OneBeacon Insurance Group, Ltd.
Form 10-Q
November 05, 2007

# 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 September 30, 2007**

**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** | **98-0503315** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **601 Carlson Parkway**<br>**Minnetonka, Minnesota** | **55305** |
| (Address of principal executive offices) | (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 (or for such shorter period that the Registrant was required to file such reports), 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated Filer o Non-accelerated filer x

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 November 1, 2007, 27,812,189 Class A common shares, par value of $0.01 per share, and 71,754,738 Class B common shares, par value $0.01 per share, were outstanding.

**ONEBEACON INSURANCE GROUP, LTD.**

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**PART 1. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**ONEBEACON INSURANCE GROUP, LTD.**

**CONSOLIDATED BALANCE SHEETS**

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| | (Unaudited) ($ in millions, except share and per share amounts) | |
| **Assets** | | |
| Available-for-sale investments: | | |
| Fixed maturity investments, at fair value (amortized cost $3,393.5 and $3,501.5) | $3,433.3 | $3,539.7 |
| Common equity securities, at fair value (cost $638.8 and $568.9) | 796.2 | 737.1 |
| Short-term investments, at amortized cost (which approximates fair value) | 424.5 | 319.0 |
| Held-to-maturity investments (assets held in trust): | | |
| Fixed maturity investments, at amortized cost (estimated market value $309.5 and $304.0) | 308.6 | 305.0 |
| Short-term investments, at amortized cost (which approximates fair value) | 0.1 | 33.8 |
| Other investments (cost $265.1 and $229.5) | 322.7 | 278.1 |
| Total investments | 5,285.4 | 5,212.7 |
| Cash | 59.1 | 41.5 |
| Reinsurance recoverable on unpaid losses | 995.5 | 1,032.6 |
| Reinsurance recoverable on unpaid losses Berkshire Hathaway, Inc. | 1,704.1 | 1,810.0 |
| Reinsurance recoverable on paid losses | 20.6 | 32.4 |
| Premiums receivable | 574.3 | 517.1 |
| Securities lending collateral | 534.7 | 528.8 |
| Deferred acquisition costs | 207.8 | 183.8 |
| Deferred tax asset | 21.8 | 61.2 |
| Investment income accrued | 33.4 | 34.8 |
| Ceded unearned premiums | 69.1 | 38.2 |
| Accounts receivable on unsettled investment sales | 15.7 | 6.7 |
| Other assets | 282.3 | 369.6 |
| Total assets | $9,803.8 | $9,869.4 |
| **Liabilities** | | |
| Loss and LAE reserves | $4,594.8 | $4,837.7 |
| Unearned premiums | 1,046.0 | 985.2 |
| Debt | 757.7 | 759.5 |
| Securities lending payable | 534.7 | 528.8 |
| Preferred stock subject to mandatory redemption: | | |
| Held by Berkshire Hathaway, Inc. (redemption value $300.0) | 268.5 | 242.3 |
| Held by others (redemption value $ and $20.0) | | 20.0 |
| Ceded reinsurance payable | 97.3 | 71.9 |
| Accounts payable on unsettled investment purchases | 29.0 | 11.5 |
| Other liabilities | 564.9 | 635.3 |
| Total liabilities | 7,892.9 | 8,092.2 |
| **Common shareholders equity** | | |
| Common shares and paid-in surplus (par value $0.01; authorized, 200,000,000 shares; issued and outstanding, 99,747,931 and 100,013,292 shares) | 1,111.4 | 1,115.9 |
| Retained earnings | 616.2 | 474.4 |
| Accumulated other comprehensive income, after-tax: | | |
| Net unrealized gains on investments | 168.3 | 173.1 |
| Net unrealized foreign currency translation gains | 14.3 | 11.8 |
| Other comprehensive income items | 0.7 | 2.0 |
| Total common shareholders equity | 1,910.9 | 1,777.2 |
| Total liabilities and common shareholders equity | $9,803.8 | $9,869.4 |

See Notes to Consolidated Financial Statements including Note 12 Commitments and Contingencies

**ONEBEACON INSURANCE GROUP, LTD.**

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

**(Unaudited)**

| | Three months ended September 30, 2007 | Three months ended September 30, 2006 | Nine months ended September 30, 2007 | Nine months ended September 30, 2006 |
|---|---|---|---|---|
| | ($ in millions, except per share amounts) | | | |
| **Revenues** | | | | |
| Earned premiums | $ 473.6 | $ 551.3 | $ 1,407.5 | $ 1,590.0 |
| Net investment income | 51.5 | 49.2 | 156.7 | 148.4 |
| Net realized investment gains | 30.7 | 35.4 | 142.7 | 105.0 |
| Net other revenues | 10.8 | 36.6 | 16.3 | 48.4 |
| Total revenues | 566.6 | 672.5 | 1,723.2 | 1,891.8 |
| **Expenses** | | | | |
| Loss and LAE | 255.8 | 318.5 | 827.1 | 994.6 |
| Policy acquisition expenses | 74.9 | 124.5 | 231.5 | 297.4 |
| Other underwriting expenses | 66.4 | 84.0 | 246.9 | 253.9 |
| General and administrative expenses | 2.4 | 5.1 | 7.5 | 11.6 |
| Accretion of fair value adjustment to loss and LAE reserves | 4.0 | 5.8 | 12.0 | 17.3 |
| Interest expense on debt | 11.4 | 12.0 | 34.1 | 34.8 |
| Interest expense dividends on preferred stock subject to mandatory redemption | 7.1 | 7.6 | 22.2 | 22.7 |
| Interest expense accretion on preferred stock subject to mandatory redemption | 9.2 | 7.2 | 26.2 | 20.5 |
| Total expenses | 431.2 | 564.7 | 1,407.5 | 1,652.8 |
| **Pre-tax income** | 135.4 | 107.8 | 315.7 | 239.0 |
| Income tax provision | (53.1) | (34.1) | (110.6) | (54.5) |
| **Income from continuing operations before equity in earnings of unconsolidated affiliate** | 82.3 | 73.7 | 205.1 | 184.5 |
| Equity in earnings of unconsolidated affiliate | | (1.6) | | 8.6 |
| **Net income from continuing operations** | 82.3 | 72.1 | 205.1 | 193.1 |
| Income from discontinued operations | | 0.8 | | 1.2 |
| **Net income** | 82.3 | 72.9 | 205.1 | 194.3 |
| Change in net unrealized gains and losses for investments held | 19.5 | 38.4 | 85.2 | 43.5 |
| Recognition of net unrealized gains and losses for investments sold | (19.1) | (19.5) | (90.0) | (56.7) |
| Change in foreign currency translation | (4.1) | 3.8 | 2.5 | 6.4 |
| Change in other comprehensive income items | (2.6) | (1.3) | (1.3) | 0.6 |
| **Comprehensive net income** | $ 76.0 | $ 94.3 | $ 201.5 | $ 188.1 |
| **Basic and diluted earnings per share** | | | | |
| Basic: | | | | |
| Income from continuing operations | $ 0.82 | $ 0.72 | $ 2.05 | $ 1.93 |
| Income from discontinued operations | | 0.01 | | 0.01 |
| Net income available to common shareholders | $ 0.82 | $ 0.73 | $ 2.05 | $ 1.94 |
| Diluted: | | | | |
| Income from continuing operations | $ 0.82 | $ 0.72 | $ 2.05 | $ 1.93 |
| Income from discontinued operations | | 0.01 | | 0.01 |
| Net income available to common shareholders | $ 0.82 | $ 0.73 | $ 2.05 | $ 1.94 |
| | | | | |
| **Dividends declared and paid per common share** | $ 0.21 | $ | $ 0.63 | $ |

See Notes to Consolidated Financial Statements

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**ONEBEACON INSURANCE GROUP, LTD.**

**CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS EQUITY**

**(Unaudited)**

| | Common shareholders equity | Common shares and paid-in surplus | Retained earnings | Accum. other comprehensive income, after-tax |
|---|---|---|---|---|
| | | ($ in millions) | | |
| Balances at January 1, 2007 | $ 1,777.2 | $ 1,115.9 | $ 474.4 | $ 186.9 |
| Adjustment to adopt FIN 48 | (0.3) | | (0.3) | |
| Net income | 205.1 | | 205.1 | |
| Accrued option expense | 1.0 | 1.0 | | |
| Issuance of common shares | 0.3 | 0.3 | | |
| Repurchases and retirements of Class A common shares | (5.8) | (5.8) | | |
| Dividends | (63.0) | | (63.0) | |
| Other comprehensive loss, after-tax | (3.6) | | | (3.6) |
| Balances at September 30, 2007 | $ 1,910.9 | $ 1,111.4 | $ 616.2 | $ 183.3 |

| | Common shareholders equity | Common shares and paid-in surplus | Retained earnings | Accum. other comprehensive income, after-tax |
|---|---|---|---|---|
| | | ($ in millions) | | |
| Balances at January 1, 2006 | $ 1,560.0 | $ 1,169.8 | $ 232.6 | $ 157.6 |
| Adjustment to adopt SFAS No. 155, after-tax | | | 7.1 | (7.1) |
| Net income | 194.3 | | 194.3 | |
| Capital contributions received from White Mountains Insurance Group, Ltd. | 6.0 | 6.0 | | |
| Distribution to White Mountains Insurance Group, Ltd. | (58.8) | (58.8) | | |
| Other comprehensive loss, after-tax | (6.2) | | | (6.2) |
| Balances at September 30, 2006 | $ 1,695.3 | $ 1,117.0 | $ 434.0 | $ 144.3 |

See Notes to Consolidated Financial Statements

**ONEBEACON INSURANCE GROUP, LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Nine months ended September 30, 2007 | 2006 |
|---|---|---|
| | ($ in millions) | |
| Cash flows from operations: | | |
| Net income | $ 205.1 | $ 194.3 |
| Charges (credits) to reconcile net income to cash flows used for operations: | | |
| Income from discontinued operations | | (1.2) |
| Net realized investment gain | (142.7) | (105.0) |
| Net realized gains from sale of common stock of subsidiary | (11.3) | |
| Dividends paid on mandatorily redeemable preferred stock of subsidiaries | 22.2 | 22.7 |
| Other operating items: | | |
| Net change in loss and LAE reserves | (242.9) | (412.4) |
| Net change in unearned premiums | 60.8 | 117.2 |
| Net change in ceded reinsurance payable | 25.4 | 10.1 |
| Net change in premiums receivable | (57.2) | (72.9) |
| Net change in reinsurance recoverable on paid and unpaid losses | 154.8 | 212.1 |
| Net change in other assets and liabilities | 26.3 | (18.9) |
| Net cash provided from (used for) operating activities of continuing operations | 40.5 | (54.0) |
| Net cash used for operating activities of discontinued operations | | (22.0) |
| Net cash provided from (used for) operations | 40.5 | (76.0) |
| Cash flows from investing activities: | | |
| Net maturities, purchases and sales of short-term investments available-for-sale | (120.3) | (290.2) |
| Maturities of held-to-maturity investments | 33.8 | |
| Sales of fixed maturity investments | 1,139.6 | 1,096.0 |
| Maturities of fixed maturity investments | 543.3 | 398.6 |
| Sales of common equity securities | 221.6 | 316.7 |
| Sales of other investments | 36.4 | 9.4 |
| Purchases of fixed maturity investments available-for-sale | (1,562.1) | (1,026.5) |
| Purchases of common equity securities | (205.3) | (335.3) |
| Purchases of other investments | (40.9) | (58.2) |
| Sale of common stock of subsidiary, net of sales costs | 47.2 | |
| Sales of consolidated affiliates | | 11.1 |
| Sale of renewal rights | | 32.0 |
| Net change in unsettled investment purchases and sales | 8.4 | 8.0 |
| Net acquisitions of property and equipment | (11.6) | (7.8) |
| Net cash provided from investing activities of continuing operations | 90.1 | 153.8 |
| Net cash provided from investing activities of discontinued operations | | 19.8 |
| Net cash provided from investing activities | 90.1 | 173.6 |
| Cash flows from financing activities: | | |
| Issuance of debt | | 15.0 |
| Repayment of debt | (2.0) | |
| Repayment of loan by affiliate | | 106.6 |
| Loans to affiliates | | (102.6) |
| Repurchases and retirements of Class A common shares | (5.8) | |
| Distribution to White Mountains Insurance Group, Ltd. | | (58.8) |
| Cash dividends paid to common shareholders | (63.0) | |
| Redemption of mandatorily redeemable preferred stock of subsidiary | (20.0) | |
| Dividends paid on mandatorily redeemable preferred stock of subsidiaries | (22.2) | (22.7) |
| Net cash used for financing activities of continuing operations | (113.0) | (62.5) |

| | | | | |
|---|---|---|---|---|
| Net increase in cash during period | | 17.6 | | 35.1 |
| Cash balance at beginning of period | | 41.5 | | 44.1 |
| Cash balance at end of period | $ | 59.1 | $ | 79.2 |
| Supplemental cash flows information: | | | | |
| Interest paid | $ | 22.9 | $ | 23.2 |
| Net Federal income taxes paid (received) | | 76.6 | | (18.1) |

See Notes to Consolidated Financial Statements

**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 OneBeacon operating companies are U.S.-based property and casualty insurance writers, substantially all of which operate in a multi-company pool. OneBeacon offers a wide range of specialty, commercial and personal products and services sold primarily through select independent agencies and brokers.

OneBeacon was acquired by White Mountains 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. During the fourth quarter of 2006, White Mountains sold 27.6 million or 27.6% of the Company s common shares in an initial public offering. Prior to the initial public offering, OneBeacon was a wholly-owned subsidiary of White Mountains. 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 the Bank of Butterfield Building, 42 Reid Street, 6th Floor, Hamilton HM 12, Bermuda. The Company s U.S. headquarters are located at 1 Beacon Lane, Canton, Massachusetts 02021, its principal executive office is located at 601 Carlson Parkway, Minnetonka, Minnesota 55305 and its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. OneBeacon s reportable segments are Primary Insurance Operations, Affiliate Quota Shares, and Other Operations, as defined below.

OneBeacon s Primary Insurance Operations segment includes the results of substantially all of its insurance operations, with the exception of certain quota share arrangements with affiliates of White Mountains as described below.

During 2004 and 2005, OneBeacon entered into two quota share reinsurance arrangements with other subsidiaries of White Mountains. Under the Sirius Quota Share, OneBeacon ceded between 6% and 12% of business written, effective April 1, 2004, to Sirius International Insurance Corporation. Under the Esurance Quota Share, which was effective on January 1, 2005, OneBeacon assumed approximately 85% of business written by Esurance Insurance Company, which includes business written by its wholly-owned subsidiary, Esurance Property and Casualty Insurance Company. These quota share agreements were commuted during the fourth quarter of 2006 in connection with the Company s initial public offering.

OneBeacon s Other Operations segment consists of the Company and its intermediate holding companies.

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 2006 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 2006 Annual Report on Form 10-K for a complete discussion regarding OneBeacon s significant accounting policies.

As part of a reorganization immediately preceding the initial public offering, OneBeacon sold certain consolidated subsidiaries to White Mountains on August 3, 2006 at GAAP book value. These subsidiaries have been classified as discontinued operations. Accordingly, the results of operations for these subsidiaries are presented net of tax, as income from discontinued operations in the consolidated statements of income and comprehensive income. Cash flows associated with the operating and investing activities of discontinued operations are aggregated and presented under separate captions in the consolidated statements of cash flows. There were no cash flows associated with financing activities for the discontinued operations.

***Recently Adopted Changes in Accounting Principles***

*Federal, State and Foreign Income Taxes*

While OneBeacon is subject to taxation in several jurisdictions, the majority of OneBeacon s subsidiaries file a consolidated tax return in the United States. Income earned or losses generated by companies outside the United States are generally subject to an overall effective tax rate lower than that imposed by the United States.

On January 1, 2007 ( Date of Adoption ) OneBeacon adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainy in Income Taxes ( FIN 48 ). FIN 48 prescribes when the benefit of a given tax position should be recognized and how it should be measured. Under the new guidance, recognition is based upon whether or not a company determines that it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. In evaluating the more-likely-than-not recognition threshold, OneBeacon must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement.

FIN 48 also addresses how interest and penalties should be accrued for uncertain tax positions, requiring that interest expense should be recognized in the first period interest would be accrued under the tax law. OneBeacon classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. At the Date of Adoption, OneBeacon had accrued interest and penalties of $3.3 million, net of federal benefit. In connection with the adoption of FIN 48, OneBeacon has recognized a $0.3 million increase in the liability for unrecognized tax benefits, primarily as a result of increases in its estimates of accrued interest. The effect of adoption has been recorded as an adjustment to opening retained earnings.

At the Date of Adoption, OneBeacon had $56.0 million of unrecognized tax benefits. If recognized, $51.8 million would be recorded as a reduction to income tax expense. The remaining $4.2 million of unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but the timing of deductibility is uncertain. Recognition of these tax benefits, other than any applicable interest and penalties, would not affect the effective tax rate. There have been no material changes to the above balances since the Date of Adoption.

With few exceptions, OneBeacon is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2003. The Internal Revenue Service (IRS) commenced an examination of OneBeacon s U.S. income tax returns for 2003 through 2004 in the second quarter of 2006 that is anticipated to be completed by the end of 2008. As of September 30, 2007 the IRS has not proposed any significant adjustments to taxable income. OneBeacon does not expect to receive any adjustments that would result in a material change to its financial position.

OneBeacon does not anticipate any significant changes to its total unrecognized tax benefits within the next twelve months.

***Recent Accounting Pronouncements***

*Fair Value Measurements*

In September 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements ( SFAS 157 ). The Statement provides a revised definition of fair value and guidance on the methods used to measure fair value. The Statement also expands financial statement disclosure requirements for fair value information. The Statement establishes a fair value hierarchy that distinguishes between assumptions 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 SFAS 157 prioritizes inputs within three levels. Quoted prices in active markets have the highest priority (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs having the lowest priority (Level 3). The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. OneBeacon has not yet determined the effect of adoption on its financial condition, results of operations or cash flows.

*Fair Value Option*

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ). The Statement allows companies to make an election, on an individual instrument basis, to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. Unrealized gains and losses on assets or liabilities for which the fair value option has been elected are to be reported in earnings. The Statement requires additional disclosures for instruments for which the election has been made, including a description of management s reasons for making the election. The Statement is effective as of fiscal years beginning after November 15, 2007 and is to be adopted prospectively and concurrent with the adoption of SFAS 157. OneBeacon has not yet determined the effect of adoption on its financial condition, results of operations or cash flows.

**NOTE 2. Discontinued Operations**

In 2006 OneBeacon sold certain consolidated subsidiaries at GAAP book value to White Mountains. These subsidiaries are included in discontinued operations and comprise the following entities:

White Mountains Advisors LLC an investment management subsidiary;

White Mountains Management Company, Inc. and White Mountains Capital, Inc. both service companies;

White Mountains Services Holdings and White Mountains Services, LLC these companies contain the remainder of mortgage banking run-off assets from the sale of substantially all the mortgage banking assets of White Mountains Services Corporation (formerly Source One Mortgage Services Corporation) to Citibank Mortgage, Inc. in 1999;

Tuckerman Capital, L.P. and Tuckerman Capital II, L.P. both private equity fund investments;

International American Group primarily consists of American Centennial Insurance Company and British Insurance Company of Cayman, two run-off insurance companies.

OneBeacon s income from continuing operations excludes the results of operations for the above entities for all periods presented. Income from discontinued operations has been presented separately and is shown net of related income taxes.

**NOTE 3. Acquisitions and Dispositions**

During the third quarter of 2007, we sold one of our inactive licensed subsidiaries, American Employers Insurance Company ( AEIC ) to Sparta Insurance Company ( Sparta ) for $47.7 million in cash and recorded a pre-tax gain of $11.3 million through net other revenues, which included a deposit of $0.5 million received in the first quarter of 2007.

During the third quarter of 2006, we sold one of our inactive licensed subsidiaries, Homeland Central Insurance Company ( HCIC ), to a subsidiary of White Mountains. In connection with the sale of HCIC, OneBeacon recorded a $6.0 million gain as additional paid in capital.

On September 29, 2006, OneBeacon sold certain assets and the right to renew existing policies of Agri, a division of OneBeacon that provided commercial farm and ranch and commercial agricultural insurance products, for $32.0 million in cash to QBE Insurance Group, Ltd. ( QBE ) and recorded a pre-tax gain of $30.4 million through net other revenues. In connection with this sale, OneBeacon entered into agreements under which, at the option of QBE, it will write the policies of Agri on a direct basis and cede 100% of this business to QBE.

On October 31, 2006, OneBeacon restructured its investment in Main Street America Holdings, Inc. ( MSA ). OneBeacon received a $70 million cash dividend from MSA following which OneBeacon sold its 50% common stock investment in MSA to Main Street America Group, Inc. ( the MSA Group ) for (i) $70.0 million in 9.0% non-voting cumulative perpetual preferred stock of the MSA Group and (ii) 4.9% of the common stock of the MSA Group. Effective October 31, 2006, OneBeacon accounts for its remaining investment in the MSA Group in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Refer to the Company s 2006 Annual Report on Form 10-K. Prior to the sale, OneBeacon owned 50% of the total common shares outstanding of MSA and accounted for this investment using the equity method of accounting. These transactions resulted in a net after-tax realized gain of $8.5 million.

**NOTE 4. 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 nine months ended September 30, 2007 and 2006:

| | Three months ended September30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | (in millions) | | | |
| Gross beginning balance | $ 4,696.6 | $ 5,041.8 | $ 4,837.7 | $ 5,354.3 |
| Less beginning reinsurance recoverable on unpaid losses | (2,765.5) | (2,967.5) | (2,842.6) | (3,120.9) |
| Net loss and LAE reserves | 1,931.1 | 2,074.3 | 1,995.1 | 2,233.4 |
| Loss and LAE incurred relating to: | | | | |
| Current year losses | 272.3 | 316.7 | 868.3 | 980.7 |
| Prior year losses | (16.5) | 1.8 | (41.2) | 13.9 |
| Total incurred loss and LAE | 255.8 | 318.5 | 827.1 | 994.6 |
| Accretion of fair value adjustment to net loss and LAE reserves | 4.0 | 5.8 | 12.0 | 17.3 |
| Loss and LAE paid relating to: | | | | |
| Current year losses | (172.6) | (181.3) | (373.2) | (470.2) |
| Prior year losses | (123.1) | (202.2) | (565.8) | (760.0) |
| Total loss and LAE payments | (295.7) | (383.5) | (939.0) | (1,230.2) |
| Net ending balance | 1,895.2 | 2,015.1 | 1,895.2 | 2,015.1 |
| Plus ending reinsurance recoverable on unpaid losses | 2,699.6 | 2,926.8 | 2,699.6 | 2,926.8 |
| Gross ending balance | $ 4,594.8 | $ 4,941.9 | $ 4,594.8 | $ 4,941.9 |

During the three months ended September 30, 2007, OneBeacon experienced $16.5 million of favorable development on prior accident year loss reserves due to lower than expected severity on non-catastrophe losses. The favorable development was primarily related to automobile liability in traditional personal lines and at AutoOne, general liability in commercial lines and professional liability and tuition reimbursement in specialty lines. During the three months ended September 30, 2006, OneBeacon experienced $1.8 million of adverse development on prior accident year loss reserves primarily related to 2004 catastrophe losses in commercial lines, partially offset by favorable development in other lines.

During the nine months ended September 30, 2007, OneBeacon experienced $41.2 million of favorable development on prior accident year loss reserves due to lower than expected severity on non-catastrophe losses. The favorable development was primarily related to professional liability and tuition reimbursement in specialty lines, property and general liability in commercial lines and automobile liability in traditional personal lines and at AutoOne. During the nine months ended September 30, 2006, OneBeacon experienced $13.9 million of adverse development on prior accident year loss reserves primarily related to hurricane Katrina in commercial lines, partially offset by favorable development in specialty lines.

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 is being recognized through an income statement charge ratably with and over the period the claims are settled. Accordingly, OneBeacon recognized $4.0 million and $12.0 million of such charges for the three and nine months ended September 30, 2007, respectively, $5.8 million and $17.3 million of such charges for the three and nine months ended September 30, 2006, respectively.

**NOTE 5. 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, 2007, OneBeacon renewed its property catastrophe reinsurance program through June 30, 2008. The program provides coverage for OneBeacon property business including automobile physical damage, as well as terrorism coverage for non-TRIA events (excluding nuclear, biological, chemical and radiological). Under the program, the first $150 million of losses resulting from a single catastrophe are retained by OneBeacon and $650 million of the next $700 million of losses resulting from the catastrophe are reinsured. Any loss above $850 million would be retained by OneBeacon. 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.

At September 30, 2007, OneBeacon had $20.6 million of reinsurance recoverables on paid losses and $2,924.7 million (gross of $225.1 million in purchase accounting adjustments, as described in Note 4) that will become recoverable if claims are paid in accordance with current reserve estimates. The collectibility of balances due from OneBeacon s reinsurers is critical to OneBeacon s financial strength because reinsurance contracts do not relieve OneBeacon of its primary obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength 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 based upon recoverable amounts, the percentage of total reinsurance recoverables and the reinsurers A.M. Best ratings.

| **($ in millions)** | | **Balance at September 30, 2007** | **% of total** | **A.M. Best Rating(1)** |
|---|---|---|---|---|
| National Indemnity Company and General Reinsurance Corporation (2) | $ | 2,107.3 | 78% | A++ |
| Tokio Marine and Nichido Fire | | 59.0 | 2% | A++ |
| Munich Reinsurance America (formerly America Reinsurance Company) | | 49.8 | 2% | A |
| Liberty Mutual and subsidiaries (3) | | 32.0 | 1% | A |
| Swiss Re | | 21.2 | 1% | A+ |

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

(2) Includes $404.0 million of Third Party Recoverables, which NICO would pay under the terms of the NICO Cover if they are unable to collect from third party reinsurers. OneBeacon also has an additional $339.7 million of Third Party Recoverables from various reinsurers, the majority of which are rated A or better by A.M. Best.

(3) At September 30, 2007, OneBeacon had assumed balances payable and expenses payable of approximately $24.0 million under its renewal rights agreement with Liberty Mutual, which expired on October 31, 2003.

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 development cover from General Reinsurance Corporation ( GRC ) for up to $570.0 million, comprised of $400.0 million of adverse development on losses 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 as a seller guarantee under GAAP in accordance with Emerging Issues Task Force Technical Matter Document No. D-54 ( EITF Topic D-54 ). 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, net of Third Party Recoverables, as of September 30, 2007 it has used approximately $2.1 billion of the coverage provided by NICO. Approximately $953 million of these incurred losses have been paid by NICO through September 30, 2007. Since entering into the NICO Cover, $39.8 million of the $2.1 billion of utilized coverage from NICO related to uncollectible Third Party Recoverables. To the extent that actual experience differs from OneBeacon s estimate of ultimate A&E losses and Third Party Recoverables, future losses could utilize some or all of the protection remaining under the NICO Cover.

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 only seek reimbursement from GRC 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 small.

**NOTE 6. Investment Securities**

OneBeacon s invested assets are comprised of securities and other investments held for general investment purposes and assets held in two irrevocable grantor trust accounts. Refer to the Company s 2006 Annual Report on Form 10-K for a complete discussion regarding the trust accounts. OneBeacon s fixed maturity investments and common equity securities, excluding convertible bonds, held for general investment purposes, are classified as available for sale and are reported at fair value as of the balance sheet date as determined by quoted market prices. Net unrealized investment gains and losses on available for sale securities are reported net, after-tax, as a separate component of shareholders equity. Changes in net unrealized investment gains and losses, after-tax, are reported as a component of other comprehensive income.

OneBeacon has elected the fair value option for its investment in convertible bonds. Convertible bonds are carried at fair value as fixed maturity investments with changes therein recorded in income as realized investment gains.

Asset-backed securities are included in fixed maturity investments and consist primarily of pooled collateralized mortgage obligations. Fair values for asset-backed securities are based on quoted market prices from a third party pricing service. Income on asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life.

The fixed maturity investments held in the trust accounts are classified as held to maturity as OneBeacon has the ability and intent to hold the investments until maturity. Securities classified as held to maturity are recorded at amortized cost.

Investment securities are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, the financial health of and specific prospects for the issuer and the ability and intent to hold the investment to recovery. Investment losses that are other than temporary are recognized in earnings. Realized gains and losses resulting from sales of investment securities are accounted for using the weighted average method. Premiums and discounts on all fixed maturity investments are accreted to income over the anticipated life of the investment.

Short-term investments consist of money market funds, certificates of deposit and other securities which mature or become available for use within one year. Certain of the investments purchased to fund the trusts mature within one year and are therefore reflected as short-term investments. Short-term investments are carried at amortized cost, which approximated fair value as of September 30, 2007 and December 31, 2006.

Other investments include limited partnerships, hedge funds and private equity interests. Changes in OneBeacon s interest in other investments accounted for using the equity method are included in realized investment gains or losses. Changes in OneBeacon s interest in other investments not accounted for under the equity method are reported, net of tax, as a component of common shareholders equity with changes therein reported, after-tax, as a component of other comprehensive income.

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 nine months ended September 30, 2007 and 2006 consisted of the following:

| | Three months ended September 30, 2007 | Three months ended September 30, 2006 | Nine months ended September 30, 2007 | Nine months ended September 30, 2006 |
|---|---|---|---|---|
| | ($ in millions) | | | |
| **Investment income:** | | | | |
| Fixed maturity investments | $ 46.6 | $ 43.0 | $ 144.2 | $ 128.4 |
| Short-term investments | 4.8 | 3.0 | 12.9 | 8.0 |
| Common equity securities | 3.5 | 5.0 | 10.3 | 17.5 |
| Other investments | 0.8 | 3.4 | 2.0 | 6.8 |
| Total investment income | 55.7 | 54.4 | 169.4 | 160.7 |
| Less investment expenses | (4.2) | (5.2) | (12.7) | (12.3) |
| Net investment income, pre-tax | $ 51.5 | $ 49.2 | $ 156.7 | $ 148.4 |

The composition of net realized investment gains consisted of the following:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | ($ in millions) | | | |
| Fixed maturity investments | $ 12.0 | $ 23.1 | $ 25.2 | $ 39.9 |
| Common equity securities | 7.5 | 19.7 | 86.4 | 58.4 |
| Other investments | 11.2 | (7.4) | 31.1 | 6.7 |
| Net realized investment gains, pre-tax | $ 30.7 | $ 35.4 | $ 142.7 | $ 105.0 |

The components of OneBeacon s ending net unrealized investment gains and losses on its investment portfolio were as follows:

| | Nine months ended September 30, 2007 | Year ended December 31, 2006 |
|---|---|---|
| | ($ in millions) | |
| **Investment securities:(1)** | | |
| Gross unrealized investment gains | $ 256.2 | $ 255.3 |
| Gross unrealized investment losses | (23.6) | (18.8) |
| Net unrealized gains from investment securities | 232.6 | 236.5 |
| Income taxes attributable to such gains | (81.0) | (82.1) |
| Total net unrealized investment gains, after-tax | $ 151.6 | $ 154.4 |

(1) Does not include deferred gains and losses on sales of investments between OneBeacon and entities under White Mountains common control of $16.7 million and $18.7 million, after-tax, as of September 30, 2007 and December 31, 2006, respectively.

In connection with the initial public offering, two irrevocable grantor trusts were established to economically defease the Company s mandatorily redeemable preferred stock. The assets of each trust are solely dedicated to payments of dividends and redemption amounts on the mandatorily redeemable preferred stock. The assets held in the trusts include fixed maturity and short-term investments which are classified and accounted for as held-to-maturity. During the second quarter of 2007, trust assets were utilized to redeem the $20.0 million Zenith Insurance Company ( Zenith ) Preferred Stock ( Zenith Preferred Stock ). Refer to the Company s 2006 Annual Report on Form 10-K for a complete discussion of the economic defeasance of the Company s mandatorily redeemable preferred stock. The carrying value, gross unrealized investment gains and losses, and estimated market values of OneBeacon s fixed maturity held-to-maturity investments, carried at amortized cost, as of September 30, 2007 and December 31, 2006 were as follows:

| | September 30, 2007 | | | | |
|---|---|---|---|---|---|
| | Carrying value | Gross unrealized gains | Gross unrealized losses | Net foreign currency gains | Estimated market value |
| | | | ($ in millions) | | |
| U.S. Government obligations | $ 308.6 | $ 0.9 | $ | $ | $ 309.5 |
| Total fixed maturity investments | $ 308.6 | $ 0.9 | $ | $ | $ 309.5 |

| | December 31, 2006 | | | | |
|---|---|---|---|---|---|
| | Carrying value | Gross unrealized gains | Gross unrealized losses | Net foreign currency gains | Estimated market value |
| | | | ($ in millions) | | |
| U.S. Government obligations | $ 305.0 | $ | $ (1.0) | $ | $ 304.0 |
| Total fixed maturity investments | $ 305.0 | $ | $ (1.0) | $ | $ 304.0 |

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of OneBeacon s fixed maturity available-for-sale investments as of September 30, 2007 and December 31, 2006, were as follows:

| | September 30, 2007 | | | | |
|---|---|---|---|---|---|
| | Cost or amortized cost | Gross unrealized gains | Gross unrealized losses | Net foreign currency gains | Carrying value |
| | ($ in millions) | | | | |
| U.S. Government obligations | $ 462.9 | $ 5.7 | $ (0.8) | $ | $ 467.8 |
| Debt securities issued by industrial corporations | 1,480.4 | 5.1 | (8.7) | 11.0 | 1,487.8 |
| Municipal obligations | 8.1 | 0.4 | | | 8.5 |
| Asset-backed securities | 1,199.8 | 12.1 | (2.3) | | 1,209.6 |
| Foreign government obligations | 143.2 | 0.6 | (0.2) | | 143.6 |
| Preferred stocks | 99.1 | 8.7 | (0.5) | 8.7 | 116.0 |
| Total fixed maturity investments | $ 3,393.5 | $ 32.6 | $ (12.5) | $ 19.7 | $ 3,433.3 |

| | December 31, 2006 | | | | |
|---|---|---|---|---|---|
| | Cost or amortized cost | Gross unrealized gains | Gross unrealized losses | Net foreign currency gains | Carrying value |
| | ($ in millions) | | | | |
| U.S. Government obligations | $ 806.7 | $ 1.8 | $ (4.2) | $ | $ 804.3 |
| Debt securities issued by industrial corporations | 1,429.6 | 8.2 | (8.4) | 10.7 | 1,440.1 |
| Municipal obligations | 8.2 | 0.4 | | | 8.6 |
| Asset-backed securities | 1,091.4 | 9.4 | (3.7) | | 1,097.1 |
| Foreign government obligations | 54.7 | | (0.6) | | 54.1 |
| Preferred stocks | 110.9 | 17.1 | (0.4) | 7.9 | 135.5 |
| Total fixed maturity investments | $ 3,501.5 | $ 36.9 | $ (17.3) | $ 18.6 | $ 3,539.7 |

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of OneBeacon s common equity securities and other investments as of September 30, 2007 and December 31, 2006, were as follows:

| | September 30, 2007 | | | | |
|---|---|---|---|---|---|
| | Cost or amortized cost | Gross unrealized gains | Gross unrealized losses | Net foreign currency gains | Carrying value |
| | ($ in millions) | | | | |
| Common equity securities | $ 638.8 | $ 165.1 | $ (10.2) | $ 2.5 | $ 796.2 |
| Other investments | $ 265.1 | $ 58.5 | $ (0.9) | $ | $ 322.7 |

| | December 31, 2006 | | | | |
|---|---|---|---|---|---|
| | Cost or amortized cost | Gross unrealized gains | Gross unrealized losses | Net foreign currency losses | Carrying value |
| | ($ in millions) | | | | |
| Common equity securities | $ 568.9 | $ 169.2 | $ (0.9) | $ (0.1) | $ 737.1 |
| Other investments | $ 229.5 | $ 49.2 | $ (0.6) | $ | $ 278.1 |

***Impairment***

Temporary losses on investment securities are recorded as unrealized losses. Temporary losses do not impact net income and earnings per share but serve to reduce comprehensive net income and common shareholders equity. Unrealized losses subsequently identified as other-than-temporary impairments are recorded as realized losses. Other-than-temporary impairments previously recorded as unrealized losses do not impact comprehensive net income and common shareholders equity and book value but serve to reduce net income and earnings per share.

OneBeacon s methodology of assessing other-than-temporary impairments is based on security-specific facts and circumstances as of the balance sheet date. As a result, subsequent adverse changes in an issuers credit quality or subsequent weakening of market conditions that differ from expectations could result in additional other-than-temporary impairments. In addition, the sale of a fixed maturity security with a previously recorded unrealized loss would result in a realized loss. Either of these situations would adversely impact net income and earnings per share but would not impact comprehensive net income and common shareholders equity or book value.

The following table presents an analysis of the continuous periods during which OneBeacon has held investment positions which were carried at an unrealized loss as of September 30, 2007 (excluding short-term investments):

| | | 0-6 Months | | 6-12 Months | | > 12 Months | | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | (in millions) | | | | |
| **Fixed maturity investments:** | | | | | | | | |
| Number of positions | | 55 | | 11 | | 89 | | 155 |
| Market value | $ | 491.8 | $ | 104.8 | $ | 443.1 | $ | 1,039.7 |
| Amortized cost | $ | 497.5 | $ | 106.2 | $ | 448.5 | $ | 1,052.2 |
| Unrealized loss | $ | (5.7) | $ | (1.4) | $ | (5.4) | $ | (12.5) |
| **Common equity securities:** | | | | | | | | |
| Number of positions | | 17 | | 3 | | | | 20 |
| Market value | $ | 113.1 | $ | 9.3 | $ | | $ | 122.4 |
| Amortized cost | $ | 122.7 | $ | 9.9 | $ | | $ | 132.6 |
| Unrealized loss | $ | (9.6) | $ | (0.6) | $ | | $ | (10.2) |
| **Other investments:** | | | | | | | | |
| Number of positions | | 2 | | 1 | | 2 | | 5 |
| Market value | $ | 8.6 | $ | 2.0 | $ | 14.5 | $ | 25.1 |
| Amortized cost | $ | 9.3 | $ | 2.1 | $ | 14.6 | $ | 26.0 |
| Unrealized loss | $ | (0.7) | $ | (0.1) | $ | (0.1) | $ | (0.9) |
| **Total:** | | | | | | | | |
| Number of positions | | 74 | | 15 | | 91 | | 180 |
| Market value | $ | 613.5 | $ | 116.1 | $ | 457.6 | $ | 1,187.2 |
| Amortized cost | $ | 629.5 | $ | 118.2 | $ | 463.1 | $ | 1,210.8 |
| Unrealized loss | $ | (16.0) | $ | (2.1) | $ | (5.5) | $ | (23.6) |
| **% of total gross unrealized losses** | | 68% | | 9% | | 23% | | 100% |

During the three and nine months ended September 30, 2007, OneBeacon recognized $3.4 million and $5.5 million, respectively, of pre-tax other-than-temporary impairment charges. OneBeacon believes that the gross unrealized losses relating to its fixed maturity investments at September 30, 2007 resulted primarily from increases in market interest rates from the dates that certain investments within that portfolio were acquired as opposed to fundamental changes in the credit quality of the issuers of such securities. OneBeacon views these decreases in value as being temporary because it has the intent and ability to retain such investments until recovery. However, should OneBeacon determine that it no longer has the intent and ability to hold a fixed maturity investment that has an existing unrealized loss resulting from an increase in market interest rates until it recovers, this loss would be realized through the income statement at the time such determination is made. OneBeacon also believes that the gross unrealized losses recorded on its common equity securities and its other investments at September 30, 2007 resulted primarily from decreases in quoted market values from the dates that certain investments securities within that portfolio were acquired as opposed to fundamental changes in the issuer s financial performance and near term financial prospects. Therefore, these decreases are also viewed as being temporary. However, due to the inherent risk involved in investing in the equity markets, it is possible that the decrease in market value of these investments may ultimately prove to be other than temporary. At September 30, 2007, OneBeacon s investment portfolio did not include any individual investment securities with an after-tax unrealized loss of more than $3.0 million for more than a six-month period.

**NOTE 7. Segment Information**

OneBeacon s segments consist of the following: (1) Primary Insurance Operations, (2) Affiliate Quota Shares and (3) 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 and (iii) the existence of primary managers responsible for specific subsidiaries and affiliates. Significant intercompany transactions among OneBeacon s segments have been eliminated herein. Financial information for OneBeacon s segments follows:

| | Primary Insurance Operations | Affiliate Quota Shares(1) | Other Operations | Total |
|---|---|---|---|---|
| | | ($ in millions) | | |
| **Three months ended September 30, 2007** | | | | |
| Earned premiums | $ 473.6 | $ | $ | $ 473.6 |
| Net investment income | 45.2 | | 6.3 | 51.5 |
| Net realized investment gains (losses) | 31.2 | | (0.5) | 30.7 |
| Net other revenues | 11.2 | | (0.4) | 10.8 |
| Total revenues | 561.2 | | 5.4 | 566.6 |
| Loss and LAE | 255.8 | | | 255.8 |
| Policy acquisition expenses | 74.9 | | | 74.9 |
| Other underwriting expenses | 66.4 | | | 66.4 |
| General and administrative expenses | 1.1 | | 1.3 | 2.4 |
| Accretion of fair value adjustment to loss and LAE reserves | | | 4.0 | 4.0 |
| Interest expense on debt | 0.8 | | 10.6 | 11.4 |
| Interest expense-on preferred stock subject to mandatory redemption | | | 16.3 | 16.3 |
| Total expenses | 399.0 | | 32.2 | 431.2 |
| Pre-tax income (loss) | $ 162.2 | $ | $ (26.8) | $ 135.4 |
| **Three months ended September 30, 2006** | | | | |
| Earned premiums | $ 492.7 | $ 58.6 | $ | $ 551.3 |
| Net investment income | 48.3 | | 0.9 | 49.2 |
| Net realized investment gains (losses) | 35.6 | | (0.2) | 35.4 |
| Net other revenues | 30.6 | | 6.0 | 36.6 |
| Total revenues | 607.2 | 58.6 | 6.7 | 672.5 |
| Loss and LAE | 291.9 | 26.6 | | 318.5 |
| Policy acquisition expenses | 89.0 | 35.5 | | 124.5 |
| Other underwriting expenses | 84.0 | | | 84.0 |
| General and administrative expenses | 0.6 | | 4.5 | 5.1 |
| Accretion of fair value adjustment to loss and LAE reserves | | | 5.8 | 5.8 |
| Interest expense on debt | 1.4 | | 10.6 | 12.0 |
| Interest expense-on preferred stock subject to mandatory redemption | | | 14.8 | 14.8 |
| Total expenses | 466.9 | 62.1 | 35.7 | 564.7 |
| Pre-tax income (loss) | $ 140.3 | $ (3.5) | $ (29.0) | $ 107.8 |

(1) The affiliate quota share agreements were commuted during the fourth quarter of 2006.

| | Primary Insurance Operations | Affiliate Quota Shares(1) | Other Operations | Total |
|---|---|---|---|---|
| | ($ in millions) | | | |
| **Nine months ended September 30, 2007** | | | | |
| Earned premiums | $ 1,407.5 | $ | $ | $ 1,407.5 |
| Net investment income | 139.6 | | 17.1 | 156.7 |
| Net realized investment gains (losses) | 143.0 | | (0.3) | 142.7 |
| Net other revenues | 17.8 | | (1.5) | 16.3 |
| Total revenues | 1,707.9 | | 15.3 | 1,723.2 |
| Loss and LAE | 827.1 | | | 827.1 |
| Policy acquisition expenses | 231.5 | | | 231.5 |
| Other underwriting expenses | 246.9 | | | 246.9 |
| General and administrative expenses | 2.3 | | 5.2 | 7.5 |
| Accretion of fair value adjustment to loss and LAE reserves | | | 12.0 | 12.0 |
| Interest expense on debt | 2.5 | | 31.6 | 34.1 |
| Interest expense-on preferred stock subject to mandatory redemption | | | 48.4 | 48.4 |
| Total expenses | 1,310.3 | | 97.2 | 1,407.5 |
| Pre-tax income (loss) | $ 397.6 | | $ (81.9) | $ 315.7 |
| **Nine months ended September 30, 2006** | | | | |
| Earned premiums | $ 1,458.1 | $ 131.9 | $ | $ 1,590.0 |
| Net investment income | 142.2 | | 6.2 | 148.4 |
| Net realized investment gains (losses) | 105.5 | | (0.5) | 105.0 |
| Net other revenues | 35.2 | | 13.2 | 48.4 |
| Total revenues | 1,741.0 | 131.9 | 18.9 | 1,891.8 |
| Loss and LAE | 891.3 | 103.3 | | 994.6 |
| Policy acquisition expenses | 249.8 | 47.6 | | 297.4 |
| Other underwriting expenses | 253.9 | | | 253.9 |
| General and administrative expenses | 2.2 | | 9.4 | 11.6 |
| Accretion of fair value adjustment to loss and LAE reserves | | | 17.3 | 17.3 |
| Interest expense on debt | 2.8 | | 32.0 | 34.8 |
| Interest expense-on preferred stock subject to mandatory redemption | | | 43.2 | 43.2 |
| Total expenses | 1,400.0 | 150.9 | 101.9 | 1,652.8 |
| Pre-tax income (loss) | $ 341.0 | $ (19.0) | $ (83.0) | $ 239.0 |
| **September 30, 2007** | | | | |
| Total investments | $ 4,805.6 | $ | $ 479.8 | $ 5,285.4 |
| Reinsurance recoverable on paid and unpaid losses | 2,945.3 | | (225.1) | 2,720.2 |
| Total assets | 9,575.2 | | 228.6 | 9,803.8 |
| Loss and LAE reserves | 4,841.3 | | (246.5) | 4,594.8 |
| Total liabilities | 7,115.2 | | 777.7 | 7,892.9 |
| Total equity | 2,460.0 | | (549.1) | 1,910.9 |
| **December 31, 2006** | | | | |
| Total investments | $ 4,806.9 | $ | $ 405.8 | $ 5,212.7 |
| Reinsurance recoverable on paid and unpaid losses | 3,112.1 | | (237.1) | 2,875.0 |
| Total assets | 9,729.2 | | 140.2 | 9,869.4 |
| Loss and LAE reserves | 5,108.2 | | (270.5) | 4,837.7 |
| Total liabilities | 7,382.3 | | 709.9 | 8,092.2 |
| Total equity | 2,346.9 | | (569.7) | 1,777.2 |

(1) The affiliate quota share agreements were commuted during the fourth quarter of 2006.

The following tables provide net written premiums and earned insurance premiums for OneBeacon s Primary Insurance Operations by major underwriting unit and in total for the three and nine months ended September 30, 2007 and 2006:

| | Specialty | Commercial | Personal | Total(1) |
|---|---|---|---|---|
| | | ($ in millions) | | |
| **Three months ended September 30, 2007** | | | | |
| Net written premiums | $ 136.6 | $ 192.8 | $ 182.5 | $ 511.9 |
| Earned premiums | 109.1 | 182.6 | 181.8 | 473.6 |
| **Three months ended September 30, 2006** | | | | |
| Net written premiums | $ 142.5 | $ 186.3 | $ 206.5 | $ 536.2 |
| Earned premiums | 111.0 | 175.3 | 205.5 | 492.7 |

| | Specialty | Commercial | Personal | Total(1) |
|---|---|---|---|---|
| | | ($ in millions) | | |
| **Nine months ended September 30, 2007** | | | | |
| Net written premiums | $ 344.2 | $ 557.0 | $ 535.7 | $ 1,437.0 |
| Earned premiums | 324.3 | 531.0 | 552.1 | 1,407.5 |
| **Nine months ended September 30, 2006** | | | | |
| Net written premiums | $ 350.1 | $ 548.8 | $ 626.3 | $ 1,526.0 |
| Earned premiums | 321.0 | 511.6 | 624.7 | 1,458.1 |

(1) Includes results from run-off.

**NOTE 8. Investment in Unconsolidated Affiliate**

OneBeacon s investment in unconsolidated affiliate represents an operating investment in MSA in which OneBeacon has a significant voting and economic interest but does not control the entity.

On October 31, 2006, OneBeacon s investment in MSA was restructured. OneBeacon received a $70 million cash dividend from MSA following which OneBeacon sold its 50% common stock investment in MSA to Main Street America Group, Inc. ( the MSA Group ) for (i) $70.0 million in 9.0% non-voting cumulative perpetual preferred stock of the MSA Group and (ii) 4.9% of the common stock of the MSA Group. (See Note 3 Acquisitions and Dispositions ). Effective October 31, 2006, OneBeacon accounts for its remaining investment in the MSA Group in accordance with SFAS 115. Prior to the sale, OneBeacon owned 50% of the total common shares outstanding of MSA and accounted for this investment using the equity method of accounting. These transactions resulted in a net after-tax realized gain of $8.5 million.

Prior to the exchange of OneBeacon s common stock investment in MSA, the Company accounted for this investment using the equity method of accounting. For the three and nine months ended September 30, 2006, the after-tax equity in earnings from MSA common stock was $(1.6) million and $8.6 million, respectively, and the after-tax equity in unrealized investment gains were $9.3 million and $0.4 million, respectively.

**NOTE 9. Retirement Plans**

OneBeacon sponsors qualified and non-qualified, non-contributory, defined benefit pension plans covering substantially all employees who were employed as of December 31, 2001 and remain actively employed. Current plans include a OneBeacon qualified pension plan, the Qualified Plan and a OneBeacon non-qualified pension plan, the Non-qualified Plan. OneBeacon s pension plans were frozen and curtailed in the fourth quarter of 2002.

The components of net periodic benefit costs for the three and nine months ended September 30, 2007 and 2006 were as follows:

| | Three months ended September 30, 2007 | 2006 | Nine months ended September 30, 2007 | 2006 |
|---|---|---|---|---|
| | ($ in millions) | | ($ in millions) | |
| Service cost | $ 0.5 | $ 1.0 | $ 1.6 | $ 1.6 |
| Interest cost | 1.9 | 6.9 | 15.2 | 20.7 |
| Expected return on plan assets | (1.9) | (7.6) | (15.5) | (22.9) |
| Amortization of unrecognized loss | 0.1 | 0.1 | 0.3 | 0.2 |
| Net periodic pension cost before settlements, curtailments and special termination benefits | 0.6 | 0.4 | 1.6 | (0.4) |
| Settlement gain | (25.6) | | (25.6) | |
| Special termination benefits expense(1) | 0.8 | | 0.8 | 1.6 |
| Net periodic benefit cost | $ (24.2) | $ 0.4 | $ (23.2) | $ 1.2 |

(1) Special termination benefits are additional payments made from the pension plan when a vested participant terminates employment due to a reduction in force.

The Company anticipates contributing $2.9 million to the pension plans for 2007. As of September 30, 2007, $2.5 million in contributions have been made. All of OneBeacon s year to date and expected pension contributions in 2007 relate to the Non-qualified Plan, for which OneBeacon has established assets held in rabbi trusts.

On July 11, 2007, the Company settled approximately 80% of the Qualified Plan liabilities through the purchase of two group annuity contracts for $398.5 million from Transamerica Life Insurance Company and Hartford Life Insurance Company ( Hartford Life ). In accordance with SFAS No. 88 Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits , the Qualified Plan s obligations were re-measured in connection with this settlement. In accordance with SFAS No. 87, Employers Accounting for Pensions , and consistent with the methodology applied at December 31, 2006, OneBeacon s discount rate assumption reflects the rate at which benefit obligations could effectively be settled. Based on consideration of published yields for high quality long-term corporate bonds and U.S. Treasuries as of the re-measurement date, as well as consideration of settlement rates from insurance company annuity contracts, the discount rate utilized for the revaluation of the Qualified Plan obligations was 5.45% as compared to 5.0% at December 31, 2006. In addition, other assumptions (e.g., mortality, retirement age and form of payment) were updated to reflect more recent experience and revised expectations of behavior for the remaining population, as well as to consider information learned through the settlement process. As a result of the partial settlement and re-measurement, the Company recognized a gain of $25.6 million through pre-tax income ($6.3 million as a reduction to loss and LAE, allocated to claims department employees, and $19.3 million as a reduction to other underwriting expenses) and a pre-tax loss of $2.5 million through other comprehensive income. The remaining Qualified Plan liabilities, which are primarily attributable to Qualified Plan participants who remain actively employed by OneBeacon is approximately $97.6 million.

**NOTE 10. Employee Share-Based Incentive Compensation Plans**

OneBeacon s share-based compensation plans consist of performance shares and stock options granted in connection with the initial public offering. OneBeacon s share-based compensation plans are designed to maximize shareholder value over long periods of time by aligning the financial interests of its management with those of its owners. Performance shares are payable only upon achievement of pre-defined business goals and are valued based on the market value of OneBeacon s common shares at the time awards are earned. See Performance Shares below. Performance shares are typically paid in cash, though, in some instances, they may be paid in common shares or may be deferred in accordance with the terms of the Company s deferred compensation plans. OneBeacon expenses the full cost of all its share-based compensation.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment ( SFAS 123R ), which is a revision to SFAS No. 123, Accounting for Stock Based Compensation ( SFAS 123 ) and supersedes Accounting Principles Board Opinion ( APB ) No. 25, Accounting for Stock Issued to Employees ( APB 25 ). Effective January 1, 2006, OneBeacon adopted SFAS 123R to account for its share-based compensation under the modified prospective method of adoption. Under this method of adoption, SFAS 123R applies to new grants of share-based awards, awards modified after the effective date and the remaining portion of the fair value of the unvested awards at the adoption date. The unvested portion of OneBeacon performance share awards, as well as new awards, such as the stock options granted in connection with the initial public offering, are subject to the fair value measurement and recognition requirements of SFAS 123R.

Prior to adoption of SFAS 123R, OneBeacon accounted for its share-based compensation plans under the recognition and measurement principles of APB 25, and related interpretations, and the disclosure provisions of SFAS 123. The accounting treatment for OneBeacon s performance share awards under APB 25 was identical to the method prescribed by SFAS 123, whereby the liability for performance share awards was measured each period based upon the current market price of the underlying common shares. Under APB 25, the liability for the compensation cost for performance share awards was measured each period based upon the current market price of the underlying common shares. Forfeitures were recognized as they occurred. Upon adoption of SFAS 123R an estimate of future forfeitures was incorporated into the determination of the compensation cost for performance shares. The effect of this change was immaterial.

**Performance Shares**

Prior to February 2007, the value of OneBeacon s performance shares was based upon the market price of an underlying White Mountains common share ( WTM Performance Shares ). In February 2007, all of OneBeacon s WTM Performance Shares outstanding were replaced with performance shares whose value is based upon the market price of an underlying OneBeacon common share ( OB Performance Shares ).

The following summarizes performance share activity for OB Performance Shares for the three and nine months ended September 30, 2007 and 2006:

| | Three months ended September 30, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Target OB Performance Shares outstanding | Accrued expense | Target OB Performance Shares outstanding | Accrued expense |
| | | ($ in millions) | | |
| Beginning of period | 1,122,341 | $ 10.1 | $ | $ |
| Payments and deferrals | | | | |
| New awards | 25,671 | 0.1 | | |
| Forfeitures and net change in assumed forfeitures | (18,222) | (0.2) | | |
| Expense recognized | | 1.6 | | |
| End of period | 1,129,790 | $ 11.6 | $ | $ |

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Target OB Performance Shares outstanding | Accrued expense | Target OB Performance Shares outstanding | Accrued expense |
| | | ($ in millions) | | |
| Beginning of period | | $ | $ | $ |
| Payments and deferrals | | | | |
| New awards | 934,131 | | | |
| Forfeitures and net change in assumed forfeitures | (87,042) | (0.4) | | |
| Transfers in (1) | 282,701 | 4.1 | | |
| Expense recognized | | 7.9 | | |
| End of period | 1,129,790 | $ 11.6 | $ | $ |

(1) In February 2007, OneBeacon s WTM Performance Shares were replaced with OB Performance Shares of an equivalent value.

The following summarizes performance share activity for WTM Performance Shares for the three and nine months ended September 30, 2007 and 2006:

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | | 2006 | | |
| | Target WTM Performance Shares outstanding | | Accrued expense | Target WTM Performance Shares outstanding | | Accrued expense |
| | | | ($ in millions) | | | |
| Beginning of period | | $ | | 51,027 | $ | 14.4 |
| Payments and deferrals | | | | | | |
| New awards | | | | | | |
| Forfeitures and net change in assumed forfeitures | | | | 896 | | 0.2 |
| Transfers out | | | | (35,865) | | (10.3) |
| Expense recognized | | | | | | 0.7 |
| End of period | | $ | | 16,058 | $ | 5.0 |

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | | 2006 | | |
| | Target WTM Performance Shares outstanding | | Accrued expense | Target WTM Performance Shares outstanding | | Accrued expense |
| | | | ($ in millions) | | | |
| Beginning of period | 16,470 | $ | 7.8 | 44,700 | $ | 24.8 |
| Payments and deferrals (1) (2) | (4,400) | | (3.7) | (12,600) | | (13.4) |
| New awards | | | | 20,235 | | |
| Forfeitures and net change in assumed forfeitures | | | | (412) | | (0.1) |
| Transfers out (3) | (12,070) | | (4.1) | (35,865) | | (10.3) |
| Expense recognized | | | | | | 4.0 |
| End of period | | $ | | 16,058 | $ | 5.0 |

(1) Performance share payments in 2006 for the 2003-2005 performance cycle were made at 142% of target.

(2) Performance share payments in 2007 for the 2004-2006 performance cycle were made at 145% of target.

(3) In February 2007, OneBeacon s WTM Performance Shares were replaced with OB Performance Shares of an equivalent value.

The following summarizes performance shares outstanding and accrued performance share expense at September 30, 2007 for each performance cycle:

| | Target OB Performance Shares outstanding | | Accrued expense |
|---|---|---|---|
| | ($ in millions) | | |
| Performance cycle: | | | |
| 2005 2007 | 117,363 | $ | 3.5 |
| 2006 2008 | 161,216 | | 3.8 |
| 2007 2009 | 880,130 | | 4.4 |
| Sub-total | 1,158,709 | | 11.7 |
| Assumed forfeitures | (28,919) | | (0.1) |
| Total at September 30, 2007 | 1,129,790 | $ | 11.6 |

If 100% of the outstanding performance shares had been vested on September 30, 2007, the total additional compensation cost to be recognized would have been $27.6 million, based on current accrual factors (common share price and payout assumptions).

All performance shares earned for the 2003-2005 and the 2004-2006 performance cycles were settled in cash or by deferral into certain non-qualified deferred compensation plans of the Company s subsidiaries.

**Stock Options**

As described above, in connection with the initial public offering, OneBeacon issued options to acquire 1,420,000 common shares of the Company to certain members of management. The following summarizes option activity for the nine months ended September 30, 2007:

| | 2007 | |
|---|---|---|
| | Options outstanding | Accrued expense |
| | ($ in millions) | |
| Opening balance outstanding options | 1,420,000 | $ 0.2 |
| New awards | | |
| Assumed forfeitures | (71,000) | |
| Exercised | | |
| Expense recognized | | 1.0 |
| Balance at September 30, 2007 | 1,349,000 | $ 1.2 |

The options have a $30.00 per share exercise price and vest in equal installments on each of the third, fourth and fifth anniversaries of their issuance. These options expire five and a half years from the anniversary of issuance. The compensation expense associated with the options is being recognized ratably over five years.

**NOTE 11. Income Taxes**

OneBeacon s income tax provision related to pre-tax income from continuing operations for the nine months ended September 30, 2007 and September 30, 2006 represented effective tax rates of 35.0% and 22.8%, respectively. The components of the effective tax rate for the period ended September 30, 2007 consist of a reduction in the tax rate for income generated in jurisdictions other than the United States at lower tax rates, offset by withholding taxes payable on dividends paid from income generated in the United States, and non-deductible dividends and accretion on the Berkshire Hathaway, Inc. ( Berkshire ) Preferred Stock ( Berkshire Preferred Stock ) and Zenith Preferred Stock. The effective tax rate is lower than the U.S. statutory rate of 35% for the nine months ended September 30, 2006 due to income generated in jurisdictions other than the United States, partially offset by non-deductible dividends and accretion on the Berkshire Preferred Stock and Zenith Preferred Stock. The effective tax rate for the first nine months of 2006 also reflects tax benefits related to settlements of U.S. federal and state income tax audits for years prior to 2003.

***NOTE 12. Commitments and Contingencies***

***Legal Contingencies***

OneBeacon, and the insurance industry in general, is subject to litigation and arbitration in the normal course of business. Other than those items listed below, we are not a party to any material litigation or arbitration other than as routinely encountered in claims activity, none of which is expected by management to have a material adverse effect on our financial condition and/or cash flows.

In August 2004, OneBeacon asserted claims against Liberty Mutual in the Court of Common Pleas in Philadelphia, Pennsylvania (the Court ) for breach of contract and negligence with respect to agreements with Liberty Mutual (the Liberty Agreements ). The portion of the contract claim relating to OneBeacon Insurance Company ( OBIC ) was submitted to arbitration and the Court stayed the remaining claims, including OneBeacon s claims on behalf of its other insurance subsidiaries that were signatories to the Liberty Agreements, pending resolution of the arbitration. In August 2007, the arbitration panel issued an award in favor of OneBeacon on the portion of the breach of contract claim submitted to it finding that Liberty Mutual breached the Liberty Agreements. The panel awarded OneBeacon $4.5 million plus interest.

Subsequent to the award, in September 2007, Liberty Mutual filed petitions in the U.S. District Court for the District of Massachusetts ( USDC ) and the Court to vacate the arbitral award and dismiss or arbitrate the remaining Court claims. OneBeacon filed motions to confirm the award and deny the petition to vacate. Resolution of these issues is expected in the near future. In October 2007, OneBeacon (on behalf of its other insurance subsidiaries that were signatories to the Liberty Agreements) filed suit against Liberty Mutual in Suffolk County Superior Court in Massachusetts to recover damages caused by Liberty Mutual s claims conduct. Concurrently, a demand for arbitration was served on Liberty Mutual to preserve the rights and interests of OneBeacon (on behalf of the same subsidiaries).

In September 2006, OneBeacon initiated an arbitration against Liberty Mutual (the Reinsurance Arbitration ) seeking payment of approximately $57 million relating to reinsurance arrangements under the Liberty Agreements. In January 2007, the Reinsurance Arbitration was consolidated into the ULAE Arbitration. In July 2007, the reinsurance payment issues in the Reinsurance Arbitration were favorably resolved.

As of September 30, 2007, OneBeacon believes its loss and LAE reserves are sufficient to cover reasonably anticipated outcomes of all disputes with Liberty Mutual.

Refer to the Company s 2006 Annual Report on Form 10-K, and in particular Item 3 Legal Proceedings for a brief description of all other non-routine legal proceedings. Damages sought by the claimants do not exceed 10% of the Company s current assets.

***Guarantees***

Beginning in February 2006, OBIC agreed to provide guarantees of the obligations of Galileo Weather Risk Management Ltd. ( Galileo ) to Galileo s counterparty in certain weather-related product transactions. Galileo is a subsidiary of White Mountains. The guarantees require OBIC to pay the full amount of Galileo s obligations to the counterparty in the event of Galileo s failure to pay these obligations. In the event of a payment, OBIC would be eligible to exercise all of the rights of the counterparty against Galileo. As of September 30, 2007 there were nine outstanding guarantees with a principal value of $59.4 million. In the event that the total guaranteed principal amount exceeds the lesser of 5% of OBIC s admitted assets of $3.8 billion at December 31, 2006 or 25% of OBIC s statutory surplus of $1.7 billion at December 31, 2006, OBIC would require the approval of the Pennsylvania Department of Insurance in order to make any further guarantees. OBIC has agreed, at White Mountains option, to continue to make these guarantees available until October 2008 and will receive from Galileo an annual fee of 25 basis points of the value at risk for providing the guarantees. Pursuant to a separation agreement entered into by OneBeacon and White Mountains in connection with the initial public offering, White Mountains has agreed that it will take appropriate steps to ensure that OBIC will not be called on to make payment on these guarantees.

**NOTE 13. Earnings per Share**

Basic and diluted earnings per share amounts have been determined in accordance with SFAS No. 128, Earnings per Share. On October 18, 2006, OneBeacon executed a stock split and recapitalization that increased the common shares outstanding from 12,000 to 100,000,000 and reduced the par value from $1.00 to $0.01. The stock split and recapitalization have been reflected retroactively in these financial statements for all periods presented. The 2006 earnings per share amounts have been determined assuming that the common shares were outstanding for all periods presented. In connection with the initial public offering, 13,292 of the Company s Class A common shares were deposited in ESOP participant accounts, representing four shares to each employee. During the second quarter of 2007, 8,883 shares of the Company s Class A common shares were awarded to certain non-employee members of the Company s board of directors, in lieu of their 2007 annual cash retainer. During the third quarter of 2007, the Company began a share repurchase program. Through this program, the Company repurchased and retired 274,244 of its Class A common shares as of September 30, 2007.

| | Three months ended September 30, 2007 | Three months ended September 30, 2006 | Nine months ended September 30, 2007 | Nine months ended September 30, 2006 |
|---|---|---|---|---|
| **Basic earnings per share numerators (in millions):** | | | | |
| Income from continuing operations | $ 82.3 | $ 72.1 | $ 205.1 | $ 193.1 |
| Income from discontinued operations, net of tax | | 0.8 | | 1.2 |
| Net income available to common shareholders | $ 82.3 | $ 72.9 | $ 205.1 | $ 194.3 |
| **Diluted earnings per share numerators (in millions):** | | | | |
| Income from continuing operations | $ 82.3 | $ 72.1 | $ 205.1 | $ 193.1 |
| Income from discontinued operations, net of tax | | 0.8 | | |