	...
Dividends to policyholders	...	...	...
Net underwriting income	-29,463	44,685	-74,148
Net investment income	10,063	13,871	-3,809
Other income/expense	-925	-5,804	4,879
Pre-tax operating income	-20,325	52,753	-73,078
Realized capital gains	3,531	2,018	1,513
Income taxes incurred	3	-955	957
Net income	-16,798	55,725	-72,523

Interim Cash Flow ($000)

	Period Ended 03/31/2014	Period Ended 03/31/2013	Increase / Decrease
Premiums collected	-184	840	-1,024
Benefit & loss-related pmts	-23,735	-39,152	15,417
LAE & undwr expenses paid	24,582	38,125	-13,544
Dividends to policyholders	...	...	...
Underwriting cash flow	-1,031	1,866	-2,897
Net transfer	...	...	...
Investment income	10,644	14,988	-4,345
Other income/expense	-842	-1,210	368
Pre-tax cash operations	8,770	15,644	-6,874
Income taxes pd (recov)	62	117	-55
Net oper cash flow	8,709	15,527	-6,819

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Phila. insurer could require a hefty bailout The Reliance Insurance tab could amount to $2 billion, and affect premiums for all.

By Joseph N. DiStefano INQUIRER STAFF WRITER

POSTED: MAY 24, 2001

Losses at Reliance Insurance Co. of Philadelphia could force the biggest bailout in the history of the insurance business, with competitors and ultimately the general public paying the bill.

"We anticipate we're talking about at least $2 billion. It kind of takes your breath away," said Dale Stephenson, president of the National Conference of Insurance Guaranty Funds, which represents the guarantee funds that pay claims for defunct insurers in all 50 states.

"The size is just staggering," he said. "This would be far and away the biggest thing we'd ever faced" from a single insurer.

Over the last decade, chairman Saul Steinberg pushed Reliance into high-risk businesses that other insurers had avoided. But Reliance faltered in the late 1990s when workers' compensation costs and other claims poured in at higher-than-expected rates. Now, insurers in all 50 states are bracing to pay what Reliance cannot.

To pay such costs, state guaranty funds levy payments on other insurers, who ultimately pass the expense to business owners, homeowners and others in the form of higher policy costs.

"This would absolutely be the largest since I've been around," said Tony Grippa, executive director of the Florida Workers' Compensation Insurance Guaranty Association, which is preparing a formal request that Reliance's primary regulator - the Pennsylvania Insurance Department - act quickly to limit losses.

"As of year-end," said Stephen Durish, special projects director of the Texas Property & Casualty Insurance Guaranty Association, "we're speculating unpaid liabilities [from Reliance in Texas] are something north of three quarters of a billion dollars," though it is "difficult to determine" what actual losses will be.

In Pennsylvania, fund officials worry that losses from Reliance could be greater than the $300 million hit they took when Physicians Insurance Co. was liquidated in 1998, in the biggest U.S. property-and-casualty insurance failure of the 1990s.

"It would obviously be a big one; we don't know how big. It would be a substantial insolvency to us and put a lot of pressure on the system," especially in small states, said Ted Sweeney, president of Denver-based Western Guaranty Fund Services, which covers failed insurers in six Western states.

Fund managers have had a tough time making more than general estimates of the losses because Reliance stopped filing state and federal financial reports in September.

They are hoping to learn more from Reliance's main government regulator, the Pennsylvania Insurance Department, which during the winter took over financial supervision of the 184-year-old company. Pennsylvania officials are weighing whether Reliance can be "rehabilitated" and its claims paid over time, or whether it is insolvent and will have to be liquidated and bailed out.

But Reliance is so large, and its policies for hard-to-insure clients so complex, that it could take at least six months for independent accountants, actuaries and auditors to measure the full extent of its liabilities if Pennsylvania does attempt to rehabilitate the company, said an Insurance Department spokeswoman, Rosanne Placey.

Pennsylvania hopes to avoid a liquidation and will seek a state court rehabilitation order "if we believe there's a substantial possibility policyholders can be paid 100 percent on the dollar," Placey said.

If not - or if it confirms during rehabilitation that Reliance cannot pay what it owes - Pennsylvania would move to liquidate the company, selling its assets and paying policyholders as much as it can, then leaving the guaranty funds to pay additional claims.

The Philadelphia-based Pennsylvania Property and Casualty Insurance Guaranty Association can ill afford another liquidation. The 1998 failure of Physicians Insurance, a medical-malpractice insurer, has already forced the fund to impose its maximum assessment of 2 percent of premiums on Pennsylvania business and homeowners insurers, many of which have passed it along to customers.

The fund would have to borrow money or turn to taxpayers to pay additional losses from Reliance. "I'm in no hurry for it," said Homer Rhule, executive director of the Pennsylvania association, who said he considered his fund's $350 million estimate of Reliance losses in Pennsylvania to be no better than a "guess."

But Pennsylvania's situation is unusual - and its interests may not match those of other states with massive Reliance losses.

Outside Pennsylvania and a few other high-failure "pockets," few insurers had to be bailed out in the 1990s, said Stephenson, of the national conference.

And in some larger states, fund managers say they would prefer that an insolvent Reliance be liquidated soon so they can begin paying claims, rather than put into a slow rehabilitation, which they fear could lead to higher losses.

"If there's a long-range plan to run off [Reliance] in a rehabilitation process, rather than liquidating it, that is going to lead to future insolvencies" among workers' compensation plans insured by Reliance, Grippa said. His Florida fund can bail out the plans only if their insurer is in liquidation, not rehabilitation, he said.

"Maybe I'm more skeptical, but it seems like in a lot of rehab plans, [the insurer] is so far gone by the time you implement a plan that most of the cash is out the door," said Texas' Durish, who has spent 17 years liquidating failed insurers.

"Pennsylvania, maybe a little more than other regulators, tries not to let a company go under," said the head of a large Northeastern guaranty fund who spoke on condition of anonymity. "Their attitude is, 'Gee, we're going to try and keep it alive so it doesn't have to go to the guaranty fund and maybe something will happen' " to reduce liabilities.

"It's a delicate balancing act," Placey said when told of other states' concerns about Pennsylvania's approach. "Every case is judged by its own merits."

At least one state has already begun to act against Reliance's local affiliates. Last week, California took control of a small Reliance subsidiary, Sable Insurance Co., after discovering a $13 million gap between its obligations and its assets.

At its peak in 1998, Reliance was worth $2 billion on the stock market and reported a surplus of $1.7 billion to Pennsylvania regulators.

But over the next two years, the company reported a string of reversals - including more than $170 million in losses resulting from the collapse of a workers' compensation pool that Reliance had helped administer and $188 million in unexpected pollution claims.

As Reliance reported mounting losses, Pennsylvania stepped up its oversight of Reliance Insurance last spring. It also cut the company's payments to its corporate parent, New York-based Reliance Group Holdings Inc., which is principally owned by Steinberg.

Reliance Group subsequently canceled its dividend, defaulted on its bonds and bank loans, and was delisted by the New York Stock Exchange.

Steinberg and members of his family collected more than $150 million in dividends and stock-options profits from Reliance during the 1990s. He has donated more than $30 million of his fortune to the University of Pennsylvania's Wharton School, which he attended, and where two classroom buildings are named in his honor.

Reliance Group and Reliance Insurance are not related to Philadelphia-based Reliance Standard Life Insurance Co., which sells health insurance.

Reliance grew quickly in the late 1990s by insuring accounts that other companies balked at. "They insured hazardous-waste haulers, construction defects, and workers' comp in states like California," where claims are higher than the national average, said Placey, the Insurance Department spokeswoman.

"When those businesses go bad, they tend to go very, very bad," she said.

"The policyholders are basically large commercial accounts. They're not Ma and Pa Kettle here," Placey said.

Though it has not filed detailed financial statements since September, Reliance Group Holdings has told the Securities and Exchange Commission that Reliance Insurance suffered losses of more than $2.1 billion for the last five calendar quarters.

Though some industry officials hope Reliance's finances may have improved under Pennsylvania's supervision, others fear that the damage could be getting worse as more claims come in. "The tendency is for [losses] to be higher" than regular financial reports suggest, said Texas' Durish.

"Troubled companies are sometimes a little unrealistic from time to time," he said, laughing at what the veteran insurance liquidator considered an obvious understatement.

Stephenson, of the national fund guaranty group, said insurers were most likely to fail not because of illegal activity or inadequate regulation, but from "turning loose marketers," he said. "Most of the time it's corporate ego that gets out of hand and tries to build something that just doesn't fly."

Joseph N. DiStefano can be reached at 215-854-5957 or jdistefano@phillynews.com.

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Joseph N. DiStefano

POSTED: MONDAY, DECEMBER 10, 2012, 9:29 AM

The Inquirer

Brooklyn-born, Wharton-trained Saul P. Steinberg, who died last week, never achieved his ambition of being President or building America's dominant bank. Instead he squatted atop Philadelphia's Reliance Insurance Co. for more than 30 years, and used it to support his mogul's lifestyle, until he ran it into the ground, destroying thousands of jobs and costing solvent insurers, clients, investors and employees more than $3 billion. Here's how he did it. This account is adapted by Joseph N. DiStefano from his series in the Inquirer Magazine in December 2001.

THE EMPIRE BULIDER - New Yorker Saul Steinberg started to conquer the business world in the late '60s. His holdings - built on Philadelphia's Reliance Insurance Co. - now lie in ruins.

In his secret corporate takeover plans, Saul P. Steinberg used to code-name his targets after famous actresses. New York's snooty Chemical Bank was "Faye," for icy Faye Dunaway. Philadelphia's cash-rich Reliance Insurance Co. was "Raquel," for amply endowed Raquel Welch.

Faye fought him off. But after a short struggle, Raquel succumbed.

And for 33 years, Steinberg used Reliance's prized assets - its thousands of employees, millions of customers, and billions of dollars in customer payments and borrowing power - to support his princely Manhattan lifestyle; to bankroll his pet causes, including the University of Pennsylvania's Wharton School; to finance his career as a bargain-hunting investor and corporate raider; and, finally, to fund his attempts to construct a global

About This Blog

PhillyDeals posts raw drafts and updates of Joseph N. DiStefano's columns and stories about Philly-area finance, investment, commercial real estate, tech, hiring and public spending, which he's been writing since 1989, mostly for the Philadelphia Inquirer.

DiStefano studied economics, history and a little engineering at Penn, taught writing at St. Joe's, and has written the book Comcasted, more than a thousand columns, and thousands of articles, and raised six children with his wife, who is a saint.

Reach Joseph N. at JoeD@phillynews.com or 215 854 5194.

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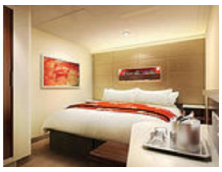

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Internet financial-services empire.

Fast and funny, talking with his hands and rolling his eyes, fat-faced and squeaky-voiced, grandiose and self-deprecating, Steinberg exuded confidence in early interviews.

How did it feel to be the nation's richest businessman under age 30? "I'll own the world. I could even be the first Jewish president." Why did he want to buy Disney and cut it in pieces against management's wishes? "I have always had a fondness for children." How did it feel to be rebuffed by Chemical and excoriated on the floor of the United States Senate? "I always knew there was an establishment - I just thought I was part of it."

"He was ahead of his time. He was very aggressive - a visionary," said one of his former board members, retired Philadelphia banker Samuel H. Ballam Jr. "He did scare people."
But instead of owning the world, Steinberg indulged himself - and overreached. His empire has turned to ashes, leaving investors, banks, employees, the Commonwealth of Pennsylvania, and insurance policyholders across the nation to pay the cost, which reaches into the as-yet-uncounted billions of dollars.

"There's no question he was hoping very much to be a benevolent despot," said Abraham Briloff, a retired accounting professor at Queens College in New York. "Only trouble was, there was too much greed on behalf of himself and his family. And there's a certain limit to which any empire can be sucked." Briloff, who in 1977 won in a libel lawsuit that Steinberg filed against him, has written academic and business-press exposes of Steinberg's accounting methods over the last 30 years.

To support his grand vision and lifestyle, Steinberg ran Reliance deep into debt - and into high-risk ventures that went disastrously wrong.
The money ran out last spring, and the Pennsylvania Department of Insurance was finally obliged to take Reliance away from Steinberg.
More than $5 billion in cash reserves, stock-market value, and loan and bond payments had vaporized during the company's final 24 months.
Steinberg's empire became the biggest insurance company failure in U.S. history.

In October, Pennsylvania Insurance Commissioner Diane Koken abandoned efforts to "rehabilitate" the company. Reliance, she said, will have to be liquidated - and it will be months, or years, before her

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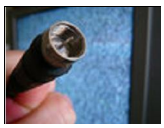
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department can figure out the cost of it all, she predicted. The wreckage includes workers who have lost jobs and severance pay,
individuals and institutions whose stock investments collapsed, banks
and bondholders that Reliance stopped paying last year, insurers who
depended on Reliance's financial support, and consumers, who will pay
higher premiums because of lessened competition and the costs of an
industry-funded Reliance bailout.
Perhaps, in the end, the former billionaire himself may be asked to
pay for some of the damages.
In his long, dramatic reign over the Reliance cash machine, Steinberg
both heralded and exploited the powerful forces that transformed the
American economy - and Philadelphia.
His unsolicited 1968 bid for Reliance signaled the beginning of the
end of Philadelphia's old business aristocracy, and the city's conversion from a major financial center into just another branch-office town.
Likewise, Steinberg personified the rise of a swashbuckling era of
billion-dollar mergers and junk finance, when the people who run
America's biggest companies don't dare make a move without considering
how Wall Street investors will react.
Steinberg's dominion spanned a generation. It arose in the computer
tech-stock bubble of the late 1960s, and blew away amid the implosion
of the Internet tech-stock bubble in the last two years.
Along the way, Steinberg hired the nation's boldest and most powerful
financiers, including junk-bond king Michael Milken and the visionary
investment firm (Carter, Berlind & Weill) run by future Citigroup
chairman Sanford I. Weill, the world's most powerful banker.
Later, in the crucial years when he was gearing up for the disastrous
expansion that destroyed Reliance, two of Steinberg's lieutenants were
put in charge of two state watchdog agencies that were supposed to
prevent insurers from taking on too much risk. In 1994, after an
expensive election campaign supported by Steinberg and other Reliance

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figures, Pennsylvania Gov. Tom Ridge named
a Steinberg lieutenant,
Reliance vice president Linda Kaiser, insurance
commissioner. The same
year, another beneficiary of Steinberg's campaign cash,
New York Gov.
George Pataki, put another Steinberg aide, Reliance senior
vice
president Edward J. Muhl, in charge of regulating that
state's
insurers - including Reliance's most aggressive subsidiary,
Reliance
National Insurance Co.
Why did the regulators responsible for ensuring that
Reliance stayed
solvent allow Steinberg and his family to take millions in
dividends,
stock options and executive pay from the company - more
than $150
million during the 1990s alone - even though the company
was hundreds
of millions of dollars in debt?
Pennsylvania's current insurance commissioner, a former
insurance
lawyer who took office in 1997, defends her agency and her
predecessors. "We did everything that could be done, when
we could, as
soon as we could," insisted Commissioner Koken, who
finally shut
Reliance down - after it ran out of money.
Longtime observers say it didn't have to end this way.
"I look back with regret for Saul," said Philadelphia investor
Paul F.
Miller Jr., a former Reliance director who fought and then
collaborated with Steinberg, and later saw millions
in Steinberg
largesse go to the University of Pennsylvania while he was
chairman of
its trustees.
"When he made the Reliance acquisition, he had a hell of a
good asset
he could have exploited very, very well as a serious
business," Miller
said. Indeed, during the Steinberg years, two old Reliance
rivals,
Travelers and American International, grew into Citigroup
and AIG, the
biggest and most profitable financial companies in the world
-
something accomplished "with good management and good
underwriting,"
according to Miller.
By contrast, Steinberg "did a piss-poor job of it," Miller said.
"Reliance was a great company, and he killed it. Saul was
always too

impatient to get the buck in the till."
By his own account, Saul Steinberg "didn't leave a ripple" at the
Wharton School when he finished his studies in 1959, at the age of 20.
At the time, Wharton enrolled its share of immigrants' sons - many of
them, like Steinberg, the children and grandchildren of Russian Jewish
immigrants who thought of themselves as poor and outside the nation's
white Protestant business mainstream, even if,
like Steinberg, their
parents were successful businesspeople.
"We both came from very modest and humble backgrounds. Everyone
doubted him, but he has always been a pioneer in creative thinking,"
said Steinberg's classmate, Jon M. Huntsman, the Idaho-born head of
Huntsman Cos., which calls itself the world's biggest privately owned
chemical company. As one of Wharton's few Mormons, Huntsman also
thought of himself as an outsider, and he
and Steinberg became close
friends.
Steinberg's most often-told story about his Wharton days concerned the
nameless instructor who he said pushed him to write a paper about "The
Decline and Fall of IBM."
Steinberg said his research showed that IBM wasn't really in danger:
It was a money machine that enjoyed high profits, in part because it
rented and serviced computers - large mainframe units in the pre-PC
era - through expensive four-year leases instead of selling them at
more modest market prices.
Yet Steinberg also figured IBM could be outflanked - and that he could
do it - by purchasing its used computers after the leases expired,
re-leasing them to smaller companies at more affordable rates, and
extending IBM's four-year equipment depreciation charge to an
additional eight years, long enough to claim generous federal tax
benefits.
Steinberg went back to Brooklyn, where his father and uncle operated
the Ideal Rubber Products Co., which made bath mats.

They lent him
$25,000 to start Ideal Leasing Co., where he put his
Wharton-hatched
ideas to work.
That graduation loan was the basis of Steinberg's eventual
billion-dollar fortune. It also marks one of the few
times Steinberg
or anyone in his family put their own money into his
moneymaking
enterprises.
By 1967, the name had become Leasco, Steinberg had
raised $750,000 at
an initial public stock offering, and the company could claim
800
employees and $74 million in assets. It didn't just lease
computers.
"Shipping containers - that's what we used to finance," said
Roger
Hillas, former head of one of Leasco's main lenders,
Philadelphia's
Provident Bank. "And that's how Leasco made its money."
But shipping containers weren't sexy. In public
statements, Steinberg
declared big plans for his computer business. Leasco
quickly became a
darling of Wall Street pitchmen and the national business
press: In
1967 Merrill Lynch put Leasco alongside IBM and General
Electric among
50 major tech stocks - just as Merrill would equate
ephemeral stocks
such as Internet Capital Group with GE and Microsoft
during the
Internet stock mania a generation later.
At a time when popular culture was obsessed with youth
and took for
granted the easy money of an economic
boom, Steinberg represented
both.
But that wasn't enough for Steinberg.
He wanted to build an empire. And he knew Leasco alone
wasn't big
enough to make that happen. Thanks to a visionary analysis
published
the same year, Steinberg found a vehicle: Reliance
Insurance Co.

Why would a hot-stock operator like Steinberg want a
Philadelphia insurer?
"Insurance is accounting. Its profitability is in the
manipulation of
reserves. You can get away with all kinds of things until the
house of
cards falls apart," said Hillas, the banker. "It's unbelievable
what
you can do with the insurance world - even with all the

regulators."
Dominic Frederico, chairman of Philadelphia-based Ace INA, which
traces its roots to the Colonial-era Insurance Co. of North America,
offers a similar take on the industry. "I work in the insurance
industry because, as a balance-sheet guy, there's a lot of junk you
can play with," he told a Philadelphia insurers' group this fall.
"If you work in manufacturing, there's only projecting obsolescence.
If you work in banking, there's only the loan loss reserve. But
insurance has referring agency costs, loss reserves," and many other
categories that can be subjectively reported, he said. "The fun you
can engineer into an insurance company's balance sheet is a lot more
fun than some others."

The "fun" was just beginning when Saul Steinberg set out on his novel
quest to build a financial empire on the back of an insurance company.
In the 1930s, Congress blamed the Great Depression on rampant
speculation by banks and insurers in the stock market and industrial
companies. The Glass-Steagall Act enforced separation of banking,
insurance, investment and industrial companies. Three decades later,
America was a country of more than 10,000 local banks and thousands of
state-regulated insurance companies whose investment portfolios were
swelling in a bull stock market - but these companies were strictly
forbidden from controlling nonfinancial firms.

In 1967, a young Wall Street analyst, Edward Netter of Carter, Berlind
& Weill, wrote a report asking: What if a nonfinancial holding company
could take over a financial company - and then redeploy its
investments into new businesses?

Netter suggested the creation of holding companies that would offer "a
one-stop, comprehensive financial institution servicing all of the
consumer's financial needs," funded by the cash generated by property
and casualty insurers like Reliance. For Reliance and other

insurers,
he even estimated the millions in "surplus" investment cash available
to be tapped by creative new owners.

The Netter report, "The Financial Service Holding Company," ignited a
frenzy of attempts by financiers to acquire insurance-company assets.
It turned out to be a remarkably accurate blueprint for Citigroup,
AIG, Chubb, Berkshire Hathaway and other giant financial-service
companies, all of which have grown from insurers into multipurpose
financial and investment companies.

Among the early readers of Netter's report was Steinberg, who had his
staff draft a "Confidential Analysis of a Fire and Casualty Company."
It focused on one of Netter's potential targets: Reliance Insurance
Co. Netter estimated that Reliance had built up an extra-cash surplus
of $60 million. Steinberg's report estimated that more than twice as
much - $125 million - could be raised from Reliance.
Another man who read the Netter report was Reliance's chairman, A.
Addison Roberts.

Steinberg brought his dream of financial empire to Philadelphia at the
start of the tense summer of 1968 as a brainy, cheerful and utterly
unwelcome ambassador from the future.

Like the Black Power and Vietnam War protesters who threatened the
nation's political establishment that summer, Steinberg saw himself as
a representative of a new era. There was, he announced, "a whole new
financial establishment being formed in this country."

There was, of course, also an old financial establishment in
Philadelphia, largely Episcopalian, Presbyterian and Quaker, which
initially gave Steinberg the kind of welcome that a gang of drunken
halfball players might expect on barging into the Merion Cricket Club.
"In those days, there really was a Philadelphia business
establishment. They played golf together, they ate lunch together at
the clubs, they knew each other," said Miller, who ran what

was then
the old Philadelphia investment bank of Drexel Harriman Ripley. "We
fought like hell to keep [Steinberg] out."
When Steinberg made his move in 1968, Reliance's board looked like a
Who's Who of corporate Philadelphia, and a museum of 19th-century
commerce.

There were the bankers: Ballam of Fidelity Bank, William G. Foulke of
Provident National, and William B. Walker, of First Pennsylvania.
There was Miller, the investment banker, and John B. Prizer, general
counsel of the Pennsylvania & New York Central Transportation Co., the
nation's biggest railroad, formed by the mighty but ailing
Pennsylvania Railroad's recent purchase of its Manhattan-based
archrival.
All those institutions traced their roots to the pre-Civil War
Republic. And all of them would be sold to out-of-town interests and
vanish from Philadelphia before Steinberg was done with Reliance.

As chairman of Reliance, the Virginia-born Roberts had brought an
outsider's vigor and energy to the corner office even as he recruited
board members from the city's best clubs. He joined the company in
1938 and took the top job in 1964, pledging to grow and diversify what
was already a national property, auto and business insurer.
By 1968, Reliance had bought 22 companies over the previous 20 years.
Yet the deal-making had ground to a halt because of the company's weak
- and vulnerable - share price. (Roberts blamed the slump on "property
destruction in the previous summer's racial rioting" and on hurricanes
and other uncontrollable events.)

Roberts continued to meet with New York investment bankers, looking
for deals. That's how he learned, in February 1968, that his own
company was being stalked. Steinberg's interest had become an open
secret on Wall Street. By May, "many mutual funds were buying this
stock" in the belief "we were going to be raided," Roberts,

who died
in 1992, later told a federal judge investigating the Reliance deal.
Five months later, at Reliance's Four Penn Center headquarters,
Steinberg unveiled a radical plan to take over the company - with $400
million borrowed from its own shareholders.

Speaking fast, high and with his hands, the 29-year-old New Yorker
assured Roberts that Reliance's 8,000 workers would be more
productive, its 13,000 shareholders would be more prosperous, and its
$125 million in extra cash would be put to better use if they were
part of Steinberg's own tiny company, Leasco Data Processing Inc.
Roberts - who was given to writing anti-Communist tracts and praising
Confederate battle tactics while lunching under the portraits of
Northern generals at the Union League - gave his visitor a "rather
abrasive" initial reception, he later recalled in court.

Indeed, by the numbers, it looked as if Steinberg's flea were trying
to take over Roberts' dog. Reliance was a multinational giant, one of
the biggest American insurers of homes, cars and businesses. Leasco's
main business was leasing used computers at cut-rate prices. It was
one-tenth Reliance's size and nowhere near as profitable.
Yet Roberts couldn't brush Steinberg away: In a runaway stock market
whose obsession with unproven computer companies presaged the Internet
bubble of 30 years later, Leasco was a hot stock, having been dubbed a
"computer industry leader" by Merrill Lynch.

Steinberg had help from inside Philadelphia. Delaware
Investments was one of the original U.S. mutual fund
companies, registered under the 1940 Investment Company
Act. Boss W. Linton Nelson was a canny trader who
Steinberg hired to quietly amass shares to give Steinberg's
group leverage, according to Thomas Egan, a veteran
Philadelphia and New York investment banker.

Never mind that Leasco relied heavily on a dubious depreciation
schedule and tax write-offs. Or that Steinberg had no special
knowledge of computers, having dealt in newsstands and

shipping
containers before applying his Wharton-concocted idea to rent out
second-hand IBM machines cheaply.

With investors seduced not only by Steinberg's growth projections but
also by glowing profiles in the hero-worshiping business press,
Leasco's stock-market value rose like an Apollo rocket, giving
Steinberg the financial leverage to go far beyond used computers if he
chose.
Under Steinberg's plan, Reliance shareholders would be given not cash
or stock, but certificates payable from future Leasco and Reliance
profits, at a price 50 percent higher than what Reliance had lately
been worth.
To Reliance, "the market for computer leasing looked pretty phony,"
and Steinberg's debt-financed takeover plan looked pretty shaky,
recalled Miller of Drexel Harriman Ripley.
Yet Roberts noted with mounting concern that a significant segment of
Reliance's shareholders - mutual funds and their managers - was
receptive to Steinberg's offer. They believed it would push the stock
price higher than Roberts' own expansion plans.
In proposing to take over Reliance, Steinberg threatened more than its
tight-knit, elite directors: He threatened Roberts' job.
"He was a king, and we were about to make him a baron," Steinberg
later explained to a federal judge investigating the deal. "It wasn't
friendly; we were taking over his company."
To prevent the unwelcome takeover, Roberts tapped allies on every
side. During the final week of July, the chairman:
Mailed a letter to Reliance share- holders
dismissing Steinberg's
Leasco as a "highly speculative" little company whose "long-term
prospects are by no means as good" as its inflated share price would
make it seem.
Sent Reliance lawyers into federal court,
accusing Steinberg's company
and his investment bankers - including Sandy Weill, future head of the
world's biggest bank, and Arthur Levitt, later President Bill

Clinton's top securities regulator - of "conspiring" to "manipulate"
Reliance's stock price based on "false and misleading information."
Secured the support of the most powerful Pennsylvanian on Capitol
Hill, Senate GOP leader Hugh Scott, who denounced Steinberg-allied
investors from the Senate floor for "touting" Reliance in "a highly
questionable manner."
The state government had already done its part by issuing regulations
that then Insurance Commissioner David O. Maxwell told The Inquirer
"would undoubtedly put a damper" on unwelcome insurer takeovers.
Roberts had even gone so far as to open competing merger talks with a
Leasco rival - Data Processing Financial & General Corp. DPF wasn't
any less ephemeral than Leasco later turned out to be - it was
eventually folded into the company that makes Wonder Bread and
Twinkies - but under the weird conditions of 1968, Roberts for a
moment considered it, with its inflated stock, as a white knight in
the battle against Steinberg.
To observers such as Maxwell, all these defenses looked formidable,
even forbidding.
But on Aug. 1, Roberts surrendered.
On that day, Roberts stopped his lawsuit, called off his allies, and
sent stockholders another letter, making plain that he was stacking
his weapons, standing aside, and letting Steinberg take over.
He had cut a deal.
What had happened?
Three years later, ruling in favor of a complaint by a small group of
angry Reliance shareholders, Judge Jack Weinstein concluded: "Peace
was made on that date at a considerable financial gain to Roberts."
The chairman had made a personal deal with the buyer he was publicly
resisting.
That wasn't what Roberts told shareholders at the time. Instead, he
announced that a modified offer by Steinberg represented a better deal

for them.
Indeed, the new offer appeared to be worth slightly more - $412
million, versus the original $400 million. But the new offer - in
preferred stock instead of bonds - was taxable. For private investors,
it actually wasn't as good a deal as the original offer, though it
remained above the going price for Reliance stock.
But the new deal had major benefits for
Roberts. Steinberg promised to
leave him and his team in control and not to interfere with the
management of Reliance's insurance business for the next five years.
Roberts also got an option to buy Leasco stock at a 70 percent
discount (which he exercised, for a quick profit of $435,000) and a 25
percent raise in his base salary, to $100,000 a year, among other
sweeteners.
Having accepted Steinberg's offer, "Roberts was no longer concerned
with details such as tax consequences to [Reliance's] own shareholders," Weinstein wrote.
The chairman's "tacit abandonment of his duty to shareholders [came]
in return for personal benefits," he said. Roberts had come to believe
"it was better to acquiesce - advancing his personal fortune in the
process - than to incur the displeasure of the raiders."
Weinstein also found that Roberts and Steinberg had both hidden from
Reliance shareholders a key reason for the takeover: $125 million in
Reliance cash, which would now be available
for Steinberg to invest.
If they'd known, Weinberg ruled, investors might have held out for a
better offer.
He ordered Steinberg's company to pay a belated 12 percent takeover
bonus to Reliance shareholders who had sold their shares between
Leasco's 1968 takeover and the stock-market collapse the following
year.
But Weinstein's ruling came in 1971 - far too late to affect the
course of the deal.
"It's the story of Philadelphia in recent years," says Ballam, who now

lives in a Main Line retirement community where his neighbors include
the heirs to the John Wanamaker and Quaker Lace fortunes, two more
local stalwarts sold to outsiders.
"I guess that we were not aggressive enough to get our [share prices]
up to defend ourselves," Ballam said. "Those people who are investment
bankers are always looking at wounded ducks!"
Philadelphia "is a nice place to live ... but it does not have the
reputation of being a growth city," Ballam added. "You know the
saying, 'Corrupt and contented.' That's how they see us."
As it was, in 1968 Steinberg was a hero. He had made more money by age
30 than anyone else in America, according to Forbes magazine. And he'd
done it through computers - the business of the future.
If it was good to own an insurer, Steinberg and his advisers reasoned,
it would be great to own a bank.
At the beginning of 1969 he settled on Chemical Bank New York Corp. -
which boasted more than 10 times the combined assets of Leasco and
Reliance.
But Reliance had been 10 times bigger than Leasco, and "the minnow had
swallowed the whale," as insurance observer David Schiff put it.
Bank shares were slumping, as insurance stocks had been when Steinberg
bought Reliance. As with Reliance, he prepared to offer convertible
securities in return for a 30 percent premium on Chemical's stock.
Like Philadelphia's Reliance, New York's Chemical was big, traditional, and undervalued by recent stock-market trends.
Like Reliance's Roberts, Chemical chairman William Shyrock Renchard
came out swinging, once news of the bid was leaked to the press. "We
intend to resist this with all the means at our command," he announced. "And these might turn out to be considerable."
In Chemical's case, the means included allies such as New York Gov.
Nelson Rockefeller and U.S. Sen. John Sparkman of Alabama, both of
whom promptly proposed antitakeover laws.
Steinberg wasn't cowed, and Leasco went on buying Chemical stock -
most of it through Reliance, which already owned 1 percent of the New

York bank before bidding began.
But if Steinberg thought Chemical would fold the way Reliance did, he had misjudged his prey.
"It was very, very close," says Maurice Hartigan, a young Chemical officer at the time, and currently head of the Philadelphia-based Risk Management Association. The Princeton-educated Renchard "led a mighty battle. He lined us up and said, 'I'm going out to run the war. I want you to stay inside and run the bank.' "
Steinberg, for his part, rolled out a new weapon - Reliance's A. Addison Roberts, who, having cut his deal, set his past criticism aside and went to work lobbying Chemical on Steinberg's behalf.
Roberts called on Renchard, as a Philadelphia executive talking to his New York equal, to suggest the benefits of a takeover by Saul Steinberg.
But Renchard was not interested.
"I told [Roberts] he was off his rocker," Renchard later told the New Yorker. "I said computer leasing had nothing to do with banking. He said the Leasco-Reliance merger hadn't hurt Reliance. I was disappointed in him."
Around that time, Leasco shares began dropping dramatically, cutting deeply into the value of Steinberg's offer for Chemical. The drop remains mysterious; Steinberg later told a congressional committee that he suspected but could never prove that Chemical had urged its Wall Street friends to dump the stock.
The U.S. Department of Justice began inquiring into Steinberg's plans.
Federal Reserve Chairman William McChesney Martin and several members of the Senate Banking Committee condemned the deal.
In February, even before he completed his formal bid, Steinberg surrendered, renouncing any interest in Chemical. For the moment, he had reached a limit on his power of persuasion.
Chemical went on to prosper over the next generation. It would ultimately acquire a string of its powerful rivals, appropriating the names as well as the assets of J.P. Morgan and Chase

Manhattan.
And Reliance resumed its colorful march under Steinberg.
Steinberg's first career as the progenitor of a new kind of financial
empire had ended with the wreck of the Chemical deal and the
relentless waning of the 1960s bull market that had propped up Leasco.
But if Steinberg saw it, he refused to admit it, at first.
In April 1969, he returned to Philadelphia. Meeting with investment
managers at the Barclay Hotel, he had the crowd chuckling, thanks to
his self-deprecating humor and uplifting pronouncements.
"The common complaint seems to be that I am too ambitious," he told
the crowd. "Why, that's one of the qualities that made this nation
great - we'd have never gone past the Appalachians without it."
To the mostly sympathetic audience of Philadelphia money managers,
Steinberg made great claims for Leasco and said he'd need to invest
more money in expansion.
Instead, in August, Steinberg took one of his first steps in
separating Reliance Insurance from its extra cash, declaring a special
bonus dividend to shareholders. As the biggest shareholder, he was the
biggest beneficiary of that dividend. For all of 1969, Reliance
dividends to shareholders jumped to $52 million, from $10 million the
year earlier.
Steinberg had pledged he'd use Leasco's cash for acquisitions that
would expand both his computer business and his insurance business. He
told investors he planned to offer time shares on his computers - and
to take the business international.
But somehow Steinberg never found the time or opportunity to make the
big investments that he acknowledged a successful expansion would
require.
Insurance companies make most of their money from investments. With
the stock market down, Leasco and Reliance lost $61 million on
investments in 1971.
Yet Reliance continued paying dividends.
And Steinberg continued to
spend money - even if it wasn't on his companies'

operations: He moved
his headquarters from Long Island to Park Avenue. And he moved his
wife and their three young children to a 29-room Long Island mansion.
He decorated the walls with Picassos.
Meanwhile Leasco's original business was running out of gas.
Steinberg was one of the first and most spectacular victims of Moore's
Law - the principle, enunciated by Intel Corp. founder and computer-chip pioneer Gordon Moore, that computer power doubles every
year or two, thanks to rapid advances in hardware technology.
Through the 1960s, IBM estimated its machines had a four-year life
span for tax purposes.
Steinberg had built Leasco on the proposition that IBM was being too
conservative. He bet IBM machines could be leased over an eight-year
period, allowing him to claim extended depreciation and federal tax
benefits.
But by 1973, with ever-more-powerful and cheaper IBM machines flooding
a market depressed by the oil crisis, Leasco was having an increasingly tough time renting its machines.
Its stock price plunged, dragging Reliance down with it.
The following year, Steinberg wrote off $14 million in computers.
Losses mounted as Leasco wrote off more computers each year. Steinberg
still had Reliance, but the company was battered by inflation and the
weak investment market. The value of his personal stake plunged from
$60 million to an estimated $9 million in 1975, Forbes reported.
Steinberg's marriage broke up. His children's school sued him for
nonpayment of a promised donation. He married again, but that union
dissolved in tabloid accusations of misbehavior.
But Steinberg had learned some powerful lessons from his spectacular
and highly public failure to buy Chemical Bank.
The next time he went after a company that didn't want him, he had no
intention of going away without a profit.

LIFE IS GRAND: After some tough times in the '70s,
Saul Steinberg was on top of the
world in the '80s - and lived accordingly. But Reliance

Insurance, his Philadelphia cash cow, wasn't faring so well.

Saul Philip Steinberg spent the 1980s showing what a man could do in glittering New York, with access to billions of dollars in other peoples' money.
It wasn't just that he could buy stuff.
Sure, he had a big Park Avenue apartment and a bigger estate in Long Island's Hamptons, a beautiful third wife, and use of a beautiful customized Boeing jet.
But Steinberg and his wife, Gayfryd, spent as if they were fulfilling a grand plan - to showcase his success, amid the capitalist resurgence of the Reagan years, through a calculated display of financial power and social prerogatives.
Like a Renaissance prince, Steinberg seemed to delight in cultivating a fearsome public reputation and then dispelling it in private with a dash of humor and a great deal of calculated style.

"He did scare people. He liked the publicity, he liked his success, and he traded on that in being a corporate raider" in lurid and lucrative financial attacks on companies such as Walt Disney, says a former director of Steinberg's holding company, Reliance Group.
Yet at heart Steinberg was a bargain hunter who made big money by bidding up cheap stocks. Though his name became synonymous with hostile takeovers, he never actually completed one. Steinberg won if his interest in a company attracted me-too speculators, or forced an embattled company chairman to cut costs and boost profits, enabling Steinberg to unload his stock and pocket the profits.
Some companies, like medieval cities menaced by freelance mercenaries, even paid Steinberg to go away.
Steinberg could play the prince because he owned vast plantations, starting with Philadelphia's Reliance Insurance Co., with 10,000 workers and millions of customers' monthly premiums to pay for his grand gestures.

Steinberg showered his (and Reliance's) money on charities including
the Metropolitan Museum of Art, on politicians such as Alphonse
D'Amato and Edward G. Rendell - and especially on his alma mater, the
University of Pennsylvania. Penn collected more than $30 million from
Steinberg, despite misgivings from trustees who worried that
Steinberg's connection with financier Michael Milken could damage the
school's reputation.
Unlike Milken, Steinberg seemed to enjoy a magical protection: He kept
control of his company through the turmoil of the 1980s and well
beyond, even as the rules changed profoundly.
As a young man, Steinberg had been able to see himself as an outsider
battling the establishment. Rebuffed in his 1969 attempt to buy New
York's Chemical Bank, he puzzled, in congressional testimony,
interviews, and private conversations, about how he could have
possibly fallen short: Because he was Jewish? Because he was brash?
Because he tried to pay with convertible debentures instead of cold,
hard cash?
But 15 years later, Steinberg had bought and finessed his way to the
heart of the aggressive new financial establishment that was
frightening big companies into slashing expenses, raising profits, and
pushing up share prices. In Steinberg's mind, he and everything he
represented had moved so far from the margins toward the center of
financial America that, by the end of the 1980s, he was able to boast
to a business partner, "You'd be a billionaire, too, if you were
Jewish."
Steinberg accumulated the trappings to show he'd arrived.
Consider how his art collections changed:
With his first wife, childhood sweetheart Barbara Herzog, and his
first fortune, acquired in the 1960s computer-stock bubble, Steinberg
bought Picassos and Kandinskys for his Long Island castle-by-the-sea -
the kind of art and the kind of house that one might expect

from the
Ivy League-educated child of a serious Brooklyn immigrant family
nurtured on early-20th-century visions of progress and culture.
Then, in the 1970s, he moved on to brooding German Expressionists and
intense Francis Bacons. But in 1981, when Steinberg ended his shortest
marriage, to publicist Laura Fisher (formerly Sconocchia), he sold off
more than 40 of the dour works.
By the following year, when he met Gayfryd (formerly Johnson, formerly
MacLean, formerly McNabb) at a party at the home of his favorite art
dealer, Richard Feigen, Steinberg had begun the process of building
one of the world's great collections of Old Masters.
The doubt and irony of the modern educated classes no longer had pride
of place on Steinberg's walls. The new collection evoked the
self-confident, imperial style of the 16th and 17th centuries.
Masterpieces such as Titian's Salome with the Head of John the Baptist
and Rubens' Death of Adonis adorned the velveted walls of his and
Gayfryd's Park Avenue apartment - their home and seat of power during
his years as a famous investor and Gayfryd's reign at the center of
New York's "nouvelle society."
If the musical champagne parties of powerful men and elegant women at
Steinberg's Hamptons estate evoked the ghosts of that fictional Long
Islander, Jay Gatsby, there was a time
when Steinberg seemed fated to
prove Gatsby creator F. Scott Fitzgerald's claim that "there are no
second acts in American lives."
In the mid-1970s, Steinberg wandered in a social and financial
wilderness, a burned-out boy wonder unable to turn a profit, keep a
wife, or stay out of court.
By 1977, Forbes magazine, which once
anointed Steinberg the richest
self-made American under age 30, had relegated him to a sad-sack list
of the nation's all-time business failures under the headline "They
Blew It."
Everything had gone wrong:

Steinberg's red-hot computer company, Leasco, had fizzled, weighed
down with $150 million worth of clunky machines that no one wanted to
rent.
Worse, his cash machine, Reliance, was in trouble. The company
traditionally lost money on its main business - insurance - and earned
it back through stock and bond profits, but these vanished in the bear
market of the early 1970s. By 1975 Reliance was half a billion dollars
in debt, and its own accountants said it would have trouble paying the
money back. Wall Street brokers stopped recommending the stock, which
fell below $10 - from a 1968 high of nearly $100. For a time,
Steinberg even had to suspend his precious dividend to himself and
other shareholders.
Steinberg turned to private investments. But these often proved a
source of embarrassment.
A plan to sell a Brooklyn bank that he partly owned, Kings Lafayette,
was delayed in 1973 because it was identified in federal criminal
court hearings as a lender to Mafia members who tended not to pay it
back.
In 1977, Steinberg gave what New York City investigators called a
"disguised contribution" of $12,500 to City Controller Harrison
Goldin. At the time, Steinberg was seeking a bus-shelter construction
contract for a company he backed, Convenience & Safety Corp. Steinberg
refused to testify and wasn't charged, but the lawyer who
investigators said made the payment for him, former New York State
Sen. Jack Bronston, went to prison.
Steinberg's storybook home life was also unraveling. His wife,
Barbara, sued him for divorce in 1977.
His daughter's school, Woodmere Academy, was suing him over an unpaid
donation, which Steinberg said he'd had to suspend because he had
given so much money to Israel for the Yom Kippur War and to Richard
Nixon for his reelection.
Steinberg soon remarried, but his new wife, Laura, filed for divorce

after two years. In court papers, she accused Steinberg of blowing
Reliance money on cocaine, furniture, and personal use of the
company's jet - claims that he denied and she recanted after the pair
reached a cash settlement.
Through all his tribulations and divorces Steinberg hung on to one
acquisition: his fabulous Park Avenue apartment. Billionaire John D.
Rockefeller had built it - with 80 rooms - in the 1920s for use during
his trips to New York. In 1971 Manhattan real estate was in a funk,
and Steinberg bought half the apartment for a mere $300,000.
Steinberg added air conditioning and an alarm system. He then
furnished the place with Chinese ivory and Indian brass, and decorated
it with Rodin bronzes, a Rockefeller family Matisse, and a treasury of
somber 20th-century European paintings.
The sprawling 740 Park Ave. museum suite would become one of
Manhattan's most spectacular addresses, a showplace for big people and
big parties of the 1980s.
Saul Steinberg finished his vodka martini and called for another.
Across the table, as recounted by Peter W. Bernstein in a 1981 Fortune
magazine article, "Fear and Loathing in the Boardrooms," the gentlemen
who ran the New York Times Co. prepared to discuss their urgent
business.
One of the Times' lawyers looked at Steinberg. "Mr. Silverman," he began.
The Times man had confused the portly investor with his intense young
lieutenant, Henry Silverman, the future Cendant Corp. chairman.
It was clear the Times didn't understand whom it was dealing with.
It was October 1980, a month before the election of Ronald Reagan.
Steinberg had recently directed his Reliance Insurance Co. to buy 2
percent of the Times Co. on the American Stock Exchange.
That made Steinberg one of the Times' biggest owners. It also made the
number-one owner, the family of Times publisher Arthur Ochs Sulz-

berger, pretty nervous.
There was plenty to worry about. Newspaper stocks were suffering one
of their cyclical downturns - and that made them vulnerable to
investor pressure. The Times of London was on the verge of being sold
to another brash investor, Australian tabloid-press tycoon Rupert
Murdoch, who would force big changes in its editorial content. Would
America's best-known paper be next?
During Steinberg's failed attempt to buy Chemical Bank 11 years
earlier, the Times had published damaging stories based on information
leaked by bank officers. More recently, Steinberg and his lawyers had
complained angrily about the Times' coverage of his role in the
bus-shelter bribery case. Was he seeking revenge?
Steinberg would face a bitter fight if he hoped to dominate the Times,
he was warned. Did he really think he could bully the proud Times
managers - as he had the people running Reliance Insurance - into
adopting policies designed to profit Steinberg at others' expense?
Steinberg left the meeting and spent about $12 million that day to buy
an additional 3 percent of the Times. Steinberg even leaked word,
which the Times duly printed, that he might consider buying 15 percent
more in the paper.
Yet Sulzberger needn't have worried: Steinberg was also buying chunks
of CBS, ABC, Warner Communications, Gannett Co., and Knight Ridder
(which publishes The Inquirer) - not, as some investment analysts
speculated, because he wanted to form a global media empire but
because he felt the sector was cheap.
Steinberg sold most of the shares in the early 1980s, booking big profits.
By then, the stock market had shaken out of its 1970s slump and come
roaring back to life.
And so had Steinberg.
Ronald Reagan's presidential election in 1980 freed American
capitalism not only from the stagnation of the previous decade but

from the self-restraint imposed by the Great Depression, the Cold War,
and the egalitarian rhetoric of the Democratic Party.
Even more than reduced regulation and taxes, Reagan stood for social
acceptance of the idea that self-interest is a key force for economic
efficiency and social good.
For Saul Steinberg and his contemporaries - men such as Philadelphia-born cigars-and-cosmetics king Ronald Perelman, Miami
Beach-based factory dismantler Victor Posner, and stockbroker-turned-dealbuster Carl Icahn - Reagan ushered in a
freewheeling period. With little or none of his own money at risk, a
fast-moving operator could make big investments with borrowed money
and turn a fat profit - and then flaunt his gains in fancy living and
splashy philanthropy.
At the time, traditional banks and conservative, Depression-bred
investors still had a deep aversion to financing speculative enterprises that might have a tough time paying them back.
Some companies tried anyway, issuing "junk" bonds with outrageously
high rates of interest - which compensated would-be buyers for the
higher risk of default.
The big challenge was finding large investors willing to accept those
terms. It was the labor and the genius of Steinberg's fellow Wharton
School graduate, investment banker Michael Milken of Drexel Burnham
Lambert & Co., to relentlessly organize a circle of like-minded bond
buyers willing to shoulder that risk.
And Steinberg, through Reliance, could help both ways:
To fund his aggressive investment plans and refinance his company's
staggering debt, Steinberg ordered Reliance to borrow more than $660
million through junk bonds between 1982 and 1988.
And - in search of the higher returns Reliance needed to cover its
insurance losses - Steinberg made the company one of the nation's
biggest buyers of junk bonds. By 1988, up to 40 percent of Reliance's
investment portfolio consisted of high-yield debt.
Junk-bond debt and junk-bond returns enabled Reliance to pay Steinberg
fat dividends, report the cash reserves demanded by

Pennsylvania and
New York regulators, attract new business clients for Reliance
insurance policies, and eventually convince skeptical Wall Street
investors to place their dollars in Steinberg's keeping.
These billions flowing to Reliance depended completely on the
assumption that Steinberg's company would eventually be able to repay
its debts.
It couldn't. But under Steinberg's leadership, it could paper over the
problems for years to come.
Saul Steinberg actually bought Reliance Insurance Co. twice - both
times with borrowed money.
After taking control of Reliance in 1968, he had issued stock to the
public to help pay for the deal.
As the value of those shares collapsed in the 1970s, he used company
funds to start buying them back on the cheap from disgruntled
investors - boosting the proportion of total shares he controlled
without spending a dime of his own.
Along the way, Steinberg eliminated a source of potential opposition
to his grand projects: In the mid-1970s he reorganized the board,
securing the departure of a handful of Philadelphians who had resisted
his attempts to replace the company's local attorneys with what one
ex-director called "New York raider types."
From then on, Steinberg would be answerable only to a circle of
hand-picked directors - including his father, Julius, and his brother,
Robert.
In 1981, with the stock market showing signs of life, Steinberg
decided it was time to buy the part of Reliance he didn't already own.
Reliance's new profitability had driven the stock modestly higher.
Steinberg calculated that the company could persuade investors to part
with the rest for half a billion dollars - most of it borrowed.
The plan raised a lot of eyebrows. "He's really stealing the stock
back from shareholders for next to nothing, and at the same time
getting off the hook of regulation by the Securities and

Exchange
Commission" by taking the company private, New York stock analyst
Irwin Perry told The Inquirer at the time.
Reliance "is probably worth more than shareholders are getting,"
agreed analyst Jeffrey Vinik, future head of the nation's largest
mutual fund, Fidelity Magellan.
Steinberg bumped his offer slightly higher, won approval from the SEC,
and took full control of Reliance, its investment portfolios, and its
dividends.
Exactly how many hundreds of millions of
dollars Steinberg removed
from Reliance over the next five years was the subject of a federal
lawsuit in the late 1980s by a later generation of disgruntled
investors. The lawsuits were settled privately, and no final figure
was reported.
But Steinberg always ensured that his paycheck matched his Park Avenue
lifestyle. By 1980 he was already the best-paid financial executive in
America, earning $750,000 in cash compensation - more than the head of
Citicorp, J.P. Morgan, Bank of America or any other U.S. financial
company, and about 10 times what his predecessor had made when
Steinberg bought the company. And that's not counting his dividends.
Of course, that was peanuts - by the standards of the years to come.
At times, Steinberg behaved as if he were actively cultivating his
reputation as a robber baron.
He picked Donald Duck's 50th-birthday celebration, in 1984, as the day
to unveil his bid to take over Walt Disney Co., oust the board, sell
off its beloved Snow White, Bambi, and all their cartoon pals to raise
cash, and fold its theme parks into something called M.M. Acquisitions
- in honor of Mickey Mouse.
The move made Steinberg a lightning rod for anyone with qualms about
the way assertive Reagan-era investors were pressuring old-line
companies.
"Run for the hills, Bambi!" the Philadelphia Daily News urged,

comparing Steinberg to a "salivating hound with a big leer and
outstretched paws, bearing down on a cute, cuddly" Walt Disney
Productions.
Watching Steinberg stalk Disney was "like watching your mother getting
ravaged by New York thugs," Los Angeles investment manager Greg
Kieselmann told Time magazine.
Congressmen and state legislators demanded laws restricting his
secretive takeover tactics; some were later enacted.
Yet Steinberg's aggression was often a show - with a practical goal.
"I don't think he wants to own Disney," Philadelphia stock analyst
James Mayer told The Inquirer during Steinberg's takeover campaign. "I
think he likes to make people nervous, so they will buy him out at a
premium."
And that's what happened. Led by nervous chairman Ron Miller, the
shaken Disney board agreed to buy back all of Steinberg's stock at a
higher price and pay his expenses. That
guaranteed Steinberg a profit
of $58 million on his short-term investment.
Steinberg had already collected $10 million from Quaker State, more
than $8 million from the Penn Central, and more than $10 million from
the Lomas Financial Corp. in earlier greenmailings. But it was the
Disney payment that sealed Steinberg's reputation. Though a federal
judge later forced him to give Disney investors most of their money
back, the deal ensured Steinberg's permanent enshrinement in the
gallery of ruthless 1980s dealmakers. The irony is that investors had
reason to cheer Steinberg's attack, since it pushed Disney to replace
its conservative CEO, Miller, with aggressive Michael Eisner, who
drove sales and profits to dizzying heights.
Yet if outrageous offers such as the Disney bid
gave Steinberg his
public-enemy reputation, they were hardly his typical transaction.
More often, corporate managers who came to do business at Steinberg's
posh Park Avenue office - with its sign proclaiming, in

English and
Hebrew, "On the eighth day Saul rested" - were apt to find themselves
charmed and disarmed.
Steinberg's wonky bow tie and high-pitched voice, which ex-employees
compare to the annoying whine of comedian Gilbert Gottfried, could
become a backdrop for self-deprecating humor and expansive discussions
on food, culture, politics, women, and the solution of world problems
- anything but the way Steinberg actually made his money.
"We had been led to expect this Inquisition. But [Steinberg] didn't
ask a lot of questions. He talked a lot - a lot - about lunch," says
Pennsylvania banker Alan Fellheimer, who traveled to Park Avenue to
sell Steinberg $20 million worth of bonds soon after the Disney raid.
Steinberg didn't just buy fancy art. He also paid for and promoted the
promulgation of fancy ideas.
He paid for Henry Kissinger's hard-line 1981 speech at the Wharton
Reliance Forum, at a time when Kissinger was angling in vain for a job
with the new Reagan administration. He funded Polish hero Lech
Walesa's stormy 1990 Vienna conclave with top Polish intellectuals
over the future of the ex-communist nation.
In the late 1980s, the Steinbergs organized posh fund-raisers at their
Park Avenue home, and at New York's Metropolitan Club, for the
writers' group PEN (the International Association of Poets, Playwrights, Editors, Essayists and Novelists).
Gayfryd Steinberg had
been recruited to the group by novelist Norman Mailer and editor Tina
Brown, a neighbor in the Hamptons. Gayfryd hosted a $750-a-head
cocktail party, uniting the likes of ebullient countercultural poet
Allen Ginsberg and high-strung sexual revolutionary Erica Jong with
leveraged-buyout king Henry Kravis and investment banker Felix
Rohatyn, enabling New York culture and New York's new fortunes to bask
in one another's light.
Not all big-name writers saw this as an equal, or positive, relationship.

The Steinbergs "were very much a part of that whole ostentatious-wealth era. You have it, you flaunt it, you show it off,"
says Ken Auletta, a critic of corporate America who had recently
joined PEN's board. "And yet a fairly large number of people at PEN
liked them and thought she was a serious person."
Auletta pondered the source of the Steinbergs' generosity and its
purpose. He says he had reviewed the details of a government
investigation of Steinberg's business dealings that raised disturbing
questions. He also believed that Steinberg's "general reputation of a
greenmailer made him less than wholesome."
And he worried that the Steinbergs' fund-raisers had come to account
for half of PEN's yearly budget of about $3 million.
At the group's 1990 fund-raising dinner, "they had floral arrangements
you couldn't see over. It just seemed over-the-top ostentatious. . . .
I just came away feeling writers are pets. We were helping rehabilitate a reputation. It pissed me off."
Auletta made his feelings public in a 1990 New York magazine interview
in which he called Saul Steinberg "a pretty sleazy character" who
sought "respectability on the backs of writers."
PEN "tries not to take money that's too bloody or too tainted," says
Texas writer Larry McMurtry, who was president of PEN in the late
1980s. "There was a debate over whether the Steinbergs were gaining
too much influence at PEN." McMurtry welcomed them - "understand, we
didn't even have a bathroom in our office; you had to trundle 300
yards down the hall."
The Steinbergs took their money elsewhere after they came under attack.
Indeed, Steinberg's reputation preceded him, even at one of the main
objects of his charity: the University of Pennsylvania.
"At Penn he gave a lot of money. Everything on the campus is named for
him - Steinberg Conference Center, Steinberg Dietrich Hall," says John
Neff, who managed Penn's endowment fund and sat with Steinberg on the
school's executive committee.
"There was some concern, including mine, because he was

one of the big
borrowers and backers, junk-bond-wise, of Milken," Neff
adds.
Correctly anticipating that Milken would face criminal
charges, the
trustees feared he would "spill the beans" on Steinberg and
embarrass
Wharton, Neff says.
But they mastered their fear, and took Steinberg's money.
And
Steinberg, at Penn, repaid their gamble by taking every
public
opportunity to support broad academic values over narrow
business
interests.
Praising the value of liberal education and
inquiry, Steinberg
insisted that millions of his largesse be spent on Penn's
English
department and its medical school. Acknowledging his
distaste for the
pan-Africanist teachings of Penn scholars Houston
Baker, Steinberg
nevertheless told The Inquirer he expected his money
would support
Baker's work: "Who says I'm right?"
Behind the scenes, Steinberg did mobilize other Penn
directors to
lessen elected officials' influence at the university - a move
Neff
says the majority of trustees correctly blocked,
acknowledging the
state's big financial commitment to subsidizing Penn.
But whenever Steinberg showed up to be honored at the
dedication of a
professorial endowment or a building, "he handled himself
well," Neff
says. "It was kind of modest - he spoke briefly, which was
kind of
unusual for guys like that."
At home in New York, Steinberg didn't have to act modestly.
On a rainy April afternoon in 1988, Laura Steinberg, a
Warner Bros.
story analyst and the daughter of Steinberg and his first
wife, wed
Jonathan Tisch, son of Loews Corp. president Preston Tisch
and nephew
of CBS president Lawrence A. Tisch.
Brass palm fronds from the Steinbergs' art collection were
trucked
into Manhattan's Central Synagogue to form a canopy for
the couple.
Steinberg's Reliance Insurance Co. had owned a big piece
of CBS, and
Loews Corp. had invested heavily in Reliance, causing the

Tisch family
to joke that the union would require the blessing of the SEC.
It was the Wall Street equivalent of a royal wedding. Gayfryd
Steinberg's favorite dress designer and neighbor in the Hamptons,
Arnold Scaasi, did the off-white gowns for the 10 bridesmaids. Barbara
Walters, Cosmopolitan editor Helen Gurley Brown, casino builder Donald
Trump, and civil-rights-attorney-turned-Washington-powerbroker Vernon
Jordan were among the guests, who retired to a reception at the
Metropolitan Museum's Temple of Dendur, where they quaffed Chateau
Latour at dinner.
Steinberg paid for other lavish parties, but it was hard to beat the
star-studded, heavily publicized Steinberg-Tisch wedding for a symbol
of the rise, mutual support, and general public acceptance of the
aggressive investment tactics that underlay the couples' family
fortunes. The marriage, unfortunately, didn't last.
Five years after taking exclusive control of Reliance, Steinberg
decided it would be convenient to invite outsiders to own part of his
company again.
In the summer of 1986 he offered new Reliance shares on the New York
Stock Exchange. He hoped to raise more than $300 million. The money
would be used to pay back some of the debt Reliance had racked up.
Steinberg also hoped to sell more than $60 million of his own shares,
pocketing the proceeds.
The year before, Reliance had lost nearly $200 million on its
insurance business. But it had gained $260 million from Steinberg's
investments in the roaring bull market.
The lead investment bank on the Reliance stock sale was to be Michael
Milken's Drexel Burnham Lambert, which, as it later emerged, had been
having a tough time selling some of Reliance's junk bonds and stood to
gain if Reliance could afford to buy them back.
Milken's moment was almost over, however. That spring, a managing
director at his firm was indicted for insider trading; it was the

first in a series of prosecutions that would culminate five years
later with Drexel's bankruptcy and Milken's imprisonment.
The offering raised just $150 million. By the end of the year Reliance
was borrowing again, and Drexel was withering under the widening
federal probe - including a leaked rumor, which Reliance denied, that
Steinberg himself was under investigation for insider trading with
Milken.
The 1980s' style of financing was also under attack by state courts in
Delaware, whose business-friendly judiciary traditionally moderates
corporate-shareholder disputes. By 1989, the Delaware Supreme Court
had given corporate managers sweeping powers to resist hostile
takeovers, further crimping Steinberg's investment style.
The state regulators who monitor insurance companies were starting to
close in. Reliance and other insurers were pressured to diversify
their investment portfolios. The company adapted poorly at first.
Profits continued weak, and the stock price kept falling.
The message of the late '80s was clear: Steinberg would have to find a
new way to do business.
So in April 1988 he announced to the Wall Street Journal that it was
out of date to call him "a corporate raider and a greenmailer."
Henceforth he would prefer "to be known as an insurance man," the
Journal reported.
Something, at any rate, had to be done with Reliance, whose fortunes
were once again sagging.
For the balance of his career, Steinberg would dedicate his energies
to selling insurance in much the same way he had invested: with a
certain flair, with fancy props and inspiring declarations of great
things to come - but mostly as a bargain-hunting opportunist.
Saul Steinberg turned 50 at the end of the 1980s, and Gayfryd gave him
a surprise party fit for a fun-loving billionaire.
She summoned the rich and powerful and fashionable to their Long
Island estate for the million-dollar gathering. U.S.

Commerce
Secretary Robert Mosbacher strolled the gardens with the likes of
celebrity photographer Francesco Scavullo and Brown University
president Vartan Gregorian.
Models posed as mermaids and characters from Steinberg's favorite
paintings. Financier James Wolfensohn, future president of the World
Bank, admired the naked woman portraying Rembrandt's Danae.
The champagne swirled, the caviar jiggled, the orchestra swelled above the surf.
Steinberg had seized the opportunities America offered a smart,
aggressive, fast-moving dealmaker, backed by lots and lots of borrowed
money, to propel himself and the people around him to this spectacle
of imperial capitalist decadence.
Yet this game Steinberg played so well was changing fast. His banker
was heading to prison. His company was deep in debt. He faced pressure
from regulators and his own advisers to tone down his high-risk
investment style: Don't buy so many junk bonds. Don't put so much into
so few stocks.

What, his guests may well have wondered, was in store for the former boy wonder?
Steinberg was, after all, a survivor. He had been a young capitalist
radical in the 1960s, before nearly going broke in the hangover bear
market of the following decade.
He roared back as a billionaire corporate raider in the 1980s,
brushing aside federal investigations even as he bankrolled local,
state and national politicians.
But the 1990s would bring the greatest test of Saul Steinberg's powers
and of the faith of the workers, customers and investors who trusted
in him.
He would be forced to sell insurance. Lots of insurance.
To people who turned out not to be very good risks.

THE PARTY'S OVER: After record years in the late '90s, Saul Steinberg's
empire collapsed with remarkable speed. The reckoning is still due.

To celebrate its move from a dowdy, windswept Penn Center building to the leafy, museum-lined Benjamin Franklin Parkway, Reliance Insurance Co. threw a party with a homey Philadelphia theme. On the marble-floored two-story lobby of its brick high-rise, the former home of the old Pennwalt Corp., Reliance stationed genuine sidewalk vendors - carts and all - serving salty soft pretzels and juicy cheesesteaks. Here was an eight-man doo-wop band. Over there was the bouncing Phillie Phanatic.
"It was a good time. There were no speeches," recalls Tom Black, a Reliance administrative worker whose office helped organize the bash.

And there in a corner was Mr. Philadelphia himself - "America's mayor," Edward G. Rendell - with Reliance vice chairman Robert Steinberg and his big brother and boss, chairman Saul Steinberg.
Saul had once been a frequent visitor, grilling his Philadelphia managers over financial targets every quarter and rallying the troops at yearly meetings. But that had ended with his debilitating stroke two years earlier. Now Saul was making a rare visit to the company he'd purchased back in 1968 and used as his investment war chest and personal treasury ever since.
It was 1997, and Steinberg's down-home party was telling the world - or at least his workers - that Reliance was stepping back a bit from its fixation with New York glitter and returning to its sober roots in Philadelphia, where it had been founded by a group of the city's brawling fire companies in 1817.
In fact, the Steinbergs' commitment to Philadelphia was less than absolute.
Though their company was more profitable than ever before, Rendell had felt obliged to arrange $9 million in low-cost, taxpayer-subsidized loans for the new digs. The mayor denied that his help had anything to do with the $55,000 that Steinberg had raised for him in the

previous
election cycle at a posh New York fund-raiser. Rather, Rendell said,
he was placating the Steinbergs, who had threatened to move their
company's 1,200 wage-tax-paying Philadelphia jobs to Wilmington.
The folksy office-warming was a pale echo of the star-studded affairs
Saul Steinberg liked to throw at his Manhattan apartment and his
seaside estate in Long Island's Hamptons, but the Philadelphia workers
who bellied up to the carts weren't complaining.
Reliance Insurance, they had reason to believe, was finally getting
the Steinbergs' full attention - and doing well.
Sales were up as Reliance wrote policies for construction defects,
environmental disasters, high-risk drivers, and other dangers that
competitors feared to touch.
Profits were up as premiums for the new policies rolled in and
Reliance sliced back-office costs and encouraged new customers to
apply on the Internet.
Steinberg was scoring investment gains by salting company funds into
sexy Internet stocks such as CMGI - which were starting to go through
the roof in the first phase of the Internet bubble.
Even on Wall Street, where Steinberg's reputation had frayed,
Reliance's stock was rising. "A lot of people didn't want to believe,
because it was Saul. But it looked to me like they were building some
pretty decent businesses," said Stephen Smith, an analyst at
Brandywine Asset Management in Wilmington.
In a few months, Reliance stock would hit its all-time peak on the New
York Stock Exchange, giving the company a value of more than $2
billion.

Even so, Steinberg had fallen short of the promise of his youthful
ambitions: He hadn't become the first Jewish president, and he hadn't
built a worldwide tech company like Microsoft or a global financial
power like Citigroup.

Still, if he could have frozen time in 1997, Steinberg would have
accomplished something remarkable - his own survival as a captain of
corporate America. He had endured the wreck of his early ambitions in
the lean 1970s and had emerged from the 1980s' junk-bond collapse
still firmly in control of a profitable company.
Yet Steinberg, who received more than $12 million a year in cash,
benefits and dividends, wasn't content to run a middle-of-the-road
insurer. So in the 1990s Reliance embarked on a giant expansion spree,
plowing cash into new offices in Europe, Asia, Africa and Latin
America - and into new businesses such as auto insurance for risky
drivers and workers' compensation on the Internet.
Maybe it wasn't too late for Steinberg to be granted yet another
opportunity to build a global empire. Or maybe it was tempting fate:
Even Napoleon got only two chances.
But Reliance's rally in the late 1990s wasn't a new springtime. It was
a late Indian summer, with more than a hint of a freezing Arctic wind
in the air.
Before long, Steinberg's company would dissolve in the biggest
insurance-company failure in U.S. history.
There was no lack of prophets warning of doom. In 1993, David Schiff,
publisher of Schiff's Insurance Observer, began eight years of
trenchant criticism of Steinberg with an article titled "Would You Buy
a Used Car From This Man?"
Schiff caricatured Steinberg as a high-living, glad-handing used-car
salesman who bamboozled regulators into approving risky investment,
accounting and insurance schemes. Schiff also warned, in a quote
adapted from Ernest Hemingway: "How does an insurance company go bust?
Slowly at first, then suddenly!"
In Philadelphia, some Reliance employees quietly predicted that the
premiums from the company's rush of new customers would eventually be
followed by very expensive claims. Dennis Costello, the veteran claims

chief, resigned in 1996, convinced that his bosses "were focusing on
the financial side and not focusing on the underwriting side."
Maybe it was a mistake for Steinberg to get serious about insurance in
the first place.
He had earned his reputation as an aggressive and successful investor
by pumping millions of dollars into undervalued companies, often to
the intense discomfort of the companies' managers, who sometimes paid
him millions in "greenmail" to go away.
But in the late 1980s, courts restricted hostile-takeover attempts,
and insurance regulators imposed "risk-based" standards "that changed
your ability to do all these high-flying investments. You could no
longer plop all that money into Disney," said Brian Gleason, a former
Reliance marketing officer. "So now Reliance had to make money selling
insurance. That led them into riskier lines of business."
To speed his empire's growth, Steinberg reorganized it in 1987.
He kept his flagship Reliance Insurance Co. in Philadelphia, where for
160 years it had sold policies protecting customers from fire, flood,
factory accidents, and other numbingly predictable disasters.
But he also started a new arm, Reliance National Insurance Co., close
to the Manhattan headquarters of his umbrella company, Reliance Group
Holdings. Reliance National was set up to handle "unique exposures" -
high-risk claims for nuclear-plant operators, builders in
earthquake-prone regions, chemical manufacturers, corporate directors,
and others who had a tough time buying affordable coverage.
"My job was to build a company, and to generate premium and cash flow.
It was very simple," says Dennis Busti,
whom Steinberg hired to run
Reliance National in 1987. But Reliance Insurance workers in
Philadelphia developed a more jaundiced view.
Reliance National "would insure the fireworks factory next to the oil
refinery," according to Richard Murro, a 29-year Reliance veteran who

left at the end of 2000.
Resentments grew. It was as if Steinberg had fathered two sons by
different mothers - and the younger one, New York-based Reliance
National, was emerging as Dad's favorite.
The New York office was "like the golden boys, making the big bucks
and bringing in the premiums," says Deena Whitfield, who worked for 20
years as a Reliance computer specialist. "But the insurance guys in
Philly would tell us - just wait until those claims start pouring in."
After 1995, Reliance Insurance in Philadelphia was run by Robert
Olsman, who seemed more in tune with Steinberg's New York style than
his conservative predecessors. Olsman urged managers to build a
"world-class company," but Reliance veterans say he also introduced
flexible claims and cash-reserve methods that they felt left the
company dangerously exposed to losses.
Olsman says his practices were sound: "There were remarkable changes.
When you go through change, some people adapt and some people don't."
So what went wrong? Olsman and Busti both say the company, under
Steinberg, was hundreds of millions of dollars in debt and starved for
capital - "from day one," Busti says. That left Reliance vulnerable
when a series of financial shocks jolted it in the late '90s.
Maybe Steinberg's highly personal management style was part of the
problem. Costello believes the Steinbergs relied too much on their
hand-picked managers and not enough on outside insurance experts who
might have prevented some of the company's excesses.
Steinberg was especially dependent after his 1995 stroke, Costello
says. Reliance sought to downplay the impact on Steinberg's health.
But Costello, like others, says the change was obvious: "Even after
his rehab, he wasn't even close to being Saul Steinberg pre-stroke."
Still, Reliance might have succeeded, Busti argues. "Obviously, we
wouldn't have done something if we didn't have the expertise," he said

from his office at New Century Global, a New York insurance agency
formerly owned by Reliance.
"But we made a couple of mistakes," Busti added. "And they were biggies."
The state insurance officials assigned to monitor Reliance didn't
notice the "biggies" until it was too late.
The regulators knew Reliance pretty well - too well for critics of the
"revolving door" that often moves industry executives into state
regulatory positions and then back into private, regulated companies.
During Reliance's rapid expansion in the mid-1990s, the key regulators
were a pair of ex-Reliance executives - New York Insurance
Superintendent Edward Muhl, and Pennsylvania Insurance Commissioner
Linda Kaiser. Kaiser, who upon taking the job told her top deputies
that no Pennsylvania insurers would be liquidated while she was
commissioner, returned to Reliance in 1997 as the company's top legal
adviser.
"From a consumer advocate's perspective, Steinberg owned two insurance
departments," says Kevin P. Hennosy of St. Louis, a policyholder
advocate.
The regulators accepted Reliance's filings indicating that the company
had enough assets and income to pay its customers' claims and other
expenses.
Until the winter of 2000, they also permitted Reliance Insurance to
send hundreds of millions of dollars each year to Steinberg's holding
company, Reliance Group. Part of that money went to pay interest on
the hundreds of millions of dollars Steinberg had borrowed in the
1980s. And $3 million a month was set aside to pay shareholder
dividends, nearly half of which went straight into the pockets of the
Steinberg family.
Reliance Group declared profits of half a billion dollars over the
years 1997 and 1998.
By 1999, A.M. Best & Co., the influential credit agency, was weighing
whether to boost Reliance's credit rating above its current

"excellent." Merrill Lynch analyst Alison Jacobowitz was calling
Reliance stock "undervalued by nearly any measure."
The company kept opening new offices and announcing new businesses. In
the summer of 1999, Steinberg even announced that Reliance would
insure corporations' profits against unexpected losses.
He marked the moment with all his old bombastic confidence. "The
insurance and financial markets are converging, and we are in the
forefront of the trend," Steinberg declared. "As we break new ground
for our customers, we will continue to be disciplined in our underwriting and our risk selection."
But over the following two years, Reliance's own earnings were to sink
far below the reach of any insurance policy.
Insurers buy the public's risk. And sometimes they spread it around,
selling it to other insurers.
In 1994, a North Jersey entrepreneur, John Pallat, set up a method to
let insurers trade workers'-compensation risk in a sort of gigantic
corporate betting pool.
Pallat called his creation Unicover Managers. Insurers who joined
could earn big fees by bringing more policies into the pool.
But Unicover failed to work out realistic odds. The firm had woefully
underestimated the number and cost of the claims, a General Accounting
Office investigation later found.
The shortfall topped $1 billion.
The problem became public in February 1999, when Cologne Re, an
affiliate of Warren Buffett's Berkshire Hathaway, pulled out of the
pool after losing $275 million.
Cologne's misstep shocked Wall Street and the credit-rating agencies,
led by A.M. Best, which had blessed Unicover's participants with
high-quality ratings.
But Cologne was lucky. Buffett, a solvent billionaire running a big,
profitable, diversified company, was able to bail out the errant unit.
A.M. Best soon reported that other insurers, including Reliance, also
faced massive Unicover losses.
But in this crisis, Saul Steinberg was no Warren Buffett.
Unicover was one of Reliance's "biggies." It was the first in a

relentless series of explosions that, in less than two years, destroyed Reliance's apparent prosperity, ended its long history, and left its creditors, investors, customers, lenders and workers to pay the cost.

Like officers on a big ship who don't realize it's been torpedoed, Reliance officials at first assured each other and the world that they were still steaming full speed ahead.

At Reliance National in New York, Busti urged the Steinbergs to take a hard line. Reliance was just a gatekeeper, he argued. Let the other companies pay.

But investors were shaken again on June 14, 1999, when Reliance admitted other troubles. It warned of up to $250 million in charges from what Robert Steinberg called "unsatisfactory trends in a few lines and programs." Among them were auto, environmental, construction and asbestos claims.

The stock, already skidding, dropped 18 percent that day. Investors were asking, "What the hell is going on here?" New York analyst Walter P. Fitzgerald told Bloomberg News.

And how could the company pay the half-billion dollars in debt that would come due in 2000? Publicly, officials assured investors they'd have a plan. Privately, Steinberg began asking investment bankers if they could find a buyer for the company. They couldn't.

In October, Reliance Group came out with a plan to raise cash. It would try to sell $250 million in bonds. And it would spin off its most profitable business, construction bonds, and its most promising new business, online insurance.

At the same time, Reliance also dropped a bombshell: It admitted it could be facing more than $100 million in losses from Unicover.

In January 2000, Steinberg agreed to pay American Financial, run by Steinberg's longtime investment partner Carl H. Lindner, unspecified damages for American's Unicover losses. Busti argued that Reliance had a legal right not to pay. Overruled, he left Reliance.

Next, A.M. Best warned that it might have to cut Reliance's credit
rating. That sent the passengers scurrying to the lifeboats. With
anything less than its current "excellent" rating, Reliance would have
a tough time persuading its corporate customers to renew their
policies. And Best's threat damaged Reliance's hopes of selling bonds
at reasonable rates.
Through it all, Reliance Insurance kept paying dividends to
Steinberg's holding company, including a final $189 million in the
nine months from June 1999 to March 2000.
The Steinbergs, under pressure, did what they had done in similar jams
in the past: They began throwing Reliance assets overboard in hopes of
lightening their load - and raising fresh cash.
In February, the company sold its profitable construction-bond unit to
Travelers Property Casualty Inc., a unit of Sanford I. Weill's
Citigroup, for $580 million.
At the same time, Reliance Group confirmed Wall Street's fears and
acknowledged it had lost more than $300 million in 1999 - wiping out
its entire record profit for 1998.
It also announced that the engine of Steinberg's cash machine had been
stopped dead: The Pennsylvania Insurance Department had ordered
Reliance Insurance to cut its dividends to Reliance Group - removing a
major source of income for the group's debt payments and its
investors' wallets. Steinberg, as the biggest shareholder, took the
biggest hit: He was cut off from $10 million a year in shareholder
dividends.
Steinberg had already dismissed his brother Robert the previous fall.
He now relinquished day-to-day management of Reliance, and the CEO's
title. But he remained its chairman and biggest investor.
As captain of a sinking ship, he now faced a personal as well as a
business cash crisis.
In April 2000, he put 61 Old Master paintings up for sale through his
art dealer, Richard Feigen. He raised $50 million. He also sent his
Park Avenue apartment's contents to auction at Sotheby's.

The mahogany
and gilt-trimmed furnishings sold for $12 million.
And he put the apartment itself on the market. It sold later that year
to investment banker Stephen Schwartzmann for $37 million - more than
100 times what Steinberg had paid nearly three decades before.
Why did Steinberg need so much cash? Creditors were pressing in. In
May 2000, Provident Financial Group of Cincinnati - Lindner's bank -
seized and sold one million shares of Steinberg's Reliance stock,
which had been pledged as collateral for a 1999 loan to the Steinbergs' family investment trust.
If Reliance's problems were all too apparent on Wall Street, the
Steinbergs' personal reversals seem to have taken their Park Avenue
and Hamptons social set by surprise. Where, New York wondered, did all
the money go? Gossip columnists cited unnamed friends of Gayfryd
Steinberg claiming the sales were provoked by the departure of the
grown Steinberg children, or even by Saul's desire for a simpler
lifestyle.
The Steinbergs moved into a hotel. Temporarily, they said.
Steinberg also broke his public silence for an extended interview -
his first since the 1980s - with a small magazine called Boards &
Directors.
He brushed aside suggestions that his stroke had slowed him much. He
noted that his shareholders had always approved his generous
compensation plans. And he insisted that he had the interest of all
his shareholders at heart.
But Reliance was still going broke.
In May 2000, the company reported $36 million in operating losses in
the first quarter. Steinberg still declared Reliance "is making
significant progress toward becoming a more efficient company." Yet
the stock continued to drop as institutional investors dumped the
shares and the last holdouts among Wall Street analysts abandoned
ship.
Steinberg's investment bankers sounded the SOS with new vigor. In late

spring, it looked as if a last-minute rescuer was steaming in out of
the darkness.
Leucadia National Corp., which specializes in running troubled
insurers, offered to buy Reliance and its debt for about $250 million
in cash - a fraction of the company's former stock-market value, but
better than nothing.
But a week later, A.M. Best finally lowered the boom: The agency cut
Reliance Insurance's credit rating to "very good" from "excellent,"
citing "looming debt obligations" that the company looked increasingly
unlikely to meet.
The move effectively made it impossible for Reliance to renew policies
for its corporate customers as they expired. So Reliance sold them,
too: On June 19, Reliance sold thousands of customer accounts to
Hartford Financial Services. The next day, it sold additional business
to another rival, Kemper Insurance Cos.
Four days later, with its stock hovering at an all-time low of $2.63
per share, Reliance Group was hit by the first in a flood of lawsuits
from outraged shareholders, who contended that Reliance's "false and
misleading" statements had fooled them into believing it would not
lose money on the Unicover mess.
In July, the Leucadia deal blew up, as Reliance's would-be rescuer
canceled its offer, citing Reliance's deteriorating finances.
In August, Steinberg won a bit of breathing space when his lenders,
led by Chase Manhattan, agreed to give him until November to repay
$238 million in loans that had come due.
But by now, Pennsylvania regulators were breathing down his neck.
Steinberg was forced to cede control over major expenditures to the
state insurance department.
In September 2000 came a new embarrassment: The Steinbergs' mother,
Anne, sued the brothers in New York state courts, contending they owed
her $6.2 million in missed loan payments. "Mrs. Steinberg is in a
precarious financial condition due to the recent troubles at

Reliance," her lawyers wrote to her sons' attorneys.
News accounts made sport of the formerly fearsome corporate raider's
legal battering by his elderly mother. But cynical bankruptcy-court
observers wondered if she was just trying to ensure that someone in
the family got on the creditors' list, in case the brothers filed for
bankruptcy protection.
In November, Reliance missed two more debt payments and defaulted on
loans and bonds totaling $538 million.
A.M. Best downgraded Reliance to "poor," belatedly acknowledging that
the ship, with its decks awash, was indeed sinking.
That month, another old corporate raider came back into Steinberg's
life. Carl Icahn began buying up Reliance bonds - offering 15 cents
for every dollar investors had put out - in the hope that he could
block Pennsylvania's planned reorganization and ensure that Reliance
money went to investors like him instead of to policyholders. After
months of legal maneuvering, Icahn failed.
On Dec. 6, Steinberg's Reliance Group was delisted by the New York
Stock Exchange. It had been trading at less than a penny a share -
down from its 1998 peak of $19.
In January, Reliance Insurance agreed to let Pennsylvania regulators
install permanent overseers to manage operations.
Finally, in April, the captain abandoned ship. Steinberg relinquished
his post as Reliance chairman, ending 33 years in the top job.
On May 29, Pennsylvania insurance commissioner Diane Koken won a court
order enabling her to take over Reliance Insurance and attempt to
rehabilitate it.
Two weeks later, at a gathering of the National Association of
Insurance Commissioners in New Orleans, Koken's lieutenants assured
skeptics they could salvage Reliance without needing a bailout from
the industry-financed state guaranty funds. The funds were less
convinced: They estimated Reliance losses could hit $2 billion -
making it the biggest insurance failure in U.S. history.

On June 11, Koken's lawyers demanded repayment of $95 million that the
state contended Steinberg's holding company, Reliance Group, had
wrongly diverted from Reliance Insurance. The IRS also has a claim on
that money.
The next day, Steinberg's Reliance Group filed for bankruptcy.
Koken directed an ever-growing staff of accountants, actuaries and
high-paid law firms to dig up enough Reliance assets to keep the
insurance company afloat.
Koken even cut off $8 million in severance payments to 340 veteran
employees who'd lost their jobs in the last year - sparking angry
protests from State Rep. John Perzel, the House majority leader, who
began shepherding legislation to reinstate partial severance.
But the more Koken's hired hands learned, the worse the news got.
On Oct. 3, the commissioner surrendered. Her auditors had located $12
billion in expected claims and other debts, while estimating less -
maybe a lot less - than $11 billion in current assets. She secured a
liquidation order from a Philadelphia judge.
Reliance Insurance never escaped from the debt hole Saul Steinberg dug
it into when he bought the company in 1968, when he repurchased it
from shareholders in 1981, and when he vastly increased the company's
junk-bond borrowings during the 1980s.
Unable to outrun its debts, Reliance sank.
Reliance's former investors and employees have directed much of their
outrage at Steinberg.
"This is like the old robber barons," complains South Jersey investor
Robert C. Juliano. "Who would have thought that the former
Pennsylvania insurance commissioner [Linda Kaiser], who once and again
went to work for Reliance, would let this happen?"
According to Robert Battaglia, a former Reliance manager: "If the
state had any guts, they would go harder after Steinberg. It's a damn
disgrace that an organization that has been around since 1817 was
ripped apart by greed. Steinberg raped 'em, in my opinion."

He added, "I've been in this business 20 years, and I realize this is
radical, but it's absolutely ridiculous that insurance companies can
be traded on the New York Stock Exchange. Insurance companies have to
put money aside to pay claims. A public company has to report to Wall
Street investors. The two don't match.
"And where the major stockholder of a big company is one individual,
they're naturally going to do things that satisfy the investor, not
the long-term health of an organization."
Battaglia doesn't expect the system to change. And he worries Reliance
isn't alone: "God knows how many more companies are getting ready to
have the same problems."
Commissioner Koken says her department is months or years away from
knowing how much Reliance Insurance Co. owes and who will have to pay
it.
The $1 billion shortfall she identified in November could be much
higher, she acknowledges.
All over the country, the guaranty funds that bail out failed insurers
are bracing to pay Reliance claims. The cost will be passed along to
competing insurers, who will get it back by raising rates for
homeowners, drivers and other insurance buyers.
Some Reliance claims may never be paid - particularly among smaller
insurers who bought reinsurance from Reliance to cover their own
future losses.
Reliance's banks, led by Chase Manhattan, and bondholders, led by
Wells Fargo, are hoping to get back part of their $700 million in lost
investments through Reliance Group bankruptcy proceedings, currently
grinding their way through a Manhattan courtroom.
Shareholders fall lower on the creditors' list.
In November, the Federal Pension Benefit Guaranty Corp. told 7,000
ex-Reliance workers that the company's pension fund was underfunded by
$100 million. The corporation will step in and pay the difference with
money from solvent pension plans across the country. Some Reliance
retirees' pensions will be reduced.

The 340 former Reliance workers whose severance was canceled are
waiting to see if Perzel's legislation restores part of the money they
were promised.
Some Reliance veterans say the story might have turned out differently
if Steinberg's health had held up.
Since Steinberg bought Reliance in 1968, he had made a point of
assembling its Philadelphia team regularly for hors d'oeuvres and a
glowing, if numbingly quantitative, account of their glorious future
together.
The regular visits ended in 1995, when the chairman, then 55, suffered
a stroke - which wasn't disclosed to the company's workers, customers
or investors for many weeks.
Although Reliance denied the stroke affected the company, workers say
Robert Steinberg, three years younger than Saul, took up the slack.
The two had always been close, but Robert wasn't quite a substitute.
"Saul had more knowledge than Bobby did," said Tom Black, a 31-year
Reliance veteran who observed both men from his desk in the company's
Philadelphia administrative office.
"Saul was all business; Bobby was laid-back. Saul went for the
jugular; Bobby was easygoing. His presentations were filled with
jokes.
"After the stroke, Saul just let Bobby have control over what was going on."
Geoffrey Moore, speaking for Steinberg's former investment banker,
Michael Milken, also cites Steinberg's medical problems. But more than
that he blames Steinberg's failure to pay off Reliance's debt, plus
the company's too-rapid expansion: "It was more-recent business
decisions that dragged them down."
"Had Saul not suffered this stroke," Costello says, "who knows what
could have happened? He could always pull a rabbit out of a hat."
If Reliance is gone, some of its pieces remain. Two successful and
profitable Philadelphia companies, mortgage insurer Radian Group and

health insurer Reliance Standard Life Insurance Co., trace their roots
to businesses sold by Steinberg to raise cash. Reliance Standard has
had to wage a damage-control campaign to assure customers it has not
been affected by the collapse of Steinberg's company.
Two weeks after Saul Steinberg threw his company on the mercy of New
York's bankruptcy court, America's most successful insurer rose to
kick more dirt on Steinberg's reputation.
Maurice Greenberg, longtime chairman of American International Group,
made Reliance's bankruptcy a text of his sermon at a June insurance
conference in New York sponsored by Deutsche Banc Alex. Brown. "We
lost business to them, as have many other companies, throughout the
last decade or more, because of price concessions and policy form
changes that we were not willing to meet," Greenberg said, according
to an A.M. Best report.
When aggressive insurers like Reliance fail, Greenberg added,
conservative companies have to bail them out. "I find that obscene."
Greenberg advocates a federal insurance regulator - an idea that state
regulators such as Koken adamantly oppose.
Others worry that might not solve the problem. "As it stands, all
[insurance] regulators - state or federal - are tempted to try to
avoid losing any companies during their term. They push it back to the
next commissioner," says David Skeel, a University of Pennsylvania law
professor.
"If you elect to do your insurance business on the cheap," Greenberg
concluded, "then you should take your own risk."
Sanford I. Weill collects over $200 million a year from his job as
chairman of Citigroup - a company that broke the law so profoundly
when he formed it that his friends in Congress had to rewrite the
nation's banking statutes.
Citigroup, the sole superpower of today's financial world, marries
investments, insurance and international banking on a massive scale,

and makes more money than General Electric or Microsoft.
Saul Steinberg might have done as much: Weill's old investment bank
advised Steinberg in 1968 to buy Reliance in hopes of turning it into
a new kind of huge, wealthy, diversified, high-tech financial empire.
But Steinberg lost his chance to be that pioneer. Defeated in his bid
to buy Chemical Bank, he settled for lucrative but temporary investments in bargain-priced companies.
The chairman and his family collected hundreds of millions of dollars
from Reliance, lavishing the money on art and philanthropy, while
driving the company deep into debt.
Money manager John Neff, who served with Steinberg on the University
of Pennsylvania board, is left with an unanswered question. To the
very end, he says, Steinberg had an uncanny understanding of the stock
market, ditching technology stocks before the market crashed. Why
couldn't he save his own company?
Saul Steinberg has now dropped from public sight, setting off
speculation that his health has continued to decline. His wife,
Gayfryd, has put her party-making skills to work, setting up a firm
that organized fund-raisers earlier this year for the New York Public
Library, the New York City Ballet, and New York public-advocate
candidate Betsy Gotbaum.
In October, the family celebrated the second wedding of Saul's
daughter, Laura Steinberg Tisch. In contrast to her $3 million 1988
reception in an Egyptian temple at the Metropolitan Museum of Art,
this union took place at a Hamptons winery - a convenient drive from
the Steinbergs' Quogue beach house. That house has been for sale since
last summer, listed by its agent as an "extravagant oceanfront estate"
that "embodies an opulence that is very rare," even among the castles
that line the shore in this playground of New York's rich and famous.
Will Saul Steinberg have to pay for the wreck of Reliance?
In November, Koken's lawyers sent Steinberg's lawyers formal notice

that the state is investigating hundreds of millions of dollars that
he and his senior managers diverted from Reliance Insurance in the
months and years before it failed.The state wants "to determine if
they involved breaches of fiduciary duties, neglect or other wrongful
acts." More than $1 billion in payments are under investigation,
including Reliance dividends, real estate deals, interest-free loans,
the surety-bond sale and the Unicover settlement.
Even if the state makes a legal case - and proves it - that doesn't
mean Steinberg will pay. His actions, and those of other Reliance
directors and managers, were insured by Lloyd's of London.

Joseph N. DiStefano
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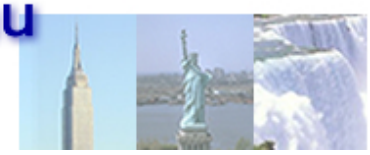
New York Liquidation Bureau

Benjamin M. Lawsky
Superintendent as Receiver



July 15, 2014

Court Orders:

Order of Receivership

Link to Domestic Liquidator:

Office of Liquidations, Rehabilitations and Special Funds

Contact Person(s):

Valerie Kalik
(212) 341-6588
vkalik@nylb.org

Randy Smith (W/C)
(212) 341-6276
rsmith@nylb.org

Select another Estate:

A - D
E - H
I - O
P - Z

Reliance Insurance Co.

Estate Profile:

State of Domicile:	Pennsylvania
Date of Rehabilitation:	05/29/2001
Date of Liquidation:	10/03/2001
Date of Receivership:	12/14/2001
Termination of Policies:	11/03/2001
Proof of Claim Filing Deadline:	10/03/2002 modified to 12/31/2003
Dividend Distribution:	Early Access
Bar Date:	None

Historical Information:

Reliance Insurance Company was a property and casualty insurer domiciled in the Commonwealth of Pennsylvania. The company consented to the entry of an order of rehabilitation by the Commonwealth Court of Pennsylvania on May 29, 2001. On October 3, 2001, the Commonwealth Court of Pennsylvania ordered Reliance Insurance Company into Liquidation, and on December 14, 2001, the New York Superintendent of Insurance was appointed Ancillary Receiver by the Supreme Court of the State of New York.

In the State of New York, Reliance Insurance Company wrote workers compensation, private passenger and commercial auto, public motor vehicle liability, general liability, and professional liability coverage as well as surety bonds.

Under New York Insurance law covered claims are paid by three funds - the New York Property / Casualty Insurance Security Fund (P/C Fund), the New York Public Motor Vehicle Liability Security Fund (PMV Fund), and the New York Workers Compensation Security Fund (WC Fund).

The NYLB has retained the services of several third party administrators to expedite the processing of claims against the Reliance Insurance Company.

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