UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the period ended June 30, 2010

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-33128

ONEBEACON INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	**98-0503315** (I.R.S. Employer Identification No.)
601 Carlson Parkway **Minnetonka, Minnesota** (Address of principal executive offices)	**55305** (Zip Code)

Registrant s telephone number, including area code: **(952) 852-2431**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated Filer x
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of July 28, 2010, 22,884,584 Class A common shares, par value of $0.01 per share, and 71,754,738 Class B common shares, par value of $0.01 per share, were outstanding.

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ONEBEACON INSURANCE GROUP, LTD.

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PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements

ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009
	(in millions, except share and per share amounts)	
Assets		
Investment Securities:		
Fixed maturity investments, at fair value (amortized cost $2,080.7 and $2,900.6)	$ 2,174.8	$ 2,994.3
Short-term investments, at amortized cost (which approximates fair value) (includes $105.9 held in escrow as of June 30, 2010)	606.1	544.4
Common equity securities, at fair value (cost $228.5 and $176.3)	235.2	187.6
Convertible bonds, at fair value (amortized cost $125.3 and $153.7)	133.4	170.2
Other investments (cost $151.9 and $122.8)	179.1	146.3
Total investments	3,328.6	4,042.8
Cash	48.0	44.8
Reinsurance recoverable on unpaid losses	617.9	664.1
Reinsurance recoverable on unpaid losses Berkshire Hathaway, Inc.	1,482.8	1,528.8
Reinsurance recoverable on paid losses	19.2	15.9
Premiums receivable	376.0	469.1
Deferred acquisition costs	131.2	215.0
Net deferred tax asset	157.1	161.1
Investment income accrued	19.8	29.4
Ceded unearned premiums	144.2	49.9
Accounts receivable on unsettled investment sales	1.5	24.2
Other assets	286.7	286.9
Assets held for sale	655.6	
Total assets	$ 7,268.6	$ 7,532.0
Liabilities		
Loss and LAE reserves	$ 3,609.2	$ 3,934.8
Unearned premiums	743.4	1,018.3
Debt	419.5	620.5
Ceded reinsurance payable	154.6	24.7
Accounts payable on unsettled investment purchases	29.3	7.6
Other liabilities	398.3	478.0
Liabilities held for sale	502.3	
Total liabilities	5,856.6	6,083.9
OneBeacon s common shareholders equity and noncontrolling interests		
OneBeacon s common shareholders equity		
Common shares and paid-in surplus (par value $0.01; authorized, 200,000,000 shares; issued and outstanding, 94,734,263 and 95,121,050 shares)	1,004.7	1,009.7

Retained earnings		394.2		425.5
Accumulated other comprehensive loss, after-tax:				
Net unrealized foreign currency translation losses		(0.7)		(0.7)
Other comprehensive income and loss items		(5.3)		(5.5)
Total OneBeacon s common shareholders equity		1,392.9		1,429.0
Total noncontrolling interests		19.1		19.1
Total OneBeacon s common shareholders equity and noncontrolling interests		1,412.0		1,448.1
Total liabilities, OneBeacon s common shareholders equity and noncontrolling interests	$	7,268.6	$	7,532.0

See Notes to Consolidated Financial Statements

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ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	($ in millions, except per share amounts)			
Revenues				
Earned premiums	$ 428.3	$ 490.2	$ 881.5	$ 978.0
Net investment income	25.0	36.1	53.3	58.0
Net realized and unrealized investment (losses) gains	(14.4)	127.4	28.0	121.5
Net other (expenses) revenues	(2.3)	1.1	4.2	10.5
Total revenues	436.6	654.8	967.0	1,168.0
Expenses				
Loss and LAE	261.9	275.7	595.6	563.7
Policy acquisition expenses	95.2	97.0	196.6	192.9
Other underwriting expenses	58.5	84.3	132.7	157.0
General and administrative expenses	6.8	6.5	14.5	12.0
Accretion of fair value adjustment to loss and LAE reserves		1.3		2.7
Interest expense on debt	7.9	10.1	17.0	21.0
Total expenses	430.3	474.9	956.4	949.3
Pre-tax income	6.3	179.9	10.6	218.7
Income tax benefit (expense)	2.8	(51.0)	(1.2)	(56.5)
Net income including noncontrolling interests	9.1	128.9	9.4	162.2
Less: Net income attributable to noncontrolling interests	(0.5)	(0.7)	(0.8)	(1.2)
Net income attributable to OneBeacon s common shareholders	8.6	128.2	8.6	161.0
Change in other comprehensive income and loss items		6.2	0.2	7.3
Comprehensive net income attributable to OneBeacon s common shareholders	$ 8.6	$ 134.4	$ 8.8	$ 168.3
Earnings per share attributable to OneBeacon s common shareholders basic and diluted				
Net income attributable to OneBeacon s common shareholders	$ 0.09	$ 1.35	$ 0.09	$ 1.69
Dividends declared and paid per share	$ 0.21	$ 0.21	$ 0.42	$ 0.42

See Notes to Consolidated Financial Statements

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ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY

(Unaudited)

	OneBeacon s Common Shareholders Equity				
	Common shareholders equity	Common shares and paid-in surplus	Retained earnings ($ in millions)	Accum. other comprehensive (loss) income, after tax	Noncontrolling interests, after tax
Balances at January 1, 2010	$ 1,429.0	$ 1,009.7	$ 425.5	$ (6.2)	$ 19.1
Net income	8.6		8.6		0.8
Accrued option expense	0.5	0.5			
Issuance of common shares	0.4	0.4			
Repurchases and retirements of common shares	(5.9)	(5.9)			0.3
Dividends	(39.9)		(39.9)		(0.7)
Contributions					0.5
Distributions					(0.9)
Other comprehensive income, after tax	0.2			0.2	
Balances at June 30, 2010	$ 1,392.9	$ 1,004.7	$ 394.2	$ (6.0)	$ 19.1

	OneBeacon s Common Shareholders Equity				
	Common shareholders equity	Common shares and paid-in surplus	Retained earnings ($ in millions)	Accum. other comprehensive (loss) income, after tax	Noncontrolling interests, after tax
Balances at January 1, 2009	$ 1,155.1	$ 1,016.7	$ 163.4	$ (25.0)	$ 17.2
Net income	161.0		161.0		1.2
Accrued option expense	0.6	0.6			
Issuance of common shares	0.3	0.3			
Repurchases and retirements of common shares					0.3
Dividends	(39.9)		(39.9)		(0.6)
Contributions					5.0
Distributions					(2.1)
Other comprehensive income, after tax	7.3			7.3	
Balances at June 30, 2009	$ 1,284.4	$ 1,017.6	$ 284.5	$ (17.7)	$ 21.0

See Notes to Consolidated Financial Statements

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ONEBEACON INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30, 2010	2009
	($ in millions)	
Cash flows from operations:		
Net income including noncontrolling interests	$ 9.4	$ 162.2
Charges (credits) to reconcile net income to cash flows used for operations:		
Net realized and unrealized investment (gains) losses	(28.0)	(121.5)
Net realized loss on settlement of interest rate swap		7.4
Net other realized losses (gains)	10.8	(4.4)
Deferred income tax expense	1.4	112.6
Other operating items:		
Net change in loss and LAE reserves	(76.9)	(233.5)
Net change in unearned premiums	(44.4)	(12.1)
Net change in ceded reinsurance payable	135.9	(17.9)
Net change in ceded unearned premiums	(121.6)	1.3
Net change in premiums receivable	5.2	(24.6)
Net change in reinsurance recoverable on paid and unpaid losses	65.6	201.8
Net change in other assets and liabilities	(11.1)	(130.6)
Net cash used for operations	(53.7)	(59.3)
Cash flows from investing activities:		
Net maturities, purchases and sales of short-term investments	(517.0)	410.6
Maturities of fixed maturity investments	809.0	189.9
Sales of fixed maturity investments	512.1	389.2
Sales of common equity securities	37.1	212.8
Sales of convertible bonds	67.4	96.8
Distributions and redemptions of other investments	0.6	14.2
Purchases of fixed maturity investments	(481.2)	(1,073.2)
Purchases of common equity securities	(87.8)	(16.2)
Purchases of convertible bonds	(27.7)	(71.6)
Contributions for other investments	(32.6)	(3.8)
Net change in unsettled investment purchases and sales	44.4	39.3
Net acquisitions of property and equipment	(1.2)	1.7
Net cash provided from investing activities	323.1	189.7
Cash flows from financing activities:		
Repayment of debt	(14.0)	(42.8)
Repurchases of debt	(197.3)	(43.3)
Cash dividends paid to common shareholders	(39.9)	(39.9)
Repurchases and retirements of Class A common shares	(5.9)	
Settlement of interest rate swap		(7.4)
Net cash used for financing activities	(257.1)	(133.4)
Net increase (decrease) in cash during period	12.3	(3.0)
Cash reclassified to assets held for sale	(9.1)	
Net increase (decrease) after reclassification of cash to assets held for sale	3.2	(3.0)
Cash balance at beginning of period	44.8	53.0
Cash balance at end of period	$ 48.0	$ 50.0

Supplemental cash flows information:				
Interest paid	$	18.1	$	21.2
Net tax payments to state and national governments		5.2		13.5

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Nature of Operations and Summary of Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements include the accounts of OneBeacon Insurance Group, Ltd. (the Company or the Registrant) and its subsidiaries (collectively, OneBeacon) and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company is an exempted Bermuda limited liability company. The OneBeacon operating companies are U.S.-based property and casualty insurance writers, most of which operate in a multi-company pool. OneBeacon offers a wide range of insurance products and services sold through independent agencies, brokers and managing general agencies. OneBeacon has historically offered a range of specialty, commercial and personal products and services, however, OneBeacon recently completed two transactions that represent significant steps in its transformation into a specialty lines company. On December 3, 2009, OneBeacon sold the renewal rights to approximately $490 million in premiums from its non-specialty commercial lines business to The Hanover Insurance Group (The Hanover). The transaction includes small commercial accounts and the non-specialty portion of the middle-market business, beginning with January 1, 2010 effective dates (the Commercial Lines Transaction). On July 1, 2010, OneBeacon completed the sale of its traditional personal lines business. See Note 2 for further discussion.

OneBeacon was acquired by White Mountains Insurance Group, Ltd. (White Mountains) from Aviva plc (Aviva , formerly CGNU) in 2001 (the OneBeacon Acquisition). White Mountains is a holding company whose businesses provide property and casualty insurance, reinsurance and certain other products. As of June 30, 2010, White Mountains owned 75.7% of the Company s common shares. Within this report, the term OneBeacon is used to refer to one or more entities within the consolidated organization, as the context requires. The Company is a Bermuda exempted limited company with its headquarters located at 14 Wesley Street, 5th Floor, Hamilton HM 11, Bermuda. The Company s principal executive office is located at 601 Carlson Parkway, Minnetonka, Minnesota 55305, its U.S. headquarters are located at 1 Beacon Lane, Canton, Massachusetts 02021 and its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

OneBeacon s reportable segments are Insurance Operations and Other Operations. OneBeacon s Insurance Operations segment includes the results of its insurance operations. OneBeacon currently manages its Insurance Operations segment through a specialty lines underwriting unit and a personal lines underwriting unit, nearly all of which is subject to the personal lines transaction described in Note 2. The Insurance Operations segment also includes run-off business, which primarily consists of non-specialty commercial lines business which is being transferred to The Hanover, as described above, and other run-off business. OneBeacon s Other Operations segment consists of the Company and its intermediate holding companies which include OneBeacon U.S. Enterprises Holdings, Inc. and OneBeacon U.S. Holdings, Inc. (OBH), both U.S.-domiciled companies, as well as various intermediate holding companies domiciled in the United States, Gibraltar, Luxembourg and Bermuda.

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments, consisting of a normal recurring nature, considered necessary by management to fairly present the financial position, results of operations and cash flows of OneBeacon. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company s 2009 Annual Report on Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Refer to the Company s 2009 Annual Report on Form 10-K for a complete discussion regarding OneBeacon s significant accounting policies. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation.

Recently Adopted Changes in Accounting Principles

Transfers of Financial Assets and Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

On January 1, 2010, OneBeacon adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-16 and ASU 2009-17, codified within Accounting Standards Codification (ASC) 860 and ASC 810, respectively. Under ASC 860, the concept of a qualifying special-purpose entity (QSPE) has been eliminated and accordingly, any existing QSPE must be evaluated for consolidation upon adoption. The appropriateness of derecognition is evaluated based on whether or not the transferor has surrendered control of the transferred assets. The evaluation must consider any continuing involvement by the transferor. OneBeacon does not have any entities that were considered a QSPE under guidance prior to ASC 860. ASC 810 clarifies the application of consolidation accounting for entities for which the controlling financial interest might not be solely identified through voting rights. The guidance under ASC 810 still requires a reporting entity to perform an analysis to determine if its variable

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interests give it a controlling financial interest in a variable interest entity (VIE). The analysis required identifies the primary beneficiary of a VIE as the entity having both of the following:

- The power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance; and

- The obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

In addition, a reporting entity must assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining if it has the power to direct the activities of the VIE that most significantly affect the entity s economic performance. The concept of a reconsideration event is retained and an ongoing reassessment of whether a reporting entity is the primary beneficiary of a VIE is required. Specifically, the list of reconsideration events includes a change in facts and circumstances where the holders of an equity investment at risk as a group lose the power from voting or similar rights to direct the activities of the entity that most significantly affect the entity s economic performance. In addition, a troubled debt-restructuring is now defined as a reconsideration event. Both statements expand required disclosures and are effective as of the beginning of the first annual reporting period that begins after November 15, 2009. The adoption of ASC 860 and ASC 810 had no material impact on OneBeacon s financial position or results of operations.

Improving Disclosures about Fair Value Measurements

On January 1, 2010, OneBeacon adopted ASU 2010-06, codified within ASC 820. ASU 2010-06 requires new disclosures and clarifies existing disclosure requirements for fair value measurements. ASU 2010-06 requires disclosure of the amounts and nature of the transfers in and out of Level 1 and Level 2 measurements. The ASU also requires a gross presentation of activity within the Level 3 rollforward, presenting separately information about purchases, sales, issuances and settlements. In addition, fair value measurements by Level will now be presented on a more disaggregated basis, by asset or liability class. The ASU also requires more detailed disclosures about inputs and valuation techniques for Level 2 and Level 3 measurements for interim and annual reporting periods. The ASU is effective for the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 rollforward, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years. The adoption of ASU 2010-06 had no material impact on OneBeacon s financial position or results of operations. See Note 5 for required disclosures.

NOTE 2. Acquisitions and Dispositions

Assets held for sale

On February 2, 2010, OneBeacon entered into a definitive agreement to sell its traditional personal lines business (the Personal Lines Transaction) to Tower Group, Inc. (Tower). The Personal Lines Transaction includes two insurance companies through which the majority of the traditional personal lines business is written on a direct basis, two attorneys-in-fact managing the reciprocal insurance exchanges

(reciprocals) that write the traditional personal lines business in New York and New Jersey, the surplus notes issued by the New York and New Jersey reciprocals and the remaining renewal rights to certain other traditional personal lines insurance policies. In addition, the Personal Lines Transaction includes the execution of reinsurance agreements with certain subsidiaries of the Company pursuant to which OneBeacon will cede, on a 100% quota share basis, traditional personal lines business not directly written by companies included in the sale and will assume, on a 100% quota share basis, non-traditional personal lines business written directly by York. Net written premiums for the traditional personal lines business, which is included in the Personal Lines underwriting unit within OneBeacon s Insurance Operations segment, totaled approximately $420 million for the year ended December 31, 2009. OneBeacon and Tower also entered into a Transition Services Agreement (TSA), pursuant to which OneBeacon will provide certain services to Tower during the three-year term of the TSA.

As described in Note 14, the Personal Lines Transaction was completed on July 1, 2010. Regulatory approvals for the transaction were received during June 2010 and accordingly, the transaction met the criteria for held for sale accounting. As a result, the assets and liabilities associated with the business being sold are presented separately as single line items in the asset and liability sections of the consolidated balance sheet as of June 30, 2010. The Personal Lines Transaction did not meet the criteria for discontinued operations accounting because of significant continuing cash flows between OneBeacon and the business sold relating to TSA services and reinsurance activities.

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The following summarizes the major categories of assets and liabilities included in the Personal Lines Transaction and classified as held for sale at June 30, 2010:

	June 30, 2010 ($ in millions)	
Fixed maturity investments, at fair value (amortized cost $4.6)	$	4.7
Short-term investments, at amortized cost (which approximates fair value)		454.9
Cash		9.1
Reinsurance recoverable on unpaid losses		17.7
Reinsurance recoverable on paid losses		5.6
Premiums receivable		87.9
Deferred acquisition costs		40.6
Net deferred tax asset		2.6
Ceded unearned premiums		27.3
Other assets		5.2
Total assets held for sale	$	655.6
Loss and LAE reserves	$	248.7
Unearned premiums		230.5
Ceded reinsurance payable		6.0
Other liabilities		17.1
Total liabilities held for sale	$	502.3
Net assets held for sale	$	153.3

As summarized above, the Personal Lines Transaction required the completion of various steps contemplated by the purchase agreement. Specifically, the Personal Lines Transaction required the following:

- the termination of intercompany reinsurance agreements between York Insurance Company of Maine (York) and its affiliate, OneBeacon Insurance Company (OBIC), and Massachusetts Homeland Insurance Company (MHIC) and OBIC pursuant to which they ceded 100% of their respective direct business to OBIC;

- the sale to Tower of all of the issued and outstanding capital stock of York and MHIC through which the majority of the traditional personal lines business is written on a direct basis;

- the sale of all of the issued and outstanding units of two managing attorneys-in-fact, Adirondack AIF, LLC (AAIF) and New Jersey Skylands Management LLC (NJSM);

- the transfer to Tower of the surplus notes issued by each of Adirondack Insurance Exchange (Adirondack Insurance) and New Jersey Skylands Insurance Association (NJSIA), both reciprocals, which triggers deconsolidation of the reciprocals by OneBeacon (the surplus notes eliminate upon consolidation in OneBeacon s financial statements);

- the execution of reinsurance agreements with certain subsidiaries of the Company pursuant to which OneBeacon will cede, on a 100% quota share basis, traditional personal lines business not directly written by York and MHIC; and

- the execution of a reinsurance agreement pursuant to which OneBeacon will assume, on a 100% quota share basis, non-traditional personal lines business written directly by York.

In addition, as of June 30, 2010, $105.9 million of short-term investments were held in escrow relating to the net assets and liabilities under the quota share reinsurance agreements to be effected July 1, 2010.

Except as described above with respect to entering into the Personal Lines Transaction, during the first six months of 2010, there were no acquisitions or dispositions. During the first six months of 2009, there were no acquisitions or dispositions.

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NOTE 3. Reserves for Unpaid Loss and LAE

The following table summarizes the loss and LAE reserve activities of OneBeacon s insurance subsidiaries for the three and six months ended June 30, 2010 and 2009:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	($ in millions)			
Gross beginning balance	$ 3,991.3	$ 4,211.2	$ 3,934.8	$ 4,294.0
Less beginning reinsurance recoverable on unpaid losses	(2,200.8)	(2,440.9)	(2,192.9)	(2,503.3)
Net loss and LAE reserves	1,790.5	1,770.3	1,741.9	1,790.7
Loss and LAE incurred relating to:				
Current year losses	280.2	293.5	619.9	596.3
Prior year losses	(18.3)	(17.8)	(24.3)	(32.6)
Total incurred loss and LAE	261.9	275.7	595.6	563.7
Accretion of fair value adjustment to net loss and LAE reserves		1.3		2.7
Loss and LAE paid relating to:				
Current year losses	(132.9)	(113.0)	(205.9)	(189.3)
Prior year losses	(180.0)	(175.0)	(392.1)	(408.5)
Total loss and LAE payments	(312.9)	(288.0)	(598.0)	(597.8)
Net loss and LAE reserves	1,739.5	1,759.3	1,739.5	1,759.3
Net loss and LAE reserves reclassified to held for sale	(231.0)		(231.0)	
Net ending balance	1,508.5	1,759.3	1,508.5	1,759.3
Plus ending reinsurance recoverable on unpaid losses	2,100.7	2,301.2	2,100.7	2,301.2
Gross ending balance	$ 3,609.2	$ 4,060.5	$ 3,609.2	$ 4,060.5

During the three months ended June 30, 2010, OneBeacon experienced $18.3 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, commercial package business and other general liability lines. The favorable development also included a one-time $6.5 million release of commercial and personal auto reserves associated with participation in an involuntary auto pool. During the three months ended June 30, 2009, OneBeacon experienced $17.8 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines and commercial package business lines.

During the six months ended June 30, 2010, OneBeacon experienced $24.3 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines, commercial package business and other general liability lines. The favorable development also included a one-time $6.5 million release of commercial and personal auto reserves associated with participation in an involuntary auto pool. During the six months ended June 30, 2009, OneBeacon experienced $32.6 million of favorable loss and LAE reserve development on prior accident year loss reserves. The favorable loss reserve development was primarily due to lower than expected severity on non-catastrophe losses related to professional liability lines and commercial package business lines, partially offset by adverse loss reserve development primarily related to New York personal injury protection litigation at AutoOne.

In connection with purchase accounting for the OneBeacon Acquisition, loss and LAE reserves and the related reinsurance recoverables were adjusted to fair value on the balance sheets. The net reduction to loss and LAE reserves was accreted through an income statement charge ratably with and over the period the claims are settled. Accordingly, OneBeacon recognized $1.3 million and $2.7 million of such charges for the three and six months ended June 30, 2009, respectively. As of both June 30, 2010 and December 31, 2009, the outstanding pre-tax unaccreted adjustment was $0.

NOTE 4. Reinsurance

In the normal course of business, OneBeacon s insurance subsidiaries seek to limit losses that may arise from catastrophes or other events by reinsuring with third party reinsurers. OneBeacon remains liable for risks reinsured even if the reinsurer does not honor its obligations under reinsurance contracts.

Effective July 1, 2010, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2011. The program provides coverage for OneBeacon s personal and commercial property business as well as certain acts of terrorism. Under the

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program, the first $80 million of losses resulting from any single catastrophe are retained and the next $195 million of losses resulting from the catastrophe are reinsured, with OneBeacon keeping a small co-participation. Any loss above $275 million would be retained. In the event of a catastrophe, OneBeacon s property catastrophe reinsurance program is reinstated for the remainder of the original contract term by paying a reinstatement premium that is based on the percentage of coverage reinstated and the original property catastrophe coverage premium.

OneBeacon entered into a 30% quota share agreement with a group of reinsurers that ran from January 1, 2009 through December 31, 2009, and renewed the agreement effective January 1, 2010. During the three and six months ended June 30, 2010, OneBeacon ceded $14.0 million and $25.6 million, respectively, of written premiums from its Northeast homeowners business written through OBIC and its subsidiary companies, along with Adirondack Insurance and NJSIA in New York and New Jersey, respectively. During the three and six months ended June 30, 2009, OneBeacon ceded $16.4 million and $30.0 million, respectively, of written premiums under the agreement. Effective as of July 1, 2010, the closing date of the Personal Lines Transaction, the agreement was amended to remove OneBeacon and add Tower as a signatory. Adirondack Insurance and NJSIA remained as parties to the agreement.

At June 30, 2010, OneBeacon had $19.2 million of reinsurance recoverables on paid losses and $2,284.2 million (gross of $183.5 million in purchase accounting adjustments, as described in Note 3) that will become recoverable if claims are paid in accordance with current reserve estimates. Reinsurance contracts do not relieve OneBeacon of its obligations. Therefore, collectibility of balances due from its reinsurers is critical to OneBeacon s financial strength. OneBeacon is selective in regard to its reinsurers, principally placing reinsurance with those reinsurers with strong financial condition, industry ratings and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis. As a result, uncollectible amounts have historically not been significant. The following table provides a listing of OneBeacon s top reinsurers for its insurance operations, excluding industry pools and associations and affiliates of OneBeacon, based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurers A.M. Best Company, Inc. (A.M. Best) ratings.

($ in millions)		**Balance at June 30, 2010**	**% of total**	**A.M. Best Rating (1)**
National Indemnity Company and General Reinsurance Corporation (2)	$	1,803.0	78%	A++
Tokio Marine and Nichido Fire (3)		45.5	2%	A++
Munich Reinsurance America		39.0	2%	A+
QBE Insurance Corporation		22.5	1%	A
Swiss Re		16.2	1%	A

(1) A.M. Best ratings as detailed above are: A++ (Superior, which is the highest of fifteen financial strength ratings), A+ (Superior, which is the second highest of fifteen financial strength ratings), and A (Excellent, which is the third highest of fifteen financial strength ratings).

(2) Includes $320.2 million of Third Party Recoverables (as defined below), which NICO (as defined below) would pay under the terms of the NICO Cover (as defined below) if they are unable to collect from third party reinsurers. OneBeacon also has an additional $85.3 million of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) Includes $38.1 million of reinsurance recoverables from various reinsurers that are guaranteed by Tokio Marine and Nichido Fire under the terms of a 100% quota share reinsurance agreement between Houston General Insurance Company and Tokio Marine and Nichido Fire.

In connection with the OneBeacon Acquisition, Aviva caused OneBeacon to purchase two reinsurance contracts: a reinsurance contract with National Indemnity Company (NICO) for up to $2.5 billion in old asbestos and environmental (A&E) claims and certain other exposures (the NICO Cover) and an adverse loss reserve development cover from General Reinsurance Corporation (GRC) for up to $570.0 million, comprised of $400.0 million of adverse loss reserve development occurring in years 2000 and prior (the GRC Cover) in addition to $170.0 million of reserves ceded as of the date of the OneBeacon Acquisition. The NICO Cover and GRC Cover, which were contingent on and occurred contemporaneously with the OneBeacon Acquisition, were put in place in lieu of a seller guarantee of loss and LAE reserves and are therefore accounted for under GAAP as a seller guarantee. NICO and GRC are wholly-owned subsidiaries of Berkshire Hathaway, Inc.

Under the terms of the NICO Cover, NICO receives the economic benefit of reinsurance recoverables from certain of OneBeacon s third party reinsurers (Third Party Reinsurers) in existence at the time the NICO Cover was executed (Third Party Recoverables). As a result, the Third Party Recoverables serve to protect the $2.5 billion limit of NICO coverage for the benefit of OneBeacon. OneBeacon estimates that on an incurred basis it has used approximately $2.2 billion of the coverage provided by NICO at June 30, 2010. Since entering into the NICO Cover, approximately 5% of the $2.2 billion of utilized coverage relates to uncollectible Third Party Recoverables and settlements on Third Party Recoverables through June 30, 2010. Net losses paid totaled

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approximately $1.3 billion as of June 30, 2010. To the extent that actual experience differs from OneBeacon s estimate of ultimate A&E losses and Third Party Recoverables, future losses could exceed the $320.2 million of protection remaining under the NICO Cover at June 30, 2010.

Pursuant to the GRC Cover, OneBeacon is not entitled to recover losses to the full contract limit if such losses are reimbursed by GRC more quickly than anticipated at the time the contract was signed. OneBeacon intends to seek reimbursement from GRC only for claims which result in payment patterns similar to those supporting its recoverables recorded pursuant to the GRC Cover. The economic cost of not submitting certain other eligible claims to GRC is primarily the investment spread between the rate credited by GRC and the rate achieved by OneBeacon on its own investments. This cost, if any, is expected to be nominal.

NOTE 5. Investment Securities

OneBeacon s invested assets are comprised of securities and other investments held for general investment purposes. Refer to the Company s 2009 Annual Report on Form 10-K for a complete discussion.

In accordance with ASC 825, OneBeacon classifies its portfolio of fixed maturity investments and common equity securities, including convertible bonds, held for general investment purposes as trading securities. Trading securities are reported at fair value as of the balance sheet date as determined by quoted market prices when available. Realized and unrealized investment gains and losses on trading securities are reported pre-tax in revenues.

Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of June 30, 2010 and December 31, 2009. At June 30, 2010, OneBeacon had $105.9 million of short-term investments held in escrow in relation to the Personal Lines Transaction described in Note 2.

Other investments primarily include hedge funds and private equity funds. OneBeacon measures its investments in hedge funds and private equity funds at fair value with changes therein reported in revenues on a pre-tax basis. Other investments also includes an investment in a community reinvestment vehicle which is accounted for at fair value and a tax advantaged federal affordable housing development fund which OneBeacon accounts for under the equity method.

OneBeacon had participated in a securities lending program as a mechanism for generating additional investment income on its fixed maturity and common equity portfolios. Under the securities lending arrangements, certain of its fixed maturity and common equity investments were loaned to other institutions for short periods of time through a lending agent. OneBeacon maintained control over the securities it loaned, retained the earnings and cash flows associated with the loaned securities and received a fee from the borrower for the temporary use of the asset. Collateral, in the form of cash and United States government securities, was required at a rate of 102% of the fair value of the loaned securities. An indemnification agreement with the lending agent protected OneBeacon in the event a borrower became insolvent or failed to return any of the securities on loan. In the event of a shortfall in the collateral amount required to be returned to the securities lending counterparty (e.g., as a result of investment losses), OneBeacon was obligated to make up any deficiency.

Prior to February 2009, the collateral was controlled by the lending agent. The lending agent managed the investment of the cash collateral, however, other than in the event of default by the borrower, this collateral was not available to OneBeacon and was remitted to the borrower by the lending agent upon the return of the loaned securities. Because of these restrictions, OneBeacon considered its securities lending activities to be non-cash transactions. The fair value of the securities lending collateral was recorded as both an asset and liability on the balance sheet.

In February 2009, OneBeacon amended the terms of the securities lending program to give it more control over the investment of borrowers collateral and to separate the assets supporting that collateral into a segregated account. Pursuant to the amendment, (i) the guidelines for the investment of any new cash collateral as well as the reinvestment of cash were narrowed to permit investment in only cash equivalent securities, (ii) OneBeacon had the authority to direct the lending agent to both sell specific collateral securities in the segregated account and to not sell certain collateral securities which the lending agent proposes to sell, and (iii) OneBeacon and the lending agent agreed to manage the securities lending program toward an orderly wind-down. In May 2009, OneBeacon instructed the lending agent not to make any additional loans of securities and to recall all of the securities on loan and fund the return of collateral to the borrower. As a result of the actions described above, the securities lending assets are no longer segregated and are included within OneBeacon s investment securities. As of June 30, 2010, $1.7 million in collateral had not been returned to the borrower.

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OneBeacon s net investment income is comprised primarily of interest income associated with OneBeacon s fixed maturity investments, dividend income from its equity investments and interest income from its short-term investments. Net investment income for the three and six months ended June 30, 2010 and 2009 consisted of the following:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	($ in millions)			
Investment income:				
Fixed maturity investments	$ 24.3	$ 35.7	$ 52.0	$ 56.7
Short-term investments	0.4	0.4	0.5	2.0
Common equity securities	1.1	0.6	1.9	1.0
Convertible bonds	1.4	1.6	3.0	3.1
Other investments	0.2	0.7	0.6	1.0
Gross investment income	27.4	39.0	58.0	63.8
Less investment expenses	(2.4)	(2.9)	(4.7)	(5.8)
Net investment income, pre-tax	$ 25.0	$ 36.1	$ 53.3	$ 58.0

The composition of net realized investment gains (losses), a component of net realized and unrealized investment gains (losses), consisted of the following:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	($ in millions)			
Fixed maturity investments	$ 5.6	$ (5.5)	$ 30.0	$ (23.7)
Short-term investments				0.1
Common equity securities	1.3	6.6	1.6	(33.0)
Convertible bonds	6.4	1.1	10.5	1.8
Other investments (1)	(0.5)	(10.8)	(2.9)	(10.1)
Net realized investment gains (losses), pre-tax	$ 12.8	$ (8.6)	$ 39.2	$ (64.9)

(1) The three and six months ended June 30, 2010 include $1.3 million of realized losses related to the impairment of a receivable related to an outstanding hedge fund redemption.

The net changes in fair value for the three months ended June 30, 2010 and 2009 are as follows:

	Three months ended June 30, 2010		
	Changes in net unrealized gains and losses (1)	Changes in net foreign currency translation gains and losses (1)	Total net changes in fair value reflected in revenues (1)
	($ in millions)		
Fixed maturity investments	$ 0.9	$ (2.7)	$ (1.8)
Short-term investments		(0.6)	(0.6)
Common equity securities	(11.8)		(11.8)

Convertible bonds		(10.5)				(10.5)
Other investments		(2.5)				(2.5)
Total	$	(23.9)	$	(3.3)	$	(27.2)

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	Three months ended June 30, 2009		
	Changes in net unrealized gains and losses (1)	Changes in net foreign currency translation gains and losses (1) ($ in millions)	Total net changes in fair value reflected in revenues (1)
Fixed maturity investments	$ 97.8	$ 9.1	$ 106.9
Short-term investments	(0.1)	0.8	0.7
Common equity securities	1.6		1.6
Convertible bonds	9.1		9.1
Other investments	17.7		17.7
Total	$ 126.1	$ 9.9	$ 136.0

(1) Includes changes in net deferred gains and losses on sales of investments between OneBeacon and entities under White Mountains common control of $(0.4) million and $0.1 million, pre-tax, for the three months ended June 30, 2010 and 2009, respectively.

The net changes in fair value for the six months ended June 30, 2010 and 2009 are as follows:

	Six months ended June 30, 2010		
	Changes in net unrealized gains and losses (1)	Changes in net foreign currency translation gains and losses (1) ($ in millions)	Total net changes in fair value reflected in revenues (1)
Fixed maturity investments	$ (0.9)	$ (0.1)	$ (1.0)
Short-term investments		(0.9)	(0.9)
Common equity securities	(4.6)		(4.6)
Convertible bonds	(8.4)		(8.4)
Other investments	3.7		3.7
Total	$ (10.2)	$ (1.0)	$ (11.2)

	Six months ended June 30, 2009		
	Changes in net unrealized gains and losses (1)(2)	Changes in net foreign currency translation gains and losses (1) ($ in millions)	Total net changes in fair value reflected in revenues (1)(2)
Fixed maturity investments	$ 131.5	$ 15.5	$ 147.0
Short-term investments	(0.2)	1.0	0.8
Common equity securities	10.7	0.1	10.8
Convertible bonds	7.4		7.4
Other investments	20.4		20.4
Total	$ 169.8	$ 16.6	$ 186.4

(1) Includes changes in net deferred gains and losses on sales of investments between OneBeacon and entities under White Mountains common control of $(1.3)million and $0.3 million, pre-tax, for the six months ended June 30, 2010 and 2009, respectively.

(2) Includes net unrealized gains related to OneBeacon s securities lending program of $7.0 million, pre-tax, for the six months ended June 30, 2009

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The components of OneBeacon s ending net unrealized investment gains and losses, excluding the impact of net unrealized foreign currency translation gains and losses, on its trading investment portfolio as of June 30, 2010 and December 31, 2009 were as follows:

	June 30, 2010	December 31, 2009
	($ in millions)	
Investment securities:		
Gross unrealized investment gains	$ 158.3	$ 167.2
Gross unrealized investment losses	(23.4)	(23.5)
Net unrealized gains from investment securities	134.9	143.7
Income taxes	(47.2)	(50.3)
Total net unrealized investment gains, after tax	$ 87.7	$ 93.4

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of OneBeacon s fixed maturity investments as of June 30, 2010 and December 31, 2009 were as follows:

	June 30, 2010				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
			($ in millions)		
U.S. Government and agency obligations	$ 259.2	$ 9.3	$	$	$ 268.5
Debt securities issued by corporations	833.2	64.8	(2.3)		895.7
Municipal obligations	1.9				1.9
Asset-backed securities	889.1	19.5	(0.5)	1.7	909.8
Foreign government obligations	19.8	0.8		(0.5)	20.1
Preferred stocks	77.5	3.8	(2.5)		78.8
Total fixed maturity investments	$ 2,080.7	$ 98.2	$ (5.3)	$ 1.2	$ 2,174.8

	December 31, 2009				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
			($ in millions)		
U.S. Government and agency obligations	$ 519.4	$ 12.4	$ (0.2)	$	$ 531.6
Debt securities issued by corporations	1,278.6	73.5	(6.4)	1.3	1,347.0
Municipal obligations	2.5	0.1			2.6
Asset-backed securities	1,003.7	18.4	(7.2)		1,014.9
Foreign government obligations	25.6	1.1			26.7
Preferred stocks	70.8	0.7			71.5
Total fixed maturity investments	$ 2,900.6	$ 106.2	$ (13.8)	$ 1.3	$ 2,994.3

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of OneBeacon s common equity securities, convertible bonds and other investments as of June 30, 2010 and December 31, 2009 were as follows:

June 30, 2010

	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses ($ in millions)	Net foreign currency gains	Carrying value
Common equity securities	$ 228.5	$ 18.1	$ (11.4)	$	$ 235.2
Convertible bonds	125.3	9.4	(1.3)		133.4
Other investments	151.9	32.6	(5.4)		179.1

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	December 31, 2009				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency losses	Carrying value
	($ in millions)				
Common equity securities	$ 176.3	$ 12.3	$ (1.0)	$	$ 187.6
Convertible bonds	153.7	16.6	(0.1)		170.2
Other investments	122.8	32.1	(8.6)		146.3

Fair value measurements at June 30, 2010

OneBeacon records its investments in accordance with ASC 820 which provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). ASC 820 establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity s internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs). The fair value hierarchy in ASC 820 prioritizes fair value measurements into three levels based on the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets;

Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments; and

Level 3 Valuations based on unobservable inputs.

As of June 30, 2010 and December 31, 2009, approximately 92% and 93%, respectively, of the investment portfolio recorded at fair value was priced based upon observable inputs.

Fair values for securities for which quoted prices are unavailable are estimated based upon reference to observable inputs other than quoted prices, such as benchmark interest rates, market comparables, broker quotes and other relevant observable inputs. In circumstances where observable inputs are adjusted to reflect management s best estimate of fair value, such fair value measurements are considered a lower level measurement in the fair value hierarchy.

Other investments, which are primarily comprised of hedge funds and private equity funds for which the fair value option has been elected, are carried at fair value based upon OneBeacon s proportionate interest in the underlying fund s net asset value, which is deemed to approximate fair value. The fair value of OneBeacon s investments in hedge funds and private equity funds has been estimated using net asset value because it reflects the fair value of the funds underlying investments in accordance with ASC 820. OneBeacon employs a number of procedures to assess the reasonableness of the fair value measurements, including obtaining and reviewing each fund s audited financial statements and discussing each fund s pricing with the fund s manager. However, since the fund managers do not provide sufficient information to independently evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of OneBeacon s investment in hedge funds and private equity funds have been classified as Level 3 under the fair value hierarchy.

In circumstances where the underlying investments are publicly traded, such as the investments made by hedge funds, the fair value of the underlying investments is determined using current market prices. In circumstances where the underlying investments are not publicly traded, such as the investments made by private equity funds, the private equity fund managers have considered the need for a liquidity discount on each of the underlying investments when determining the fund s net asset value in accordance with ASC 820. In circumstances where OneBeacon s portion of a fund s net asset value is deemed to differ from fair value due to illiquidity or other factors associated with OneBeacon s investment in the fund, including counterparty credit risk, the net asset value is adjusted accordingly. At June 30, 2010 and December 31, 2009, OneBeacon did not record a liquidity adjustment to the net asset value related to its investments in hedge funds or private equity funds.

As of June 30, 2010 and December 31, 2009, other investments reported at fair value represented approximately 5% and 4%, respectively, of the investment portfolio recorded at fair value. Other investments accounted for at fair value as of June 30, 2010 and December 31, 2009 were comprised of $72.6 million and $74.2 million, respectively, in hedge funds, $72.3 million and $58.0 million, respectively, in private equity funds and $14.1 million for both periods of an investment in a community reinvestment vehicle. At June 30, 2010 and December 31, 2009, we held investments in 14 and 15 hedge funds, respectively, and 16 private equity funds. The largest investment in a single fund was $13.2 million and $10.8 million, respectively, at June 30, 2010 and December 31, 2009.

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As of June 30, 2010, other investments also included $20.1 million of an investment in a tax advantaged federal affordable housing development fund which is accounted for using the equity method.

The fair value measurements at June 30, 2010 and December 31, 2009 and their related inputs are as follows:

	Fair value at June 30, 2010	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
		($ in millions)		
Fixed maturity investments:				
U.S. Government and agency obligations	$ 268.5	$ 265.9	$ 2.6	$
Debt securities issued by corporations:				
Consumer	331.6		331.6	
Industrial	190.2		190.2	
Financial	84.9		84.9	
Communications	118.1		118.1	
Energy	70.2		70.2	
Basic materials	52.4		52.4	
Utilities	33.7		33.7	
Technology	14.6		14.6	
Debt securities issued by corporations	895.7		895.7	
Municipal obligations	1.9		1.9	
Asset-backed securities	909.8		909.8	
Foreign government obligations	20.1	15.1	5.0	
Preferred stocks	78.8		11.3	67.5
Fixed maturity investments	2,174.8	281.0	1,826.3	67.5
Short-term investments	606.1	606.1		
Common equity securities:				
Financials	94.3	59.4	0.2	34.7
Basic Materials	35.5	35.5		
Consumer	6.9	6.9		
Energy	19.0	19.0		
Utilities	11.2	11.1		0.1
Other	68.3	66.0		2.3
Common equity securities	235.2	197.9	0.2	37.1
Convertible bonds	133.4		133.4	
Other investments (1)	159.0			159.0
Total	$ 3,308.5	$ 1,085.0	$ 1,959.9	$ 263.6

(1) Excludes the carrying value of $20.1 million associated with a tax advantaged federal affordable housing development fund accounted for using the equity method.

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	Fair value at December 31, 2009	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
		($ in millions)		
Fixed maturity investments:				
U.S. Government and agency obligations	$ 531.6	$ 529.0	$ 2.6	$
Debt securities issued by corporations:				
Consumer	516.9		516.9	
Industrial	287.5		287.5	
Financial	121.5		121.3	0.2
Communications	185.5		185.5	
Energy	75.4		75.4	
Basic materials	67.4		67.4	
Utilities	76.6		76.6	
Technology	16.2		16.2	
Debt securities issued by corporations	1,347.0		1,346.8	0.2
Municipal obligations	2.6		2.6	
Asset-backed securities	1,014.9		999.2	15.7
Foreign government obligations	26.7	21.4	5.3	
Preferred stocks	71.5		1.5	70.0
Fixed maturity investments	2,994.3	550.4	2,358.0	85.9
Short-term investments	544.4	544.4		
Common equity securities:				
Financials	82.3	50.1		32.2
Basic Materials	32.3	32.3		
Consumer	19.2	19.2		
Energy	29.4	27.8		1.6
Utilities	7.2	7.2		
Other	17.2	17.2		
Common equity securities	187.6	153.8		33.8
Convertible bonds	170.2		170.2	
Other investments	146.3			146.3
Total	$ 4,042.8	$ 1,248.6	$ 2,528.2	$ 266.0

At June 30, 2010 and December 31, 2009, OneBeacon held one private preferred stock that represented approximately 87% and 98%, respectively, of its preferred stock portfolio. OneBeacon used quoted market prices for similar securities that were adjusted to reflect management s best estimate of fair value; this security is classified as a Level 3 measurement.

The following table summarizes the ratings of OneBeacon s corporate debt securities as of June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
	($ in millions)	
AA	$ 43.8	$ 101.0
A	262.2	398.3
BBB	562.9	794.0
BB	26.8	31.6

Other				22.1
Debt securities issued by corporations	$	895.7	$	1,347.0

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In addition to the investment portfolio described above, OneBeacon had $36.6 million and $27.2 million, respectively, of liabilities recorded at fair value and included in other liabilities as of June 30, 2010 and December 31, 2009. These liabilities relate to securities that have been sold short by a limited partnership in which OneBeacon invests and is required to consolidate in accordance with GAAP. All of the liabilities included in the $36.6 million and $27.2 million, respectively, have been deemed to have a Level 1 designation as of June 30, 2010 and December 31, 2009.

Asset-backed Securities

OneBeacon purchases commercial and residential mortgage backed securities to maximize its fixed income portfolio s risk adjusted returns in the context of a diversified portfolio. OneBeacon s non-agency commercial mortgage-backed portfolio (CMBS) is generally short tenor, fixed rate and structurally senior, with more than 30 points of subordination on average for fixed rate CMBS and more than 55 points of subordination on average for floating rate CMBS as of June 30, 2010. In general, subordination represents the percentage of principal loss on the underlying collateral that would have to occur before the security incurs a loss. These collateral losses, instead, are first absorbed by other securities lower in the capital structure. OneBeacon believes these levels of protection will mitigate the risk of loss tied to refinancing challenges facing the commercial real estate market. As of June 30, 2010, on average approximately 7% of the underlying loans were reported as non-performing for all CMBS held by OneBeacon. OneBeacon is not an originator of residential mortgage loans and held less than $0.1 million of residential mortgage-backed securities (RMBS) categorized as sub-prime as of June 30, 2010. In addition, OneBeacon s investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage backed securities as of June 30, 2010. OneBeacon considers sub-prime mortgage backed securities to be those that are issued from dedicated sub-prime shelves or have underlying loan pools that exhibit weak credit characteristics or dedicated second-lien shelf registrations (i.e., OneBeacon considers investments backed primarily by second-liens to be a sub-prime risk regardless of credit scores or other metrics).

There are also mortgage backed securities that OneBeacon categorizes as non-prime (also called Alt A or A-) that are backed by collateral that has overall credit quality between prime and sub-prime, as determined based on OneBeacon s review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. As of June 30, 2010, OneBeacon did not hold any mortgage backed securities that were classified as non-prime. OneBeacon s non-agency residential mortgage-backed portfolio is generally of moderate average life, fixed rate and structurally senior. OneBeacon does not own any collateralized debt obligations, including residential mortgage-backed collateralized debt obligations.

The following table summarizes the carrying value of OneBeacon s asset-backed securities as of June 30, 2010 and December 31, 2009:

	June 30, 2010			December 31, 2009		
($ in millions)	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	$ 526.7	$ 526.7	$	$ 483.0	$ 483.0	$
FNMA	114.6	114.6		149.1	149.1	
FHLMC	44.1	44.1		76.3	76.3	
Total agency(1)	685.4	685.4		708.4	708.4	
Non-agency:						
Residential	21.8	21.8		30.7	30.7	
Commercial	92.4	92.4		136.1	120.4	15.7

Total Non-agency	114.2	114.2		166.8	151.1	15.7
Total mortgage-backed securities	799.6	799.6		875.2	859.5	15.7
Other asset-backed securities:						
Credit card receivables	34.8	34.8		27.7	27.7	
Vehicle receivables	74.9	74.9		111.1	111.1	
Other	0.5	0.5		0.9	0.9	
Total other asset-backed securities	110.2	110.2		139.7	139.7	
Total asset-backed securities	$ 909.8	$ 909.8	$	$ 1,014.9	$ 999.2	$ 15.7

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

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The security issuance years of OneBeacon s investments in non-agency RMBS and non-agency CMBS securities as of June 30, 2010 are as follows:

	Fair Value	2001	2003	Security Issuance Year 2004 ($ in millions)	2005	2006	2007
Non-agency RMBS	$ 21.8	$	$	$ 4.0	$ 14.4	$ 3.3	$ 0.1
Non-agency CMBS	92.4	11.2	3.2		16.7	5.6	55.7
Total	$ 114.2	$ 11.2	$ 3.2	$ 4.0	$ 31.1	$ 8.9	$ 55.8

Non-agency Residential Mortgage Securities

The classification of the underlying collateral quality and the tranche levels of OneBeacon s non-agency RMBS securities are as follows as of June 30, 2010:

	Fair Value	Super Senior (1) ($ in millions)	Senior (2)	Subordinate (3)
Prime	$ 21.7	$	$ 21.7	$
Sub-prime	0.1		0.1	
Total	$ 21.8	$	$ 21.8	$

(1) At issuance, Super Senior were rated AAA and were senior to other AAA bonds.

(2) At issuance, Senior were rated AAA and were senior to non-AAA bonds.

(3) At issuance, Subordinate were not rated AAA and were junior to other bonds.

Non-agency Commercial Mortgage Securities

The amount of fixed and floating rate securities and their tranche levels are as follows as of June 30, 2010:

Fair Value	Super Senior (1)	Senior(2)	Subordinate(3)

	($ in millions)			
Fixed rate CMBS	$ 71.1	$ 56.7	$ 3.2	$ 11.2
Floating rate CMBS	21.3	17.5		3.8
Total	$ 92.4	$ 74.2	$ 3.2	$ 15.0

(1) At issuance, Super Senior were rated AAA and were senior to other AAA bonds.

(2) At issuance, Senior were rated AAA and were senior to non-AAA bonds.

(3) At issuance, Subordinate were not rated AAA and were senior to other bonds.

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The changes in Level 1 fair value measurements for the three and six months ended June 30, 2010 are as follows:

	Fixed maturity investments	Common equity securities	Convertible bonds ($ in millions)	Other investments	Total (1)
Balance at January 1, 2010	$ 550.4	$ 153.8	$	$	$ 704.2
Amortization/accretion	0.1				0.1
Total net realized and unrealized gains (losses)	2.1	5.1			7.2
Purchases	185.8	61.7			247.5
Sales	(308.5)	(10.9)			(319.4)
Transfers in					
Transfers out					
Balance at March 31, 2010	$ 429.9	$ 209.7	$	$	$ 639.6
Amortization/accretion	0.8				0.8
Total net realized and unrealized gains (losses)	(2.1)	(11.4)			(13.5)
Purchases	19.0	25.5			44.5
Sales	(161.9)	(25.9)			(187.8)
Transfers in					
Transfers out	(4.7)				(4.7)
Balance at June 30, 2010	$ 281.0	$ 197.9	$	$	$ 478.9

(1) Excludes short-term investments which are deemed to have a Level 1 designation as of June 30, 2010 and December 31, 2009. The net maturities, purchases and sales of short-term investments resulted in a decrease of $462.7 million during the three months ended June 30, 2010 and an increase of $61.7 million during the six months ended June 30, 2010.

Transfers out of Level 1 include the securities that were reclassified to assets held for sale discussed in Note 2.

The changes in Level 2 fair value measurements for the three and six months ended June 30, 2010 are as follows:

	Fixed maturity investments	Common equity securities	Convertible bonds ($ in millions)	Other investments	Total
Balance at January 1, 2010	$ 2,358.0	$	$ 170.2	$	$ 2,528.2
Amortization/accretion	(1.9)		0.3		(1.6)
Total net realized and unrealized gains (losses)	20.3		6.2		26.5
Purchases	111.9	0.1	23.7		135.7
Sales	(659.3)		(29.5)		(688.8)
Transfers in	0.2				0.2
Transfers out					
Balance at March 31, 2010	$ 1,829.2	$ 0.1	$ 170.9	$	$ 2,000.2
Amortization/accretion	(2.1)		0.5		(1.6)

Total net realized and unrealized gains (losses)	9.1	(0.4)	(4.1)		4.6
Purchases	164.5	0.5	4.0		169.0
Sales	(189.1)		(37.9)		(227.0)
Transfers in	14.7				14.7
Transfers out					
Balance at June 30, 2010	$ 1,826.3	$ 0.2	$ 133.4	$	$ 1,959.9

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The changes in Level 3 fair value measurements for the three and six months ended June 30, 2010 are as follows:

	Fixed maturity investments	Common equity securities	Convertible bonds ($ in millions)	Other investments	Total
Balance at January 1, 2010	$ 85.9	$ 33.8	$	$ 146.3	$ 266.0
Amortization/accretion	(1.4)				(1.4)
Total net realized and unrealized gains (losses)	2.8	2.4		3.8	9.0
Purchases				9.1	9.1
Sales	(1.7)	(0.4)		(2.1)	(4.2)
Transfers in					
Transfers out	(0.2)				(0.2)
Balance at March 31, 2010	$ 85.4	$ 35.8	$	$ 157.1	$ 278.3
Amortization/accretion					
Total net realized and unrealized gains (losses)	(3.2)	1.3		(1.7)	(3.6)
Purchases				9.1	9.1
Sales				(5.5)	(5.5)
Transfers in					
Transfers out	(14.7)				(14.7)
Balance at June 30, 2010	$ 67.5	$ 37.1	$	$ 159.0	$ 263.6

Transfers out of Level 3 and included in transfers in of Level 2 fixed maturity investments of $0.2 million for the three months ended March 31, 2010 and $14.7 million for the three months ended June 30, 2010 each comprise one security which had been previously classified as a Level 3 measurement and was recategorized as a Level 2 measurement when quoted market prices for similar securities that were considered reliable and could be validated against an alternative source became available during the three months ended March 31, 2010 and June 30, 2010, respectively.

The following table summarizes the change in net unrealized gains or losses for assets designated as Level 3 for the three and six months ended June 30, 2010 and 2009:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	($ in millions)			
Fixed maturity investments	$ (3.5)	$ 14.3	$ (2.8)	$ 13.9
Short-term investments				
Common equity securities	1.5	3.1	3.9	3.4
Convertible bonds		0.1		0.1
Other investments	(2.5)	17.7	3.7	20.4
Total	$ (4.5)	$ 35.2	$ 4.8	$ 37.8

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Other Investments

OneBeacon holds investments in hedge funds and private equity funds which are included in other investments. The fair value of these investments has been estimated using the net asset value of the funds. The following table summarizes investments in hedge funds and private equity funds at June 30, 2010:

	Fair Value	Unfunded Commitments
	($ in millions)	
Hedge funds		
Long/short credit and distressed	$ 23.6	
Long bank loan	3.5	
Long/short equity	39.0	
Long/short equity real estate investment trust	0.9	
Long/short equity activist	5.6	
Total hedge funds	$ 72.6	
Private equity funds		
Insurance	$ 6.4	$ 0.1
Banking	4.0	
Distressed residential real estate	11.9	13.7
Energy infrastructure and services	19.8	6.4
Healthcare	0.8	4.0
Multi-sector	18.0	7.3
Private equity secondaries	6.9	1.9
Real estate	4.5	0.8
Total private equity funds	$ 72.3	$ 34.2
Total hedge funds and private equity funds(1)	$ 144.9	$ 34.2

(1) Other investments also includes $14.1 million of an investment in a community reinvestment vehicle and $20.1 million of an investment in a tax advantaged federal affordable housing development fund.

The following table summarizes investments in hedge funds and private equity funds as of December 31, 2009:

	Fair Value	Unfunded Commitments
	($ in millions)	
Hedge funds		
Long/short credit and distressed	$ 21.7	
Long bank loan	3.4	
Long/short equity	47.8	
Long/short equity activist	1.3	
Total hedge funds	$ 74.2	
Private equity funds		
Insurance	$ 5.8	$ 0.1

Banking		4.2		0.1
Distressed residential real estate		4.6		20.5
Energy infrastructure and services		17.2		8.8
Healthcare				4.8
Multi-sector		16.7		7.7
Private equity secondaries		4.6		3.4
Real estate		4.9		1.1
Total private equity funds	$	58.0	$	46.5
Total hedge funds and private equity funds(1)	$	132.2	$	46.5

(1) Other investments also includes $14.1 million of an investment in a community reinvestment vehicle.

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Redemptions of investments in certain hedge funds are subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period. The following summarizes the June 30, 2010 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

	Hedge Funds Active Funds				
	30 - 59 days notice	60 - 89 days notice	90 - 119 days notice ($ in millions)	120+ days notice	Total
Redemption frequency					
Monthly	$	$	$	$ 5.8	$ 5.8
Quarterly	17.4	16.6	10.4		44.4
Semi-annual	10.8		0.9		11.7
Annual			7.2	3.5	10.7
Total	$ 28.2	$ 16.6	$ 18.5	$ 9.3	$ 72.6

Certain of the hedge fund investments are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund s underlying investments are liquidated. At June 30, 2010 and December 31, 2009, $6.5 million and $16.2 million, respectively, of hedge funds were in liquidation. The actual amount of the final distribution is subject to market fluctuations. The date at which such distributions will be received is not determinable at June 30, 2010. OneBeacon has submitted redemption requests for certain of its investments in active hedge funds. Redemptions are recorded as receivables when approved by the hedge funds and when no longer subject to market fluctuations.

OneBeacon has also submitted redemption requests for certain of its investments in active hedge funds. At June 30, 2010 and December 31, 2009, redemptions of $6.5 million and $9.6 million, respectively, were submitted. OneBeacon expects to receive these funds within the next 12 months. Redemptions are recorded as receivables when approved by the hedge funds and when no longer subject to market fluctuations.

Investments in private equity funds are generally subject to lock-up periods during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund s underlying investment. In addition, certain private equity funds provide an option to extend the lock-up period at either the sole discretion of the fund manager or upon agreement between the fund and the investors. At June 30, 2010, investments in private equity funds were subject to lock-up periods as follows:

	1 - 3 years	3 - 5 years	5 - 10 years ($ in millions)	>10 years	Total
Private Equity Funds expected lock-up period remaining	$ 6.5	$ 11.9	$ 53.9	$	$ 72.3

NOTE 6. Debt

OneBeacon s debt outstanding as of June 30, 2010 and December 31, 2009 consisted of the following:

	June 30, 2010	December 31, 2009
	($ in millions)	
Senior unsecured notes, at face value	$ 419.9	$ 607.1
Unamortized original issue discount	(0.4)	(0.6)
Senior unsecured notes, carrying value	419.5	606.5
Atlantic Specialty Note		14.0
Total debt	$ 419.5	$ 620.5

Senior Notes

In May 2003, OBH, a wholly-owned subsidiary of the Company, issued $700.0 million face value of senior unsecured debt through a public offering, at an issue price of 99.7% (the Senior Notes). The Senior Notes bear an annual interest rate of 5.875%, payable semi-annually in arrears on May 15 and November 15, until maturity on May 15, 2013, and are fully and unconditionally guaranteed as to the payment of principal and interest by White Mountains. OBH incurred $7.3 million in expenses related to the issuance of the Senior Notes (including the $4.5 million underwriting discount), which have been deferred and are being recognized into interest expense over the life of the Senior Notes. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the Senior Notes have an effective yield to maturity of approximately 6.0% per annum.

On May 3, 2010, OBH commenced a cash tender offer for up to $200.0 million in aggregate principal amount of the Senior Notes at a price of $1,027.50 per $1,000 principal amount. The cash tender offer, which was not subject to the tender of any minimum principal amount of Senior Notes, expired on May 28, 2010. Holders of Senior Notes who tendered on or before May 14, 2010 received an early tender payment of $30 for every $1,000 principal amount of Senior Notes validly tendered. Payment for the Senior Notes included accrued and unpaid interest up to the settlement date. OBH accepted and retired $156.4 million aggregate principal amount, of which $155.2 million was tendered by the early tender deadline, for purchase for $165.4 million, which resulted in a $9.6 million loss.

During the second quarter of 2010, OBH repurchased and retired $18.2 million of outstanding Senior Notes for $18.9 million, which resulted in a $0.7 million loss. During the first quarter of 2010, OBH repurchased and retired $11.5 million of outstanding Senior Notes for $11.9 million, which resulted in a $0.5 million loss. During the first quarter of 2010, OBIC purchased $1.1 million of outstanding Senior Notes for $1.1 million. During the second quarter of 2009, OBIC purchased $37.3 million of outstanding Senior Notes for $35.2 million, which resulted in a $1.9 million gain. During the first quarter of 2009, OBH repurchased and retired $10.6 million of outstanding Senior Notes for $8.1 million, which resulted in a $2.5 million gain. At June 30, 2010, OBH was in compliance with all of the covenants under the Senior Notes.

White Mountains has provided and, pursuant to a separation agreement, continues to provide an irrevocable and unconditional guarantee as to the payment of principal and interest on the Senior Notes. Refer to Note 16. Related Party Disclosures of the Company s 2009 Annual Report on Form 10-K.

Mortgage Note on Real Estate Owned

In connection with its December 2005 purchase of land and an office building that is its U.S. headquarters, OneBeacon entered into a $40.8 million, 18-year mortgage note which had a variable interest rate based upon the lender s 30-day LIBOR rate. As of December 31, 2008, OneBeacon had drawn the full amount of $40.8 million on the mortgage note. Repayment on the mortgage note commenced in January 2009. During the three months ended March 31, 2009, OneBeacon repaid $0.2 million of principal in accordance with the terms of the mortgage note. On May 7, 2009, OneBeacon repaid $40.6 million, representing the outstanding principal on the mortgage note.

Concurrent with entering into the mortgage note, OneBeacon also entered into an interest rate swap to hedge its exposure to the variability in the interest rate on the mortgage note. The notional amount of the swap was equal to the debt outstanding on the mortgage note and was adjusted to match the drawdowns and repayments on the mortgage note so that the principal amount of the mortgage note and the notional amount of the swap were equal at all times. Under the terms of the swap, OneBeacon paid a fixed interest rate of approximately 6% and received a variable interest rate based on the same LIBOR index used for the mortgage note. Interest paid or received on the swap was reported in interest expense. In accordance with GAAP, OneBeacon accounted for the swap as a cash flow hedge and recorded the interest rate swap at fair value on the balance sheet in other assets or liabilities depending on the value as of the balance sheet date. Changes in the fair value of the interest rate swap were reported as a component of other comprehensive income or loss. Any gains and losses on the derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness were recorded in revenues. At the time of repayment of the outstanding balance on the mortgage note, OneBeacon paid $7.4 million to settle the interest rate swap. The $7.4 million settlement amount was recorded as an expense in net other revenues on a pre-tax basis and in other comprehensive income and loss items as an increase of $4.8 million on an after tax basis ($7.4 million pre-tax). The six months ended June 30, 2009 also included $2.0 million, after tax, in other comprehensive income and loss items related to changes in fair value on the interest rate swap.

Other Debt of Operating Subsidiaries

In connection with the acquisition of Atlantic Specialty Insurance Company on March 31, 2004, OneBeacon issued a $20.0 million ten-year note to the seller (the Atlantic Specialty Note). OneBeacon was required to repay $2.0 million of principal on the Atlantic Specialty Note each year, commencing in January 2007. The Atlantic Specialty Note accrued interest at a rate of 5.2% except that the outstanding principal amount in excess of $15.0 million accrued interest at a rate of 3.6%. During the three months ended March 31, 2009, OneBeacon repaid $2.0 million on the Atlantic Specialty Note. During the three months ended March 31, 2010, OneBeacon repaid $14.0 million on the Atlantic Specialty Note, representing the outstanding principal on the note.

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NOTE 7. Segment Information

OneBeacon s segments consist of the following: (1) Insurance Operations; and (2) Other Operations. OneBeacon has made its segment determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company s subsidiaries and affiliates; (ii) the manner in which the Company s subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the chief operating decision makers and the Board of Directors (the Board). Significant intercompany transactions among OneBeacon s segments have been eliminated herein. Financial information for OneBeacon s segments follows:

	Insurance Operations	Other Operations ($ in millions)	Total
Three months ended June 30, 2010			
Earned premiums	$ 428.3	$	$ 428.3
Net investment income (expense)	25.6	(0.6)	25.0
Net realized and unrealized investment losses	(13.8)	(0.6)	(14.4)
Net other revenues (expenses)	8.4	(10.7)	(2.3)
Total revenues	448.5	(11.9)	436.6
Loss and LAE	261.9		261.9
Policy acquisition expenses	95.2		95.2
Other underwriting expenses	58.5		58.5
General and administrative expenses	4.7	2.1	6.8
Interest expense on debt		7.9	7.9
Total expenses	420.3	10.0	430.3
Pre-tax income (loss)	$ 28.2	$ (21.9)	$ 6.3
Three months ended June 30, 2009			
Earned premiums	$ 490.2	$	$ 490.2
Net investment income (expense)	36.3	(0.2)	36.1
Net realized and unrealized investment gains	127.3	0.1	127.4
Net other (expenses) revenues	(0.3)	1.4	1.1
Total revenues	653.5	1.3	654.8
Loss and LAE	275.7		275.7
Policy acquisition expenses	97.0		97.0
Other underwriting expenses	84.3		84.3
General and administrative expenses	4.6	1.9	6.5
Accretion of fair value adjustment to loss and LAE reserves		1.3	1.3
Interest expense on debt	0.4	9.7	10.1
Total expenses	462.0	12.9	474.9
Pre-tax income (loss)	$ 191.5	$ (11.6)	$ 179.9

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	Insurance Operations		Other Operations ($ in millions)		Total	
Six months ended June 30, 2010						
Earned premiums	$	881.5	$		$	881.5
Net investment income (expense)		54.6		(1.3)		53.3
Net realized and unrealized investment gains (losses)		29.6		(1.6)		28.0
Net other revenues (expenses)		15.8		(11.6)		4.2
Total revenues		981.5		(14.5)		967.0
Loss and LAE		595.6				595.6
Policy acquisition expenses		196.6				196.6
Other underwriting expenses		132.7				132.7
General and administrative expenses		9.4		5.1		14.5
Interest expense on debt		0.1		16.9		17.0
Total expenses		934.4		22.0		956.4
Pre-tax income (loss)	$	47.1	$	(36.5)	$	10.6
Six months ended June 30, 2009						
Earned premiums	$	978.0	$		$	978.0
Net investment income		57.9		0.1		58.0
Net realized and unrealized investment gains		121.4		0.1		121.5
Net other revenues		7.0		3.5		10.5
Total revenues		1,164.3		3.7		1,168.0
Loss and LAE		563.7				563.7
Policy acquisition expenses		192.9				192.9
Other underwriting expenses		157.0				157.0
General and administrative expenses		8.6		3.4		12.0
Accretion of fair value adjustment to loss and LAE reserves				2.7		2.7
Interest expense on debt		1.2		19.8		21.0
Total expenses		923.4		25.9		949.3
Pre-tax income (loss)	$	240.9	$	(22.2)	$	218.7

OneBeacon currently manages its Insurance Operations segment through a specialty lines underwriting unit and a personal lines underwriting unit, nearly all of which is subject to the Personal Lines Transaction, as described in Note 2. The Insurance Operations segment also includes run-o