

Examination Warrant Number 12-01129-27154-01

**Report of Organizational Examination of
OneBeacon Specialty Insurance Company
Philadelphia, Pennsylvania**

As of December 21, 2011

For Informational Purposes Only

OneBeacon Specialty Insurance Company

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Harrisburg, Pennsylvania
March 13, 2012

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 12-01129-27154-O1, dated, February 2, 2012, an organizational examination was made of

OneBeacon Specialty Insurance Company; NAIC Code 27154

who has applied to become a Pennsylvania domiciled stock casualty insurance company, hereinafter referred to as "Applicant." The examination was conducted at the Applicant's home office, located at 150 Royall Street, Canton, MA 02021.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

An organizational examination of the Applicant was conducted to determine compliance with 15 P.S. § 21207, for granting of a Certificate of Authority by the Pennsylvania Insurance Department ("Department").

The examination was conducted as of December 21, 2011, and consisted of a general survey of the Applicant's business policies, practices, management, and any corporate matters incident thereto; verification of assets and a determination of liabilities.

The following companies were examined at the same time during the above examination:

Company	NAIC Code
OBI National Insurance Company	14190
OneBeacon Select Insurance Company	34452

HISTORY

The Applicant was incorporated on July 1, 2011 and seeks a certificate of authority to transact those classes of insurance described in the Pennsylvania Insurance Company Law, 40 P.S. § 382, subsection (b), paragraphs (1) fire and allied lines, (2) inland marine and physical damage, and (3) ocean marine, and subsection (c), paragraphs (1) fidelity and surety, (2) accident and health, (3) glass, (4) other liability, (5) boiler and machinery, (6) burglary and theft, (7) credit, (8) water, (9) elevator, (10) livestock, (11) auto liability, (12) mine and machinery, (13)

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personal property floater, and (14) workers compensation of the Act of May 17, 1921, P.L. 682, as amended.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 21, 2011, the Applicant's total capitalization was \$15,000,000 consisting of 45,000 capital shares of issued and outstanding common stock with a par value of \$100.00 per share amounting to \$4,500,000 and \$10,500,000 in gross paid in and contributed surplus.

The Applicant's minimum capital and minimum surplus requirements for the types of business for which the Applicant seeks authority, pursuant to 40 P. S. § 386, is \$2,350,000 in capital and \$1,175,000 in contributed surplus. The Applicant meets these requirements.

STOCKHOLDER

One hundred percent of the Applicant's stock is owned by OneBeacon Insurance Company.

INSURANCE HOLDING COMPANY SYSTEM

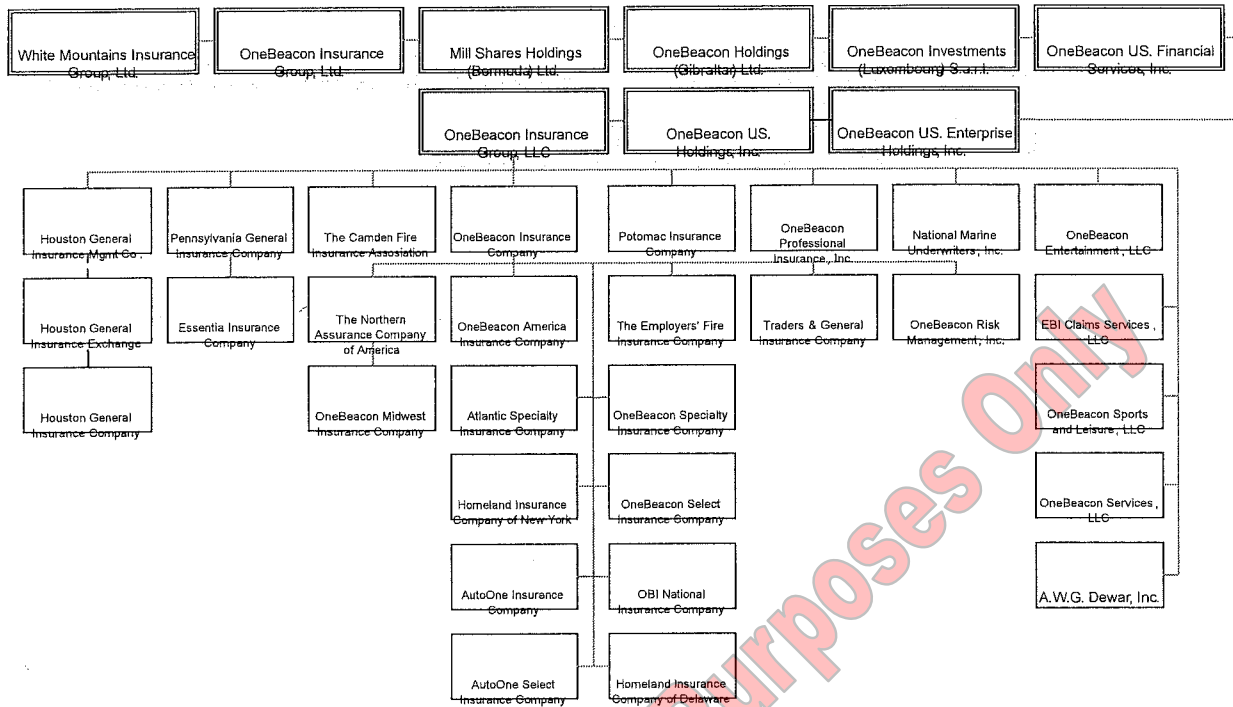
Applicant is an indirect wholly owned subsidiary of OneBeacon Insurance Group, Ltd., approximately 25% of which is traded on the New York Stock Exchange. Approximately 75% of the stock of OneBeacon Insurance Group, Ltd. is owned by White Mountains Insurance Group, Ltd., a publicly held company whose stock is also traded on the New York Stock Exchange.

40 P.S. § 991.1404(c)(5) provides an exemption to domestic insurers if the person controlling the insurer is another business entity having a board of directors and committees thereof which meet the requirements of paragraphs (3) and (4) governing independence. White Mountains Insurance Group, Ltd. ("White Mountains") is the ultimate controlling person of the Applicant and satisfies these independence requirements.

White Mountains Insurance Group, Ltd. is named as the ultimate controlling person in the system. Members of the Holding Company System as of December 21, 2011, include the following entities:

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BOARD OF DIRECTORS

Management of the Applicant is vested in its Board of Directors (“Board”), which was comprised of the following members as of the examination date, December 21, 2011:

Name and Address	Principal Occupation
Alex C. Archimedes Morristown, NJ	Insurance Executive OneBeacon Insurance Company
Jane E. Freedman Canton, MA	Attorney OneBeacon Insurance Group, Ltd.
Joan K. Geddes Canton, MA	Attorney OneBeacon Insurance Company
Dana P. Hendershott Canton, MA	Insurance Executive OneBeacon Insurance Company
Josette D. Kiel San Antonio, TX	Insurance Officer OneBeacon Insurance Company
Paul H. McDonough Minnetonka, MN	Chief Financial Officer OneBeacon Insurance Company

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T. Michael Miller
Minnetonka, MN

Insurance Executive
OneBeacon Insurance Company

Brian D. Poole
Minnetonka, MN

Actuary
OneBeacon Insurance Company

Bradford W. Rich
Canton, MA

Attorney
OneBeacon Insurance Group, Ltd.

Thomas N. Schmitt
Minnetonka, MN

Human Resources Director
OneBeacon Insurance Company

The By-laws of the Applicant provide that the number of Board members shall not be less than seven or more than twenty. All directors shall be citizens of the United States. Directors need not be stockholders. Each director shall serve until the next Annual Meeting of Stockholders, or until their successor is elected and qualified. At the Annual Meeting, the stockholders shall elect as many directors as may be necessary to maintain the numerical strength of the Board as fixed in accordance with the By-laws. Regular meetings of the Board shall be held at least quarterly. A majority of directors constitutes a quorum and all questions before the Board shall be decided by a majority of those present. The Board may create an Executive Committee, an Investment Committee and any other committees that the Board deems advisable. The Applicant is in compliance with the By-laws.

OFFICERS

As of the examination date, December 21, 2011, the following officers were appointed and serving in accordance with the Applicant's By-laws:

Name	Title
T. Michael Miller	Chairman of the Board
Bradford W. Rich	President, CEO and General Counsel
Alex C. Archimedes	Senior Vice President
Sean W. Duffy	Senior Vice President and Chief Claims Officer
Dana P. Hendershott	Senior Vice President
Josette D. Kiel	Senior VP and Chief Underwriting Officer
Scott W. McClintock	Senior VP and Chief Information Officer
Paul H. McDonough	Senior VP and Chief Financial Officer
Brian D. Poole	Senior VP and Chief Actuary
Thomas N. Schmitt	Senior VP and Chief HR Officer
Philip A. Sibia	Senior Vice President
Todd C. Mills	Vice President and Treasurer
Dennis R. Smith	Secretary
Ricardo A. Baez	Assistant Secretary
Lisa B. Blessis	Assistant Secretary

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Sarah E. Dubinsky
Keith N. Firestone
Joan K. Geddes
Marie A. Piccoli
Louis A. Ricciuti
Lisa M. Vumback
David G. Clancy

Assistant Secretary
Assistant Secretary
Assistant Secretary
Assistant Secretary
Assistant Secretary
Assistant Secretary
Assistant Secretary

CORPORATE RECORDS

MINUTES

On July 1, 2011, by written consent of the sole incorporator, in lieu of a meeting, the By-laws and Articles of Incorporation were approved and adopted, the number of directors was set at ten and the directors were elected and qualified.

ARTICLES OF INCORPORATION

Articles of Incorporation were filed with the Department of State on June 30, 2011. They were accepted and certified by the Department of State on July 22, 2011.

BY-LAWS

The Applicant's By-laws were adopted and executed by written consent of the sole incorporator on July 1, 2011. There have been no other changes since the original approval of the By-laws.

SERVICE AND OPERATING AGREEMENTS

Custody Agreement – The Applicant entered into a custody agreement with the Bank of New York Mellon in October of 2011. This agreement was reviewed for compliance with the Pennsylvania Insurance Regulations, Section 148a requirements without exception. The Board approved this agreement.

Investment Management Agreement – The Applicant entered into an Investment Management Agreement with White Mountains Advisors, LLC on August 15, 2011. The Board approved this agreement.

It is intended that the Applicant will enter into other agreements with the parent or other affiliates upon obtaining a Certificate of Authority and approval by the Department.

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REINSURANCE

It is intended that the Applicant will enter into a one hundred percent reinsurance agreement with its parent, OneBeacon Insurance Company, upon obtaining a Certificate of Authority and approval by the Department. OneBeacon Insurance Company is the lead company in the commercial underwriting pool (Pool), and after recording all assumed reinsurance from affiliates and third parties and ceded reinsurance to third parties, the remaining net underwriting activity is retroceded to each Pool Participant in accordance with each participant's pooling percentage as follows:

COMPANY	NAIC CODE	STATE	Pool %
OneBeacon Insurance Company	21970	PA	56.50%
OneBeacon America Insurance Company	20621	MA	16.40%
Homeland Insurance Company of New York	34452	NY	10.00%
Pennsylvania General Insurance Company	21962	PA	10.00%
The Northern Assurance Company of America	38369	MA	5.00%
The Employers' Fire Insurance Company	20648	MA	1.50%
Atlantic Specialty Insurance Company	27154	NY	<u>0.60%</u>
TOTAL			<u>100.00%</u>

TERRITORY AND PLAN OF OPERATION

The Applicant is seeking to be licensed in the Commonwealth of Pennsylvania as a property and casualty insurance company. The Applicant is being formed as a "shell" and licensed in the Commonwealth of Pennsylvania as part of a corporate reorganization which will result in the re-domestication of Atlantic Specialty Insurance Company ("Atlantic Specialty"), the Group's lead admitted business company, from New York to the Commonwealth of Pennsylvania. The Applicant will ultimately merge with Atlantic Specialty once it is fully licensed in Pennsylvania and New York. The purpose for which the Applicant was organized is to merge with Atlantic Specialty and ultimately become the OneBeacon Insurance Group's lead carrier for specialty admitted business. The OneBeacon Insurance Group consists primarily of specialty professional and commercial lines property and casualty companies writing multiple lines of business throughout the United States. The OneBeacon Insurance Group is the process of reorganizing its corporate structure. Further reorganization is intended with the re-domestication of Atlantic Specialty and another New York domiciled company, Homeland Insurance Company of New York, to the Commonwealth of Pennsylvania. The formation and licensing of the Applicant in Pennsylvania is part of these efforts. In addition to the formation of the Applicant, OneBeacon Insurance Group has also formed three other new companies, two in the Commonwealth of Pennsylvania (OBI National Insurance Company and OneBeacon Select

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Insurance Company) and one in the state of Delaware (Homeland Insurance Company of Delaware), all of which are in the process of domestic insurance licensing.

ACCOUNTS AND RECORDS

The Applicant intends to utilize the record-keeping systems and processes already in use by the OneBeacon Insurance Group (OBIG) companies. The systems and processes being used have been the subject of statutory financial examinations, the results of which can be found in the examination reports for the OBIG companies.

The Applicant has a Board approved written investment policy as required by the 40 P.S. § 653 b. (b).

FINANCIAL STATEMENT

The financial condition of the Applicant is reflected in the following financial statement submitted by the Applicant:

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Statement of Assets, Liabilities, Surplus and Other Funds
As of December 21, 2011:

Bonds	\$ 14,301,538
Cash	698,462
Total Assets	<u>\$ 15,000,000</u>
Total Liabilities	\$ -
Surplus and other funds	
Common capital stock	4,500,000
Gross paid in and contributed surplus	10,500,000
Surplus as regards policyholders	<u>15,000,000</u>
Total liabilities, surplus and other funds	<u>\$ 15,000,000</u>

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RECOMMENDATIONS

ORGANIZATIONAL EXAMINATION

As a result of the organizational examination, it is recommended the Applicant be granted a Certificate of Authority.

CONCLUSION

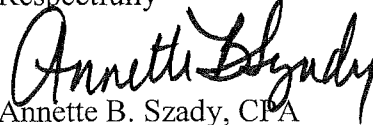
As a result of this examination, the financial condition of OneBeacon Specialty Insurance Company, as of December 21, 2011, was determined to be as follows:

	Amount	Percentage
Admitted assets	<u>\$15,000,000</u>	<u>100.00%</u>
Liabilities	\$ -	0.00%
Surplus as regards policyholders	<u>15,000,000</u>	<u>100.00%</u>
Total liabilities and surplus	<u>\$15,000,000</u>	<u>100.00%</u>

The Applicant has met the required minimum capital of \$2,350,000 and \$1,175,000 in surplus as required by 40 P.S. § 382, subsection (b) and (c), to conduct business in the Commonwealth of Pennsylvania.

This examination was conducted by April Tom, CFE.

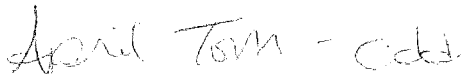
Respectfully


Annette B. Szady, CFA

Director, Bureau of Financial Examinations

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William Fedak, CFE
Examination Manager

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April Tom, CFE
Examiner-in-Charge