

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This prospectus supplement (the “Prospectus Supplement”), together with the short form base shelf prospectus dated September 10, 2015, to which it relates, as amended or supplemented (the “Shelf Prospectus”) and each document incorporated by reference into this Prospectus Supplement and into the Shelf Prospectus, constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference in this Prospectus Supplement and the Shelf Prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary’s Office of Intact Financial Corporation, 700 University Avenue, Suite 1500-A (Legal), Toronto, Ontario, M5G 0A1, (416) 341-1464, ext. 45149 or 2020 Robert-Bourassa Boulevard, 6th Floor, Montréal, Québec, H3A 2A5, (514) 985-7111 ext. 66367 and are also available electronically at www.sedar.com.

The securities to be issued hereunder have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or any state securities laws and, except as described under “Plan of Distribution”, may not be offered, sold or delivered, directly or indirectly, in the United States.

PROSPECTUS SUPPLEMENT
(to short form base shelf prospectus dated September 10, 2015)

New Issue

August 11, 2017



INTACT FINANCIAL CORPORATION

\$150,000,000

6,000,000 5.30% Non-Cumulative Class A Shares, Series 6

Intact Financial Corporation (“IFC”) is hereby qualifying for distribution (the “Offering”) 6,000,000 Non-Cumulative Class A Shares, Series 6 (the “Series 6 Preferred Shares”) at a price of \$25.00 per Series 6 Preferred Share. The Series 6 Preferred Shares are being offered pursuant to an underwriting agreement dated August 11, 2017 (the “Underwriting Agreement”) between IFC and CIBC World Markets Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., RBC Dominion Securities Inc. Scotia Capital Inc., Desjardins Securities Inc., GMP Securities L.P., Raymond James Ltd., Cormark Securities Inc. and Macquarie Capital Markets Canada Ltd. (collectively, the “Underwriters”). The terms of the Offering have been determined by negotiation between IFC and the Underwriters. See “Details of the Offering” and “Plan of Distribution”.

The holders of Series 6 Preferred Shares will be entitled to fixed non-cumulative preferential cash dividends, if, as and when declared by the board of directors of IFC (the “Board of Directors”) at a rate equal to \$1.325 per share per annum. The initial dividend, if declared, will be payable on December 29, 2017 and will be \$0.49007 per Series 6 Preferred Share, based on an anticipated closing date of August 18, 2017. Thereafter, dividends will be payable quarterly on the last day of March, June, September, and December in each year at a rate of \$0.33125 per Series 6 Preferred Share. See “Details of the Offering”.

The Series 6 Preferred Shares shall not be redeemable at the option of IFC prior to September 30, 2022. On or after September 30, 2022, IFC may, on not less than 30 nor more than 60 days’ notice, redeem the Series 6 Preferred Shares in whole or in part, at IFC’s option, by the payment in cash of \$26.00 per Series 6 Preferred Share if redeemed prior to September 30, 2023, of \$25.75 per Series 6 Preferred Share if redeemed on or after September 30, 2023 but prior to September 30, 2024, of \$25.50 per Series 6 Preferred Share if redeemed on or after September 30, 2024 but prior to September 30, 2025, of \$25.25 per Series 6 Preferred Share if redeemed on or after September 30, 2025 but prior to September 30, 2026, and of \$25.00 per Series 6 Preferred Share if redeemed on or after

September 30, 2026, in each case together with all declared and unpaid dividends up to but excluding the date fixed for redemption. See “Details of the Offering”.

Price: \$25.00 per Series 6 Preferred Share to yield 5.30% per annum

	<u>Price to the Public</u>	<u>Underwriters’ Fee⁽¹⁾</u>	<u>Net Proceeds to IFC⁽²⁾</u>
Per Series 6 Preferred Share	\$25.00	\$0.75	\$24.25
Total ⁽³⁾	\$150,000,000	\$4,500,000	\$145,500,000

- (1) The Underwriters’ fee is \$0.25 for each Series 6 Preferred Share sold to certain institutions and \$0.75 per Series 6 Preferred Share for all other Series 6 Preferred Shares that are sold. The totals set forth in the table above represent the Underwriters’ fee and net proceeds assuming all Series 6 Preferred Shares are sold with an Underwriters’ fee of \$0.75 per Series 6 Preferred Share.
- (2) Before deducting the expenses of the Offering, estimated at \$250,000 which will be paid from the proceeds of this Offering.
- (3) IFC has granted to the Underwriters an option (the “Underwriters’ Option”), exercisable, in whole or in part, at any time and from time to time, until 8:30 a.m. on the date that is two business days prior to the closing of the Offering, to purchase up to an aggregate of 2,000,000 additional Series 6 Preferred Shares on the same terms. If the Underwriters’ Option is exercised in full, the total price to the public, the Underwriters’ fee and the net proceeds to IFC, before expenses, will be \$200,000,000, \$6,000,000 and \$194,000,000, respectively. See “Plan of Distribution”. The issuance of Series 6 Preferred Shares on the exercise of the Underwriters’ Option is also qualified under this Prospectus Supplement. A purchaser who acquires Series 6 Preferred Shares issued pursuant to the exercise of the Underwriters’ Option acquires those Series 6 Preferred Shares under this Prospectus Supplement. See “Plan of Distribution”.

<u>Underwriters’ Position</u>	<u>Maximum Size</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Underwriters’ Option	2,000,000 Series 6 Preferred Shares	Until 8:30 a.m. on the date that is two business days prior to the closing of the Offering	\$25.00 per Series 6 Preferred Share

The Toronto Stock Exchange (the “TSX”) has conditionally approved the listing of the Series 6 Preferred Shares. Listing of the Series 6 Preferred Shares offered under this Prospectus Supplement is subject to IFC fulfilling all the listing requirements of the TSX on or before November 7, 2017. There is currently no market through which the Series 6 Preferred Shares may be sold and purchasers may not be able to resell Series 6 Preferred Shares purchased under this Prospectus Supplement. This may affect the pricing of the Series 6 Preferred Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Series 6 Preferred Shares and the extent of issuer regulation. See “Risk Factors”. There can be no assurance that the Series 6 Preferred Shares will be accepted for listing on the TSX.

The Underwriters, as principals, conditionally offer the Series 6 Preferred Shares, subject to prior sale, if, as and when issued and delivered by IFC to, and accepted by, the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution”, and subject to the approval of certain legal matters relating to Canadian law on behalf of IFC by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by McCarthy Tétrault LLP.

Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that the closing of the Offering will occur on August 18, 2017, or on such later date as may be agreed, but in any event not later than August 25, 2017. Book-entry only certificates representing the Series 6 Preferred Shares will be issued in registered form to CDS Clearing and Depository Services Inc. (“CDS”) or its nominee and will be deposited with CDS on the closing date of the Offering. A purchaser of Series 6 Preferred Shares will receive only a customer confirmation from a registered dealer which is a CDS participant and from or through which the Series 6 Preferred Shares are purchased.

The outstanding Class A Shares of IFC, Series 1, Series 3, Series 4 and Series 5, are traded on the TSX under the stock symbols “IFC.PR.A”, “IFC.PR.C”, “IFC.PR.D” and “IFC.PR.E”, respectively.

Subject to applicable laws, the Underwriters may, in connection with the Offering, over-allot or effect transactions which stabilize or maintain the market price of the Series 6 Preferred Shares at levels other than those which might otherwise prevail on the open market. **In certain circumstances, the Underwriters may offer the Series 6 Preferred Shares at a price lower than the offering price specified in this Prospectus Supplement. See “Plan of Distribution”.**

Investing in the Series 6 Preferred Shares involves certain risks. See “Risk Factors” and “Forward-Looking Statements”.

CIBC World Markets Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., RBC Dominion Securities Inc. and Scotia Capital Inc. are wholly-owned subsidiaries of Canadian banks that are currently lenders to IFC under its existing credit facility described under “Consolidated Capitalization”. Accordingly, IFC may be considered a “connected issuer” of these Underwriters within the meaning of applicable securities legislation. See “Use of Proceeds”, “Consolidated Capitalization” and “Plan of Distribution”.

DBRS Limited (“DBRS”) has assigned a rating of Pfd-2 with a Stable trend for the Series 6 Preferred Shares. See “Ratings”.

The registered and head office of IFC is located at 700 University Avenue, Suite 1500-A (Legal), Toronto, Ontario, Canada, M5G 0A1.

In this Prospectus Supplement, references to “IFC”, “we”, “us” and “our” refer to IFC and its operating subsidiaries unless the subject matter or context is inconsistent therewith and all references to currency amounts are to Canadian dollars unless otherwise specified and references to “US\$” are to U.S. dollars. The rounding of certain figures contained in this Prospectus Supplement may cause a non-material discrepancy in totals, subtotals and percentages. This Prospectus Supplement contains terms that are specific to the insurance industry and that are technical in nature. Certain of these terms are described in the Glossary (as defined herein).

TABLE OF CONTENTS

	Page
DOCUMENTS INCORPORATED BY REFERENCE	S-5
MARKETING MATERIALS	S-6
FORWARD-LOOKING STATEMENTS	S-6
EXCHANGE RATE DATA	S-8
PRESENTATION OF FINANCIAL INFORMATION	S-9
CAUTION REGARDING UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	S-9
ELIGIBILITY FOR INVESTMENT	S-10
USE OF PROCEEDS	S-11
CONSOLIDATED CAPITALIZATION	S-12
EARNINGS COVERAGE RATIOS	S-13
DESCRIPTION OF SHARE CAPITAL	S-14
PRICE RANGE AND TRADING VOLUME	S-15
DETAILS OF THE OFFERING	S-17
RATINGS	S-19
PLAN OF DISTRIBUTION	S-20
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS	S-22
RISK FACTORS	S-24
LEGAL MATTERS	S-27
AUDITORS, TRANSFER AGENT AND REGISTRAR	S-27
STATUTORY RIGHTS	S-27
FINANCIAL STATEMENTS	F-1
CERTIFICATE OF THE UNDERWRITERS	C-1

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus Supplement is deemed to be incorporated by reference in the Shelf Prospectus for the purpose of this Offering. The following documents of IFC filed with the various securities commissions or similar authorities in Canada are incorporated by reference into the Shelf Prospectus and this Prospectus Supplement:

- (a) the annual information form of IFC for the year ended December 31, 2016 dated March 31, 2017 (the “Annual Information Form”);
- (b) the audited consolidated financial statements of IFC, together with the auditors’ report thereon and the notes thereto, as at and for the year ended December 31, 2016 (the “Annual Financial Statements”);
- (c) management’s discussion and analysis of operating and financial results of IFC for the year ended December 31, 2016 (the “Annual MD&A”);
- (d) the management proxy circular of IFC dated March 31, 2017 in respect of IFC’s annual and special meeting of shareholders held on May 3, 2017;
- (e) the unaudited interim consolidated financial statements of IFC, together with the notes thereto, as at and for the three- and six-month periods ended June 30, 2017;
- (f) management’s discussion and analysis of operating and financial results of IFC for the three- and six-month periods ended June 30, 2017 (the “Interim MD&A”);
- (g) the sections entitled:
 - (i) “*Industry Data*”;
 - (ii) “*Intact Financial Corporation*”;
 - (iii) “*The Acquisition*”;
 - (iv) “*Risk Factors – Risks Relating to the Acquisition*”;
 - (v) “*Risk Factors – Risks Relating to OneBeacon’s Business*”; and
 - (vi) “*Glossary of Selected Insurance and Other Terms*” (the “Glossary”)of the short form prospectus supplement of IFC dated May 4, 2017 (the “Subscription Receipt Prospectus”);
- (h) the audited consolidated financial statements of OneBeacon Insurance Group, Ltd. (“OneBeacon”), together with the auditors’ report thereon and the notes thereto, as at and for the years ended December 31, 2016 and 2015 included in the Subscription Receipt Prospectus;
- (i) the “template version” (as such term is defined in National Instrument 44-101 – *Short Form Prospectus Distributions* (“NI 44-101”)) of the term sheet for the Offering dated and filed August 9, 2017 (the “Term Sheet”); and
- (j) the material change report dated May 4, 2017 with respect to the indirect acquisition of OneBeacon by IFC (the “Acquisition”) and the related public offering of subscription receipts (the “Subscription Receipts”) by IFC (the “Subscription Receipt Public Offering”) and the concurrent private placements of Subscription Receipts by IFC (the “Concurrent Private Placements”).

Any documents of the type described in section 11.1 of Form 44-101F1 – *Short Form Prospectus* filed by IFC with the securities commissions or similar authorities in Canada after the date of this Prospectus Supplement and prior to the termination of the Offering, will be deemed to be incorporated by reference in this Prospectus Supplement.

Any statement contained in this Prospectus Supplement, the Shelf Prospectus or in a document incorporated or deemed to be incorporated by reference herein or therein will be deemed to be modified or superseded, for purposes of this Prospectus Supplement or the Shelf Prospectus, as the case may be, to the extent that a statement contained herein or therein, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein or therein, modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus Supplement or the Shelf Prospectus, as the case may be.

MARKETING MATERIALS

The Term Sheet does not form part of this Prospectus Supplement to the extent that the contents thereof have been modified or superseded by a statement contained in this Prospectus Supplement.

Any “template version” of “marketing materials” (as those terms are defined in National Instrument 41-101 — *General Prospectus Requirements*) filed by IFC under NI 44-101 in connection with the Offering after the date of this Prospectus Supplement and before termination of the Offering, will be deemed to be incorporated by reference into this Prospectus Supplement and Shelf Prospectus.

FORWARD-LOOKING STATEMENTS

Certain of the statements included or incorporated by reference in this Prospectus Supplement and the Shelf Prospectus about IFC’s current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words “may”, “will”, “would”, “should”, “could”, “expects”, “plans”, “intends”, “trends”, “indications”, “anticipates”, “believes”, “estimates”, “predicts”, “likely”, “potential” or the negative or other variations of these words or other similar or comparable words or phrases, are intended to identify forward-looking statements. Forward-looking statements include, but are not limited to, intention of future funding of debt and equity; expected IRR (as defined in the Glossary) from the Acquisition; expectation on effect of NOIPS (as defined in the Glossary) following completion of the Acquisition; and the Acquisition’s effect on IFC’s book value per share accretion, MCT (as defined in the Glossary), debt to total capital ratio and cash flow.

Forward-looking statements are based on estimates and assumptions made by IFC in light of IFC’s experience and perception of historical trends, current conditions and expected future developments, as well as other factors that IFC believes are appropriate in the circumstances. Many factors could cause IFC’s actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors: the use of the net proceeds from the Offering; the timing and completion of the Offering and the Acquisition; expected competition and regulatory processes and outcomes in connection with the Acquisition; IFC’s ability to implement its strategy or operate its business as IFC currently expects; IFC’s ability to accurately assess the risks associated with the insurance policies that IFC writes; unfavourable capital market developments or other factors which may affect its investments, IFC’s floating rate securities and its funding obligations under its pension plans; the cyclical nature of the property and casualty insurance industry; IFC’s ability to accurately predict future claims frequency and severity, including in the Ontario personal auto line of business, as well as the evaluation of losses relating to the Fort McMurray wildfires, catastrophe losses caused by severe weather and other weather related losses; government regulations designed to protect policyholders and creditors rather than investors; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; IFC’s reliance on brokers and third parties to sell its products to their clients; IFC’s ability to successfully pursue its acquisition strategy; IFC’s

ability to execute its business strategy; IFC's ability to achieve synergies arising from successful integration plans relating to acquisitions; the terms and conditions of the Acquisition; IFC's expectations in relation to synergies, future economic and business conditions and other factors and resulting effect on accretion, equity IRR, net operating income per share, MCT, debt to total capital, combined ratio and the other metrics used in relation to the discussion of the Acquisition under "The Acquisition" in the Subscription Receipt Prospectus (also see the Glossary); IFC's financing plans for the Acquisition including the availability of equity and debt financing in the future; various other actions to be taken or requirements to be met in connection with the Acquisition and integrating IFC and OneBeacon after completion of the Acquisition; IFC's participation in the Facility Association (a mandatory pooling arrangement among all industry participants) and similar mandated risk-sharing pools; terrorist attacks and ensuing events; the occurrence of catastrophe events, including a major earthquake; IFC's ability to maintain its financial strength and issuer credit ratings; IFC's access to debt financing and its ability to compete for large commercial business; IFC's ability to alleviate risk through reinsurance; IFC's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); IFC's ability to contain fraud and/or abuse; IFC's reliance on information technology and telecommunications systems and potential failure of or disruption to those systems, including cyber-attack risk; IFC's dependence on key employees; changes in laws or regulations; general economic, financial and political conditions; IFC's dependence on the results of operations of its subsidiaries and the ability of its subsidiaries to pay dividends; the volatility of the stock market and other factors affecting the trading prices of IFC's securities (including the Series 6 Preferred Shares once issued); IFC's ability to hedge exposures to fluctuations in foreign exchange rates; future sales of a substantial number of Common Shares (as defined herein); changes in applicable tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof; and the timing of the distribution of the Series 6 Preferred Shares pursuant to this Offering.

Certain material factors or assumptions are applied in making these forward-looking statements, including completion of the Offering as outlined in this Prospectus Supplement; that the additional financing of the Acquisition is completed; that the Acquisition will be completed in the third quarter or early fourth quarter of 2017; that the anticipated benefits of the Acquisition to IFC will be realized, including the impact on growth and accretion in various financial metrics; that reserves will be strengthened following closing of the Acquisition; that the protection IFC has purchased against adverse reserve developments will be sufficient; the accuracy of certain cost assumptions, including with respect to employee retention matters; and the amounts that will be recovered from certain obligations and litigation matters.

All of the forward-looking statements included or incorporated by reference in this Prospectus Supplement and the Shelf Prospectus are qualified by these cautionary statements, those made in the "Risk Factors" section of this Prospectus Supplement, the risk factors incorporated by reference from the Subscription Receipt Prospectus, those made in the "Risk Management" sections of the Annual MD&A and Interim MD&A and IFC's other filings with the securities commissions or similar authorities in Canada that are incorporated or deemed to be incorporated by reference in this Prospectus Supplement and the Shelf Prospectus. These factors are not intended to represent a complete list of the factors that could affect IFC. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, IFC cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made in this Prospectus Supplement and the Shelf Prospectus or in the documents incorporated by reference herein or therein. IFC has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

EXCHANGE RATE DATA

The following table sets forth, for the periods indicated, the high, low, average and period-end closing rates of exchange of one U.S. dollar, expressed in Canadian dollars, published by the Bank of Canada.¹

	Six months ended June 30	Year ended December 31		
	2017	2016	2015	2014
Highest rate during the period	1.3743	1.4559	1.3965	1.1656
Lowest rate during the period	1.2977	1.2536	1.1749	1.0639
Average rate for the period	1.3343	1.3245	1.2785	1.1046
Rate at the end of the period	1.2977	1.3427	1.3840	1.1601

On August 10, 2017, the daily average exchange rate posted by the Bank of Canada for conversion of U.S. dollars into Canadian dollars was US\$1.00 equals \$1.2711. No representation is made that Canadian dollars could be converted into U.S. dollars at that rate or any other rate.

¹ As of May 1, 2017, the Bank of Canada only publishes a single daily average rate and ceased to publish a noon or closing exchange rate as of April 28, 2017. Rates prior to May 1, 2017 were calculated using closing exchange rates. Rates on and after May 1, 2017 were calculated using the daily average rate.

PRESENTATION OF FINANCIAL INFORMATION

The financial statements of IFC incorporated by reference in this Prospectus Supplement are reported in Canadian dollars and have been prepared in accordance with the International Financial Reporting Standards (“IFRS”). All financial information of OneBeacon in or incorporated by reference in this Prospectus Supplement is reported in U.S. dollars and has been derived from the historical financial statements of OneBeacon that were prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The assets and liabilities of OneBeacon shown in the unaudited *pro forma* condensed consolidated balance sheet of IFC as at June 30, 2017 have been reconciled from U.S. GAAP to IFRS and are translated from U.S. dollars to Canadian dollars using the daily average rate as published by the Bank of Canada for June 30, 2017. The revenues and expenses of OneBeacon shown in the unaudited *pro forma* condensed consolidated statements of income of IFC for the year ended December 31, 2016 and for the six months ended June 30, 2017 have been reconciled from U.S. GAAP to IFRS and are translated from U.S. dollars to Canadian dollars using the average closing exchange rate as published by the Bank of Canada for the twelve-month period ended December 31, 2016, and the average rate for the six-month period ended June 30, 2017, as published by the Bank of Canada, respectively. Financial information in this Prospectus Supplement that has been derived from the unaudited *pro forma* condensed consolidated financial statements has been translated to Canadian dollars on the same basis. Certain tables containing financial information in this Prospectus Supplement may not add due to rounding.

CAUTION REGARDING UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

This Prospectus Supplement contains the unaudited *pro forma* condensed consolidated financial statements of IFC comprised of the condensed consolidated balance sheet of IFC as at June 30, 2017, the condensed consolidated statement of income of IFC for the year ended December 31, 2016 and the condensed consolidated statement of income of IFC for the six-month period ended June 30, 2017, giving effect to: (i) the Offering; (ii) the offering of \$425 million principal amount of Series 7 unsecured medium-term notes due June 7, 2027 (the “MTN Offering”); (iii) the offering of 6,000,000 Non-Cumulative Class A Shares, Series 5 (the “Series 5 Preferred Share Offering”); (iv) the Subscription Receipt Public Offering and the Concurrent Private Placements; (v) the issuance of common shares of IFC (the “Common Shares”) upon the exchange of the Subscription Receipts in connection with the Subscription Receipt Public Offering and the Concurrent Private Placements; and (vi) the completion of the Acquisition, including giving effect to the related financing. Such unaudited *pro forma* condensed consolidated financial statements have been prepared using certain of IFC’s and OneBeacon’s respective historical financial statements as more particularly described in the notes to such unaudited *pro forma* condensed consolidated financial statements. In preparing such unaudited *pro forma* condensed consolidated financial statements, IFC has not independently verified the financial statements of OneBeacon that were used to prepare the unaudited *pro forma* condensed consolidated financial statements. Such unaudited *pro forma* condensed consolidated financial statements are not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated. Actual amounts recorded upon the finalization of the allocation of the purchase price under the Acquisition may differ from the amounts reflected in such unaudited *pro forma* condensed consolidated financial statements. Since the unaudited *pro forma* condensed consolidated financial statements have been developed to retroactively show the effect of a transaction that has or is expected to occur at a later date (even though this was accomplished by following generally accepted practice using reasonable assumptions), there are limitations inherent in the very nature of *pro forma* data. The data contained in the unaudited *pro forma* condensed consolidated financial statements represents only a simulation of the potential financial impact of IFC’s acquisition of OneBeacon. Undue reliance should not be placed on such unaudited *pro forma* condensed consolidated financial statements. See “Forward-Looking Statements” and “Risk Factors”.

ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon LLP, counsel to IFC, and McCarthy Tétrault LLP, counsel to the Underwriters, based on the provisions of the *Income Tax Act* (Canada) and the regulations thereunder (together, the “Tax Act”) in force on the date hereof and all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “Proposals”), the Series 6 Preferred Shares to be issued under this Prospectus Supplement, if issued on the date hereof, would, on such date, be qualified investments under the Tax Act for trusts governed by registered retirement savings plans (“RRSPs”), registered retirement income funds (“RRIFs”), deferred profit sharing plans, registered education savings plans (“RESPs”), registered disability savings plans (“RDSPs”) and tax-free savings accounts (“TFSAs”), each as defined in the Tax Act, provided the Series 6 Preferred Shares are listed on a designated stock exchange (which currently includes the TSX) or provided IFC is a “public corporation” for the purposes of the Tax Act.

Provided that the holder of a TFSA or the annuitant under an RRSP or RRIF does not hold a significant interest (as defined in subsection 207.01(4) of the Tax Act) in IFC, and provided that such holder or annuitant deals at arm’s length with IFC for the purposes of the Tax Act, the Series 6 Preferred Shares will not be prohibited investments for a trust governed by such TFSA, RRSP or RRIF. The Series 6 Preferred Shares will also not be prohibited investments for a trust governed by a TFSA, RRSP or RRIF provided that the Series 6 Preferred Shares are “excluded property” as defined in subsection 207.01(1) of the Tax Act for such trusts.

Pursuant to Proposals released on March 22, 2017, the rules in respect of “prohibited investments” are also proposed to apply to (i) RDSPs and the holders thereof and (ii) RESPs and the subscribers thereof, effective after March 22, 2017.

Holders of a TFSA or RDSP, annuitants under an RRSP or RRIF and subscribers of an RESP should consult their own tax advisors regarding whether the Series 6 Preferred Shares will be prohibited investments in their particular circumstances.

USE OF PROCEEDS

The net proceeds to IFC from the Offering, after deducting the Underwriters' fee (assuming no Series 6 Preferred Shares are sold to certain institutions) and the estimated expenses of the Offering, are expected to be \$145,250,000 (assuming no exercise of the Underwriters' Option). If the Underwriters' Option is exercised in full, the net proceeds of the Offering, after deducting the Underwriters' fee (assuming no Series 6 Preferred Shares are sold to certain institutions) and the estimated expenses of the Offering, are expected to be \$193,750,000.

We intend to use the net proceeds of this Offering, together with the net proceeds of the MTN Offering, the Series 5 Preferred Share Offering, the Subscription Receipt Public Offering and the Concurrent Private Placements, and a combination of some or all of the following: (i) existing cash on hand following the disposition of certain investments; (ii) bank debt, including, by means of a term loan and/or drawing from our Credit Facility (as defined herein), under which, as of the date of this Prospectus Supplement, there were no amounts outstanding; and (iii) the possible future issuance of additional medium term notes and/or additional preferred shares, to fund the purchase price of the Acquisition. See "Consolidated Capitalization".

The closing of the Acquisition is expected to occur in the third quarter or the early fourth quarter of 2017 and is subject to receipt of required competition and insurance regulatory approvals and the satisfaction of certain closing conditions. The Offering is not conditional upon the closing of the Acquisition. If the Acquisition is not completed, the net proceeds of this Offering will be used for general corporate purposes. See "Risk Factors – Use of Proceeds".

CONSOLIDATED CAPITALIZATION

The following table sets forth our consolidated capitalization as at June 30, 2017 both on an actual basis and as adjusted to give effect to the Offering, the issuance of Common Shares upon the exchange of the Subscription Receipts and the Acquisition, including giving effect to the related financing. The table below should be read together with the detailed information and financial statements attached to this Prospectus Supplement and appearing in the documents incorporated by reference.

	June 30, 2017	
	Actual	As adjusted to give effect to the Offering and the Acquisition
	(in millions of Canadian dollars)	
Indebtedness		
Existing Credit Facility ⁽¹⁾	0	0
Series 1 Notes ⁽²⁾	250	250
Series 2 Notes ⁽²⁾	250	250
Series 3 Notes ⁽²⁾	100	100
Series 4 Notes ⁽²⁾	300	300
Series 5 Notes ⁽²⁾	250	250
Series 6 Notes ⁽²⁾	250	250
Series 7 Notes ⁽²⁾	425	425
OneBeacon Senior Unsecured Notes ⁽³⁾	0	355
Indebtedness for the Acquisition ⁽⁴⁾	0	275
Total indebtedness	1,825	2,455
Shareholders' equity		
Series 1 Preferred Shares ⁽⁵⁾	244	244
Series 3 Preferred Shares ⁽⁵⁾	206	206
Series 4 Preferred Shares ⁽⁵⁾	39	39
Series 5 Preferred Shares ⁽⁵⁾	147	147
Series 6 Preferred Shares	0	147
Common Shares ⁽⁵⁾⁽⁶⁾	2,081	2,817
Contributed Surplus	118	118
Retained Earnings ⁽⁷⁾	3,298	3,288
Accumulated other comprehensive income	25	25
Total shareholders' equity	6,158	7,030
Total capitalization	7,983	9,485

Notes:

- (1) IFC has an existing unsecured revolving term credit facility (the "Credit Facility") with a syndicate of lenders, which matures on December 5, 2020. As at June 30, 2017, no amounts were outstanding under the Credit Facility.
- (2) As at June 30, 2017, IFC had outstanding in aggregate \$1.825 billion principal amount of unsecured medium term notes of which the Series 1 \$250 million principal amount of notes bear interest at a fixed annual rate of 5.41% and mature on September 3, 2019, the Series 2 \$250 million principal amount of notes bear interest at a fixed annual rate of 6.40% and mature on November 23, 2039, the Series 3 \$100 million principal amount of notes bear interest at a fixed annual rate of 6.20% and mature on July 8, 2061, the Series 4 \$300 million principal amount of notes bear interest at a fixed annual rate of 4.70% and mature on August 18, 2021, the Series 5 \$250 million principal amount of notes bear interest at a fixed annual rate of 5.16% and mature on June 16, 2042, the Series 6 \$250 million principal amount of notes bear interest at a fixed annual rate of 3.77% and mature on March 2, 2026 and the Series 7 \$425 million principal amount of notes bear interest at a fixed annual rate of 2.85% and mature on June 7, 2027.
- (3) As at June 30, 2017, OneBeacon U.S. Holdings, Inc. had outstanding US\$275 million (\$355 million based on the daily average rate as published by the Bank of Canada for June 30, 2017, which was \$1.2977 for US\$1.00) principal amount senior unsecured notes which bear interest at a fixed annual rate of 4.60% and mature on November 9, 2022.
- (4) In connection with the closing of the Acquisition, we expect to use a combination of bank debt and/or the possible future issuance of additional medium term notes and/or additional preferred shares, together with the net proceeds from this

Offering, the MTN Offering, the Series 5 Preferred Share Offering, the Subscription Receipt Public Offering and the Concurrent Private Placements and a portion of our existing cash on hand following the disposition of certain investments, to fund the Acquisition. For the purposes of the above table, all such financing other than the net proceeds from this Offering, the Series 5 Preferred Share Offering, the Subscription Receipt Public Offering and Concurrent Private Placements was considered as debt.

- (5) IFC's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of Class A Shares (issuable in series). As at June 30, 2017, 130,978,634 Common Shares, 10,000,000 Non-cumulative Rate Reset Class A Shares, Series 1 (the "Series 1 Preferred Shares"), 8,405,004 Non-cumulative Rate Reset Class A Shares, Series 3 (the "Series 3 Preferred Shares"), 1,594,996 Non-cumulative Floating Rate Class A Shares Series 4 (the "Series 4 Preferred Shares") and 6,000,000 Non-cumulative Class A Shares, Series 5 (the "Series 5 Preferred Shares") were issued and outstanding. As at August 10, 2017, 130,978,634 Common Shares, 10,000,000 Series 1 Preferred Shares, 8,405,004 Series 3 Preferred Shares, 1,594,996 Series 4 Preferred Shares and 6,000,000 Series 5 Preferred Shares were issued and outstanding.
- (6) The "As adjusted" Common Shares includes 8,210,000 Common Shares issuable upon the exchange of the Subscription Receipts.
- (7) The "As adjusted" retained earnings amount includes estimated Acquisition costs, net of tax.

EARNINGS COVERAGE RATIOS

The following earnings coverage ratios are based on IFC's financial statements and calculated for the 12-month periods ended December 31, 2016 and June 30, 2017, which give effect to the issuance of 6,000,000 Series 6 Preferred Shares, including dividend payments. The earnings coverage ratios set out below do not purport to be indicative of an earnings coverage ratio for any future periods.

	<u>December 31, 2016</u>	<u>June 30, 2017</u>
Earnings Coverage.....	5.8 times	7.2 times

IFC's dividend requirements on its outstanding Class A Shares, after giving effect to the Offering and the Series 5 Preferred Share Offering and adjusted to a before-tax equivalent, amounted to \$44 million for the twelve months ended December 31, 2016 (using an effective income tax rate of 21%) and \$44 million for the twelve months ended June 30, 2017 (using an effective income tax rate of 20%). IFC's borrowing cost requirements for the twelve months ended December 31, 2016 and the twelve months ended June 30, 2017, after giving effect to the MTN Offering, were \$86 million and \$86 million, respectively. IFC's earnings before borrowing costs and income tax for the twelve months ended December 31, 2016 and the twelve months ended June 30, 2017 were \$758 million and \$931 million, respectively, representing 5.8 times and 7.2 times, respectively, IFC's aggregate dividend and borrowing cost requirements for these periods.

The following *pro forma* earnings coverage ratios are based on IFC's *pro forma* financial statements and calculated for the 12 month periods ended December 31, 2016 and June 30, 2017, which give effect to the issuance of 6,000,000 Series 6 Preferred Shares including dividend payments and the expected impact of the Acquisition. The *pro forma* earnings coverage ratios for the 12-month periods ended December 31, 2016 and June 30, 2017 also give effect to the proposed financing of the Acquisition. The *pro forma* earnings coverage ratios set out below do not purport to be indicative of an earnings coverage ratio for any future periods.

	<u>December 31, 2016</u>	<u>June 30, 2017</u>
<i>Pro Forma</i> Earnings Coverage.....	6.0 times	6.7 times

IFC's dividend requirements on its outstanding Class A Shares, after giving effect to the Offering and the Series 5 Preferred Share Offering and adjusted to a before-tax equivalent, amounted to \$39 million for the twelve months ended December 31, 2016 (using an effective income tax rate of 15%) and \$43 million for the twelve months ended June 30, 2017 (using an effective income tax rate of 18%). IFC's borrowing cost requirements for the twelve months ended December 31, 2016 and the twelve months ended June 30, 2017, after giving effect to the MTN Offering, were \$108 million and \$109 million, respectively. IFC's earnings before borrowing costs and

income tax for the twelve months ended December 31, 2016 and the twelve months ended June 30, 2017 were \$886 million and \$1,012 million, respectively, representing 6.0 times and 6.7 times, respectively, IFC's aggregate dividend and borrowing cost requirements for these periods.

DESCRIPTION OF SHARE CAPITAL

Our authorized share capital currently consists of an unlimited number of Common Shares and an unlimited number of Class A Shares (issuable in series) ("Class A Shares").

As at August 10, 2017, 130,978,634 Common Shares, 10,000,000 Series 1 Preferred Shares, 8,405,004 Series 3 Preferred Shares, 1,594,996 Series 4 Preferred Shares and 6,000,000 Series 5 Preferred Shares were issued and outstanding. An additional 8,210,000 Common Shares are issuable upon the exchange of the Subscription Receipts in accordance with their terms and subject to the terms of the subscription receipt agreement dated May 11, 2017 among IFC, CIBC World Markets Inc., TD Securities Inc. and Computershare Trust Company of Canada.

Common Shares

Holders of Common Shares are entitled to receive dividends, if, as and when declared by our Board of Directors and, unless otherwise provided by legislation, are entitled to one vote per Common Share on all matters to be voted on at all meetings of shareholders. Upon our voluntary or involuntary liquidation, dissolution or winding-up, the holders of Common Shares are entitled to share rateably in the remaining assets available for distribution, after payment of liabilities. The Common Shares are listed on the TSX.

Class A Shares

The Class A Shares are issuable from time to time in one or more series. Our Board of Directors is authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the Class A Shares of each series, which may include voting rights. The Class A Shares of each series rank equally with the Class A Shares of every other series and rank in priority to the Common Shares with respect to dividends and return of capital in the event of our liquidation, dissolution or winding-up. The Series 1 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares and the Series 5 Preferred Shares, are each listed on the TSX.

The terms of the Common Shares, the Subscription Receipts and the Class A Shares (as a class) and the terms of the Series 1 Preferred Shares, the Series 3 Preferred Shares, the Series 4 Preferred Shares and Series 5 Preferred Shares are available on our SEDAR profile at www.sedar.com.

Shareholder Rights Plan

On February 9, 2011, IFC announced the adoption of a shareholder rights plan (the "Shareholder Rights Plan") by our Board of Directors, which was accepted by the TSX. The Shareholder Rights Plan was approved by our shareholders at a meeting held on May 4, 2011 and reconfirmed at the annual and special meeting of shareholders held on May 7, 2014. On February 7, 2017, the Board of Directors adopted the Shareholder Rights Plan in an amended and restated form, which was further amended by the Board of Directors on April 19, 2017 (the "Amended and Restated Rights Plan"). The Amended and Restated Rights Plan was approved at the annual and special meeting of shareholders held on May 3, 2017. A summary of the Amended and Restated Rights Plan (excluding the April 19, 2017 amendments) can be found in our Management Proxy Circular filed on SEDAR on March 31, 2017 at pages 102 to 104, which are incorporated by reference into, and expressly made a part of, this Prospectus Supplement. On April 19, 2017, additional amendments were made to amend the definition of "controlled" and "Permitted Lock-up Agreement", and to remove the reference to National Instrument 62-104 *Take-Over Bids and Issuers Bids* from Section 1.5 - Acting Jointly or in Concert for greater clarity. A complete copy of the Amended and Restated Rights Plan was also filed on SEDAR and is available on our SEDAR profile at www.sedar.com.

PRICE RANGE AND TRADING VOLUME

The outstanding Common Shares are traded on the TSX under the trading symbol “IFC”. The following table sets forth the reported high and low trading prices and trading volumes of the Common Shares as reported by the TSX from August 2016.

<u>Period</u>	<u>High</u> <u>(\$)</u>	<u>Low</u> <u>(\$)</u>	<u>Volume</u>
2017			
August (1-10)	99.88	96.58	1,581,280
July	98.26	95.14	3,326,382
June	98.29	92.28	4,630,037
May	94.51	91.41	6,213,248
April	95.85	92.22	4,253,625
March	95.90	93.39	5,061,814
February	97.56	91.40	4,769,821
January	97.47	92.68	3,640,281
2016			
December	97.34	91.79	4,741,289
November	94.84	90.00	4,743,656
October	96.07	90.50	3,580,929
September	97.20	92.00	3,491,711
August	95.49	91.36	2,725,605

On August 10, 2017, the closing price of the Common Shares was \$98.04.

The outstanding Subscription Receipts are traded on the TSX under the trading symbol “IFC.R”. The following table sets forth the reported high and low trading prices and trading volumes of the Subscription Receipts as reported by the TSX from May 11, 2017 (the date the Subscription Receipts were issued).

<u>Period</u>	<u>High</u> <u>(\$)</u>	<u>Low</u> <u>(\$)</u>	<u>Volume</u>
2017			
August (1-10)	98.70	96.60	11,272
July	97.00	93.96	109,015
June	97.13	91.52	147,301
May	92.84	90.50	201,257

On August 10, 2017, the closing price of the Subscription Receipts was \$98.02.

The outstanding Series 1 Preferred Shares are traded on the TSX under the trading symbol “IFC.PR.A”. The following table sets forth the reported high and low trading prices and trading volumes of the Series 1 Preferred Shares as reported by the TSX from August 2016.

<u>Period</u>	<u>High</u> <u>(\$)</u>	<u>Low</u> <u>(\$)</u>	<u>Volume</u>
2017			
August (1-10)	20.32	19.49	24,062
July	20.60	19.10	60,042
June	19.11	16.55	89,009
May	18.97	17.84	114,901
April	19.21	18.12	729,414
March	19.70	18.40	316,203
February	19.20	18.21	220,468
January	18.24	17.05	166,008

2016

December	17.29	16.20	246,732
November	16.58	15.39	215,248
October	16.03	15.06	179,669
September	15.66	14.96	174,076
August	15.84	15.07	127,656

On August 10, 2017, the closing price of the Series 1 Preferred Shares was \$19.50.

The outstanding Series 3 Preferred Shares are traded on the TSX under the trading symbol “IFC.PR.C”. The following table sets forth the reported high and low trading prices and trading volumes of the Series 3 Preferred Shares as reported by the TSX from August 2016.

<u>Period</u>	<u>High</u> <u>(\$)</u>	<u>Low</u> <u>(\$)</u>	<u>Volume</u>
2017			
August (1-10)	22.71	21.87	26,869
July	22.91	22.20	77,200
June	22.38	20.60	82,032
May	21.98	21.07	83,088
April	22.29	21.55	490,230
March	22.46	21.43	191,529
February	22.13	21.33	363,089
January	21.78	20.71	271,758
2016			
December	21.10	19.60	212,918
November	20.00	18.61	257,444
October	19.10	18.01	381,480
September	18.37	17.09	191,878
August	18.82	18.06	139,164

On August 10, 2017, the closing price of the Series 3 Preferred Shares was \$22.01.

The outstanding Series 4 Preferred Shares are traded on the TSX under the trading symbol “IFC.PR.D”. The following table sets forth the reported high and low trading prices and trading volumes of the Series 4 Preferred Shares as reported by the TSX from October 1, 2016 (the date the Series 4 Preferred Shares were issued).

<u>Period</u>	<u>High</u> <u>(\$)</u>	<u>Low</u> <u>(\$)</u>	<u>Volume</u>
2017			
August (1-10)	22.73	22.15	6,050
July	22.85	22.25	9,650
June	22.10	20.50	13,763
May	21.86	21.50	6,992
April	22.00	21.50	12,040
March	22.25	21.40	17,474
February	21.75	21.39	12,871
January	22.39	21.30	15,136
2016			
December	22.00	19.35	106,557
November	19.65	18.80	80,275
October	18.55	17.90	10,435

On August 10, 2017, the closing price of the Series 4 Preferred Shares was \$22.15.

The outstanding Series 5 Preferred Shares are traded on the TSX under the trading symbol “IFC.PR.E”. The following table sets forth the reported high and low trading prices and trading volumes of the Series 5 Preferred Shares as reported by the TSX from May 24, 2017 (the date the Series 5 Preferred Shares were issued).

<u>Period</u>	<u>High</u> <u>(\$)</u>	<u>Low</u> <u>(\$)</u>	<u>Volume</u>
2017			
August (1-10)	25.25	24.80	58,834
July	25.21	24.90	184,256
June	25.20	25.00	658,926
May (24-31)	25.20	24.90	987,912

On August 10, 2017, the closing price of the Series 5 Preferred Shares was \$24.88.

DETAILS OF THE OFFERING

The following is a summary of certain provisions attaching to the Series 6 Preferred Shares, as a series, which represents a series of Class A Shares of IFC. See “Description of Share Capital – Class A Shares” in this Prospectus Supplement for a description of the general terms and provisions of the Series 6 Preferred Shares of IFC as a class.

Certain Provisions of the Series 6 Preferred Shares as a Series

Dividends

The holders of the Series 6 Preferred Shares will be entitled to receive quarterly non-cumulative preferential cash dividends, if, as and when declared by the Board of Directors, on the last day of March, June, September and December in each year at a rate equal to \$0.33125 per share. The initial dividend, if declared, will be payable on December 29, 2017 and will be \$0.49007 per share, assuming a closing date of August 18, 2017.

If the Board of Directors does not declare any dividend, or any part thereof, on the Series 6 Preferred Shares on or before the dividend payment date for a particular quarter, then the entitlement of the holders of the Series 6 Preferred Shares to receive such dividend, or to any part thereof, for such quarter will be forever extinguished.

Redemption by IFC

The Series 6 Preferred Shares shall not be redeemable at the option of IFC prior to September 30, 2022. Subject to the provisions described below under “Restrictions on Dividends on and Retirement of Other Shares”, IFC may redeem on or after September 30, 2022 all, or from time to time any, of the then outstanding Series 6 Preferred Shares. Such redemption may be made, at IFC’s option without the consent of the holders, upon payment in cash of the amount of \$26.00 per share if redeemed on or after September 30, 2022 and prior to September 30, 2023, \$25.75 per share if redeemed on or after September 30, 2023 and prior to September 30, 2024, \$25.50 per share if redeemed on or after September 30, 2024 and prior to September 30, 2025, \$25.25 per share if redeemed on or after September 30, 2025 and prior to September 30, 2026 and \$25.00 per share if redeemed on or after September 30, 2026, in each case together with an amount equal to all declared and unpaid dividends thereon up to but excluding the date of redemption. IFC shall provide not less than 30 nor more than 60 days’ notice of such redemption to each holder of Series 6 Preferred Shares to be redeemed. If less than all of the outstanding Series 6 Preferred Shares are at any time to be redeemed, the shares to be redeemed will be selected on a pro rata basis (disregarding fractions) or in such manner as IFC may determine.

Purchase for Cancellation

Subject to the provisions described below under the heading “Restrictions on Dividends on and Retirement of Other Shares”, and subject to the provisions of any shares of IFC ranking prior to or *pari passu* with the Class A Shares of IFC, IFC may at any time purchase for cancellation any Series 6 Preferred Shares by private contract or in

the open market or by tender, at any price at which in the opinion of the Board of Directors such shares are obtainable.

Restrictions on Dividends on and Retirement of Other Shares

So long as any of the Series 6 Preferred Shares are outstanding, IFC will not, without the approval of the holders of the Series 6 Preferred Shares given as specified under “– Amendments to the Series 6 Preferred Shares”:

- (i) declare, pay or set apart for payment any dividend on the Common Shares or any other shares ranking junior to the Series 6 Preferred Shares (other than stock dividends on any shares ranking junior to the Series 6 Preferred Shares);
- (ii) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Series 6 Preferred Shares (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Series 6 Preferred Shares);
- (iii) redeem, purchase or otherwise retire less than all of the Series 6 Preferred Shares then outstanding; or
- (iv) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of shares of IFC ranking *pari passu* with the Series 6 Preferred Shares, redeem, purchase or otherwise retire any other shares ranking *pari passu* with the Series 6 Preferred Shares;

unless, in each case, all dividends on the Series 6 Preferred Shares then issued and outstanding, up to and including those payable on the dividend payment date for the last completed period for which dividends shall be payable and in respect of which the rights of the holders thereof have not been extinguished, and all dividends then accrued on all other shares ranking prior to or *pari passu* with the Series 6 Preferred Shares, have been declared and paid or set apart for payment.

Voting Rights

Subject to applicable law, holders of the Series 6 Preferred Shares will not be entitled as such to receive notice of or to attend or to vote at any meeting of the shareholders of IFC unless and until the first time at which the Board of Directors has not declared the whole dividend on the Series 6 Preferred Shares in any quarter. In that event, the holders of the Series 6 Preferred Shares will be entitled to receive notice of, and to attend, only meetings of shareholders of IFC at which directors are to be elected and will be entitled to one vote for each Series 6 Preferred Share held in the election of directors voting together with all other shareholders of IFC who are entitled to vote at such meetings, and the holders of the Series 6 Preferred Shares will not be entitled to vote in respect of any other business conducted at such meetings. The voting rights of the holders of the Series 6 Preferred Shares shall immediately cease upon payment by IFC of the whole amount of a dividend on the Series 6 Preferred Shares to which the holders are entitled subsequent to the time such voting rights first arose. At such time as the Board of Directors may again fail to declare the whole dividend on the Series 6 Preferred Shares in any quarter, such voting rights shall become effective again and so on from time to time.

Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of IFC, or any other distribution of assets of IFC for the purpose of winding up its affairs, the holders of Series 6 Preferred Shares will be entitled to receive \$25.00 for each Series 6 Preferred Share held by them, together with all declared and unpaid dividends to but excluding the date of payment (less any tax required to be deducted and withheld by IFC), before any amounts are paid or any assets of IFC distributed to holders of any shares ranking junior to the Series 6 Preferred Shares. After payment of those amounts, the holders of Series 6 Preferred Shares will not be entitled to share in any further distribution of the property or assets of IFC.

Amendments to the Series 6 Preferred Shares

In addition to any other approvals required by law (including any approvals required by the TSX), the approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series 6 Preferred Shares as a series and any other approval to be given by the holders of the Series 6 Preferred Shares may be given by a resolution signed by all holders of the Series 6 Preferred Shares, or by a resolution passed by the affirmative vote of not less than two-thirds of the votes cast by the holders who voted in respect of that resolution at a meeting of the holders duly called for that purpose and at which the holders of at least 25% of the outstanding Series 6 Preferred Shares are present in person or represented by proxy, or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series 6 Preferred Shares present in person or represented by proxy would form the necessary quorum. At any meeting of holders of Series 6 Preferred Shares as a series, each such holder as at the applicable record date shall be entitled to one vote in respect of each Series 6 Preferred Share held by such holder.

Issue of Additional Series of Preferred Shares

IFC may issue other series of Class A Shares ranking on parity with the Series 6 Preferred Shares without the authorization of the holders of the Series 6 Preferred Shares.

Depository Services

The Series 6 Preferred Shares will be in “book-entry only” form and must be purchased, transferred or redeemed through participants in the depository service of CDS. See “Book-Entry Only System” in the Shelf Prospectus.

Tax Election

The provisions of the Series 6 Preferred Shares as a series require IFC to make the necessary election under Part VI.1 of the Tax Act so that a corporation holding Series 6 Preferred Shares will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Series 6 Preferred Shares. See “Canadian Federal Income Tax Considerations”.

Business Days

If any action is required to be taken by IFC, including the payment of dividends, on a day that is not a business day, then such action shall be taken on or before the immediately succeeding day that is a business day.

RATINGS

The Series 6 Preferred Shares have been assigned a rating of Pfd-2 with a Stable trend by DBRS.

A Pfd-2 rating by DBRS is the middle of three subcategories within the second highest of six categories used by DBRS for preferred shares. According to the DBRS rating system, preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet, and coverage ratios are not as strong as “Pfd-1” rated companies. Generally, Pfd-2 ratings correspond with categories whose senior bonds are rated in the “A” category. Each category is denoted by the subcategories “high” and “low”. The absence of either a “high” or “low” designation indicates the rating is in the middle of the category. A rating trend, expressed as “Positive”, “Stable” or “Negative”, provides guidance in respect of DBRS’s opinion regarding the outlook for the rating.

Credit ratings are intended to provide investors with an independent assessment of the credit quality of an issue or issuer of securities and do not speak to the suitability of particular securities for any particular investor. The credit ratings assigned to the Series 6 Preferred Shares may not reflect the potential impact of all risks on the value of the Series 6 Preferred Shares. A rating is therefore not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency. Prospective investors should consult the relevant rating organization with respect to the interpretation and implications of the ratings.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement dated August 11, 2017 between IFC and the Underwriters, IFC has agreed to sell and the Underwriters have severally (and not jointly and severally) agreed to purchase 6,000,000 Series 6 Preferred Shares at a price of \$25.00 per Series 6 Preferred Share, for aggregate gross consideration of \$150,000,000 payable to IFC against delivery of the Series 6 Preferred Shares. The offering price of the Series 6 Preferred Shares was determined by negotiation between IFC and the Underwriters.

The Underwriting Agreement provides that IFC will pay the Underwriters a fee per share equal to \$0.25 with respect to Series 6 Preferred Shares sold to certain institutions and \$0.75 with respect to all other Series 6 Preferred Shares. Assuming no Series 6 Preferred Shares are sold to such institutions, the Underwriters' fee would be \$4,500,000.

IFC has granted to the Underwriters the Underwriters' Option, exercisable, in whole or in part, at any time and from time to time, until 8:30 a.m. on the date that is two business days prior to the closing of the Offering, to purchase up to an aggregate of 2,000,000 additional Series 6 Preferred Shares on the same terms. If the Underwriters' Option is exercised in full, the total price to the public, the Underwriters' fee and the net proceeds to IFC, before expenses, will be \$200,000,000, \$6,000,000 and \$194,000,000, respectively, assuming no Series 6 Preferred Shares are sold to institutions referred to above. The issuance of Series 6 Preferred Shares on the exercise of the Underwriters' Option is also qualified under this Prospectus Supplement.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint) and may be terminated at their discretion upon the occurrence of certain stated events. Such events include, but are not limited to: (i) there has been any inquiry, action, suit, investigation or other proceeding (whether formal or informal) instituted, announced or threatened, or any order is issued by any federal, provincial, state, municipal, local or other governmental or public department, commission, board, bureau, agency, instrumentality or body, domestic or foreign, any subdivision or authority of any of the foregoing or any quasi-governmental, self-regulatory organization or private body exercising any regulatory, expropriation or taxing authority under or for the account of its members or any of the above or otherwise (other than an inquiry, investigation, proceeding or order based upon the activities or alleged activities of the Underwriters), or there is any change of law, or the interpretation or administration thereof, which in the reasonable opinion of the Underwriters operates to prevent or restrict the trading in the Series 6 Preferred Shares or the distribution of the Series 6 Preferred Shares or which in the reasonable opinion of the Underwriter, acting in good faith, could be expected to have a material adverse effect on the market price or value of the Series 6 Preferred Shares, by giving IFC and, if applicable, the Lead Underwriters written notice to that effect not later than the closing of the Offering; (ii) there has occurred, been discovered or been publicly announced by IFC any material change in the business, financial condition, assets, liabilities (contingent or otherwise), results of operations or prospects of IFC and its subsidiaries (taken as a whole) or any change in any material fact contained or referred to in this Prospectus Supplement or any amendment or any U.S. offering document, or there shall exist any material fact which is, or may be, of such a nature as to render the Prospectus Supplement or any amendment or any U.S. offering document, untrue, false or misleading in a material respect or result in a misrepresentation (other than a change or fact related solely to the Underwriters), which in the reasonable opinion of the Underwriters could be expected to have a material adverse effect on the market price or value of the Series 6 Preferred Shares, by giving IFC and, if applicable, the Lead Underwriters written notice to that effect no later than the closing of the Offering; (iii) there has developed, occurred or come into effect or existence any event, action, state, condition or occurrence of national or international consequence, acts of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions or any action, law, regulation or inquiry which, in the reasonable opinion of the Underwriters, materially adversely affects or involves, or may materially adversely affect or involve, the financial markets in Canada or the United States, or the business, operations or affairs of IFC and its subsidiaries (taken as a whole), or the market price or value of the Series 6 Preferred Shares, by giving IFC and, if applicable, the Lead Underwriters written notice to that effect no later than the closing of the Offering; or (iv) there has occurred a downgrade in the rating applicable to the Series 6 Preferred Shares by DBRS Limited or any rating agency has placed any of the securities of IFC on credit watch or has publicly announced that it has under surveillance or review, with possible negative implications, its rating of the Series 6 Preferred Shares. If an Underwriter fails, except in certain limited circumstances, to purchase the Series 6 Preferred Shares which it has agreed to purchase, the other Underwriters may, but are not obligated to, purchase such Series 6 Preferred Shares. If, however, the aggregate number of Series 6 Preferred

Shares not purchased is equal to or less than 10% of the aggregate number of Series 6 Preferred Shares agreed to be purchased by the Underwriters, then each of the other Underwriters is required, each severally (and not jointly) to purchase the full amount thereof on a *pro rata* basis. The Underwriters are, however, obligated to take up and pay for all Series 6 Preferred Shares if any Series 6 Preferred Shares are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that IFC will indemnify the Underwriters, their respective subsidiaries and affiliates and each of their respective directors, officers, shareholders, partners, agents and employees against certain liabilities and expenses.

The Underwriters intend to offer the Series 6 Preferred Shares initially at the public offering price specified on the cover page of this Prospectus Supplement. After the Underwriters have made a reasonable effort to sell all of the Series 6 Preferred Shares offered by this Prospectus Supplement at the price specified herein, the offering price may be decreased and may be further changed from time to time to an amount not greater than that specified on the cover page of this Prospectus Supplement, and the compensation realized by the Underwriters will accordingly also be reduced.

IFC has agreed that during the period ending 90 days from the Offering closing date, it will not offer, sell or issue for sale or resale (or agree, or announce any intention, to do so) any preferred shares or securities convertible into, or exercisable or exchangeable for, preferred shares, except the Series 6 Preferred Shares and pursuant to, as applicable, IFC's existing equity compensation plans or other existing commitments, without the prior written consent of the Lead Underwriters, on behalf of the Underwriters, which consent may not be unreasonably withheld.

The Series 6 Preferred Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States and, accordingly, may not be offered, sold or delivered, directly or indirectly, within the United States (as defined in Regulation S under the U.S. Securities Act), except in certain transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws.

This Prospectus Supplement does not constitute an offer to sell or a solicitation of an offer to buy any of the Series 6 Preferred Shares in the United States.

Pursuant to policy statements of certain securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Series 6 Preferred Shares. The policy statements allow certain exceptions to the foregoing prohibitions. The Underwriters may only avail themselves of such exceptions on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Series 6 Preferred Shares. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first mentioned exception, in connection with the Offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series 6 Preferred Shares at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

CIBC World Markets Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., RBC Dominion Securities Inc. and Scotia Capital Inc. are wholly-owned subsidiaries of Canadian banks that are currently lenders to IFC under its Credit Facility. IFC and its subsidiaries are presently in compliance with the terms of the Credit Facility and none of the lenders has waived a breach of the agreement governing such Credit Facility since its execution. The consolidated financial position of IFC has not changed materially since the indebtedness under such Credit Facility was incurred. Accordingly, IFC may be considered a "connected issuer" of these Underwriters within the meaning of applicable securities legislation. None of these Underwriters will receive any direct benefit from the Offering other than the underwriting commission relating to the Offering. The decision to distribute the Series 6 Preferred Shares and the determination of the terms of the Offering were made through negotiation between IFC and the Underwriters. No bank had any involvement in such decision or determination. See "Use of Proceeds" and "Consolidated Capitalization".

There is currently no market through which the Series 6 Preferred Shares may be sold and purchasers may not be able to resell Series 6 Preferred Shares purchased under this Prospectus Supplement.

The TSX has conditionally approved the listing of the Series 6 Preferred Shares. Listing of the Series 6 Preferred Shares offered under this Prospectus Supplement is subject to IFC fulfilling all the listing requirements of the TSX on or before November 7, 2017.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon LLP, counsel to IFC, and McCarthy Tétrault LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a purchaser of Series 6 Preferred Shares pursuant to this Prospectus Supplement who, for purposes of the Tax Act and at all relevant times, is or is deemed to be a resident of Canada, deals at arm's length with IFC and each of the Underwriters and is not affiliated with IFC or any of the Underwriters and holds Series 6 Preferred Shares as capital property (a "Holder"). Generally, the Series 6 Preferred Shares will be capital property to a holder provided the holder does not acquire or hold such shares in the course of carrying on a business or as part of an adventure or concern in the nature of trade. Certain holders of Series 6 Preferred Shares who might not otherwise be considered to hold their Series 6 Preferred Shares as capital property may, in certain circumstances, be entitled to have the Series 6 Preferred Shares, and all other "Canadian securities" (as defined in the Tax Act) owned by such holders in the taxation year of the election and any subsequent taxation year, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Holders should consult their own tax advisors regarding this election.

This summary is not applicable to a Holder (i) that is a "financial institution" for purposes of the "mark to market property" rules in the Tax Act or is a "specified financial institution" or a "restricted financial institution" (each as defined in the Tax Act), (ii) an interest in which is a "tax shelter investment" (as defined in the Tax Act), (iii) which has made a "functional currency" election under the Tax Act to determine its Canadian tax results in a currency other than Canadian currency, (iv) that is a corporation resident in Canada and is (or does not deal at arm's length for purposes of the Tax Act with a corporation resident in Canada that is), or becomes as part of a transaction or event or series of transactions or events that includes the acquisition or the Series 6 Preferred Shares, controlled by a non-resident corporation for the purposes of section 212.3 of the Tax Act or (v) that has entered into, or will enter into, a "derivative forward agreement" (as defined in the Tax Act) in respect of Series 6 Preferred Shares. Such Holders are advised to consult with their own tax advisors. In addition, this summary does not address the deductibility of interest by a holder who has borrowed money or otherwise incurred debt in connection with the acquisition of Series 6 Preferred Shares.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser and no representations with respect to the income tax consequences to any particular purchaser are made. Accordingly, prospective purchasers should consult their own tax advisors with respect to their particular circumstances.

This summary is based upon the current provisions of the Tax Act, all Proposals and counsels' understanding of the current administrative policies and assessing practices of the Canada Revenue Agency made publicly available prior to the date hereof. This summary assumes that the Proposals will be enacted in the form proposed; however, no assurances can be given that the Proposals will be enacted as proposed, or at all. This summary is not exhaustive of all Canadian federal income tax considerations and, except for the Proposals, does not otherwise take into account or anticipate any change in law or administrative policies or assessing practices, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any provincial, territorial or foreign tax legislation or considerations.

The Proposals do not include, and this summary does not take into account, the discussion paper seeking input on possible approaches to address certain perceived tax advantages of investing passively through a private corporation released, for consultation, by the Minister of Finance (Canada) on July 18, 2017. See, in this regard, "*Risk Factors – Change of Tax Law*". Holders that are private corporations should consult their own tax advisors in this regard.

Dividends

Dividends (including deemed dividends) received on the Series 6 Preferred Shares by a Holder that is an individual will be included in the individual's income and generally will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends (including a deemed dividend) received from taxable Canadian corporations, including the enhanced dividend gross-up and dividend tax credit with respect to any dividends (including deemed dividends) designated by IFC as "eligible dividends" in accordance with the Tax Act. By notice in writing on IFC's website, IFC has designated all dividends paid by IFC to be "eligible dividends" within the meaning of the Tax Act unless otherwise notified.

Dividends (including deemed dividends) received on the Series 6 Preferred Shares by a Holder that is a corporation will be included in computing the corporation's income and will generally be deductible in computing the taxable income of the corporation. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received by a Holder that is a corporation as proceeds of disposition or a capital gain. Holders that are corporations should consult their own tax advisors having regard to their particular circumstances.

The Series 6 Preferred Shares are "taxable preferred shares" as defined in the Tax Act. The terms of the Series 6 Preferred Shares require IFC to make the necessary election under Part VI.1 of the Tax Act so that a corporation holding Series 6 Preferred Shares will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Series 6 Preferred Shares.

Dividends received by an individual (including certain trusts) may give rise to a liability for alternative minimum tax.

A Holder that is a "private corporation", as defined in the Tax Act, or any other corporation controlled (whether by reason of a beneficial interest in one or more trusts or otherwise) by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), will generally be liable to pay refundable tax under Part IV of the Tax Act of 38 $\frac{1}{3}$ % of dividends received (or deemed to be received) on the Series 6 Preferred Shares to the extent such dividends are deductible in computing its taxable income.

Dispositions

A Holder who disposes of or is deemed to dispose of a Series 6 Preferred Share (either on redemption of the Series 6 Preferred Share for cash or otherwise) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such share to such Holder. For this purpose, the adjusted cost base to a Holder of Series 6 Preferred Shares will be determined at any time by averaging the cost of such Series 6 Preferred Shares with the adjusted cost base of any other Series 6 Preferred Shares owned by the Holder as capital property immediately before that time. The amount of any deemed dividend arising on the redemption or acquisition by IFC of a Series 6 Preferred Share will generally not be included in computing the proceeds of disposition to the Holder for purposes of computing the capital gain or capital loss arising on the disposition of the Series 6 Preferred Share. See "Redemption" below. If the Holder is a corporation, any capital loss arising on the disposition of a Series 6 Preferred Share may, in certain circumstances, be reduced by the amount of any dividends, including deemed dividends, which have been received on the Series 6 Preferred Share or on any share which was converted into or exchanged for such share. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Generally, one-half of any capital gain will be included in computing the Holder's income as a taxable capital gain. One-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year must generally be deducted from taxable capital gains realized by the Holder in such year. Allowable capital losses in excess of taxable capital gains realized in a taxation year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, subject to and in accordance with the rules contained in the Tax Act. Capital gains realized by an individual (including certain trusts) may give rise to liability for alternative minimum tax under the Tax Act. An amount in respect of taxable capital gains of a Canadian-controlled private corporation, as defined in the Tax Act, may be subject to an additional refundable tax.

Redemption

If IFC redeems or otherwise acquires or cancels a Series 6 Preferred Share held by a Holder, other than by a purchase in the open market in the manner in which shares are normally purchased by any member of the public in the open market, the Holder will be deemed to have received a dividend equal to the amount, if any, paid by IFC, including any redemption premium, in excess of the paid-up capital (as determined for purposes of the Tax Act) of such share at such time. Generally, the proceeds of disposition for purposes of computing the capital gain or capital loss arising on the disposition of such share will be equal to the amount paid by IFC on redemption or acquisition of such share, including any redemption premium, less the amount of the deemed dividend, if any. In the case of a Holder that is a corporation, it is possible that in certain circumstances subsection 55(2) of the Tax Act may treat all or part of the deemed dividend as proceeds of disposition and not as a dividend.

RISK FACTORS

An investment in the Series 6 Preferred Shares involves certain risks. In addition to the other information contained in this Prospectus Supplement, the Shelf Prospectus, the risk factors incorporated by reference from the Prior Prospectus and the risks described under the “Risk Management” sections of the Annual MD&A and Interim MD&A, prospective purchasers of Series 6 Preferred Shares should consider carefully the risk factors set forth below.

The risks and uncertainties described below, in this Prospectus Supplement, the Shelf Prospectus and in the documents incorporated by reference are not the only ones we may face. Additional risks and uncertainties that we are unaware of, or that we currently deem to be immaterial, may also become important factors that affect us. If any of these risks actually occurs, our business, financial condition or results of operations could be materially adversely affected, with the result that the trading price of the Series 6 Preferred Shares could decline and investors could lose all or part of their investment.

General Creditworthiness and Credit Ratings

The value of the Series 6 Preferred Shares will be affected by our general creditworthiness. The Annual MD&A is incorporated by reference in this Prospectus Supplement. The Annual MD&A reports, among other things, known material trends and events, and risks and uncertainties that are reasonably expected to have a material effect on IFC’s business, financial condition and/or results of operations. See also the discussion under “Earnings Coverage Ratios”, which is relevant to an assessment of the risk that IFC will be unable to pay dividends on the Series 6 Preferred Shares.

Real or anticipated changes in credit ratings on the Series 6 Preferred Shares may also affect the market value of the Series 6 Preferred Shares. No assurance can be given that any credit ratings assigned to the Series 6 Preferred Shares will not be lowered or withdrawn entirely by the relevant rating agency. In addition, real or anticipated changes in credit ratings could adversely impact the marketability of the products offered by us and could affect the cost at which we obtain funding, thereby affecting our liquidity, business, financial condition or results of operations.

Dividends

The Series 6 Preferred Shares are non-cumulative and dividends are payable at the discretion of the Board of Directors. See “Earnings Coverage Ratios” and “Description of Share Capital – Class A Shares” which are relevant to an assessment of the risk that we will be unable to pay dividends on the Series 6 Preferred Shares.

Holding Company Structure

We are a holding company and we will rely on cash dividends and other permitted payments from our subsidiaries and our own cash balances as the principal source of cash flow to meet our obligations with respect to the Series 6 Preferred Shares. As a result, our cash flows and ability to service our obligations, including the Series 6 Preferred Shares, are dependent upon the earnings of our subsidiaries, distributions of those earnings to us and other payments or distributions of funds by our subsidiaries to us. Substantially all of our business is currently conducted through our subsidiaries.

The ability of our subsidiaries to pay dividends to us in the future may be limited by applicable corporate and insurance law restrictions.

Structural Subordination of the Series 6 Preferred Shares

The Series 6 Preferred Shares are equity capital of IFC which rank equally with other Class A Shares in the event of an insolvency or winding-up of IFC. If IFC becomes insolvent or is wound-up, its assets must be used to satisfy outstanding indebtedness and other liabilities of IFC, including subordinated indebtedness of IFC, before payment may be made on the Series 6 Preferred Shares.

Our subsidiaries have no obligation to pay any amounts due on the Series 6 Preferred Shares. Furthermore, except to the extent IFC has a priority or equal claim against its subsidiaries as a creditor, the Series 6 Preferred Shares will be effectively subordinated to debt and preferred shares at the subsidiary level because, as the common shareholder of its corporate subsidiaries, IFC will be subject to the prior claims of creditors of its subsidiaries. As a result, a holder of Series 6 Preferred Shares will not have any claim as a creditor against our subsidiaries. Accordingly, the Series 6 Preferred Shares are effectively subordinated to all liabilities of any of IFC's subsidiaries. Therefore, holders of Series 6 Preferred Shares should rely only on IFC's assets for payments on the shares.

Fluctuations in Market Value

Prevailing yields on similar securities will affect the market value of the Series 6 Preferred Shares. Assuming all other factors remain unchanged, the market value of the Series 6 Preferred Shares would be expected to decline as prevailing yields for similar securities rise, and would be expected to increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Series 6 Preferred Shares in an analogous manner.

From time to time, the financial markets experience significant price and volume volatility that may affect the market price of the Series 6 Preferred Shares for reasons unrelated to our performance. The continuing volatility in financial markets may adversely affect us and the market price of the Series 6 Preferred Shares. Also, the financial markets are generally characterized by extensive interconnections among financial institutions. As such, defaults by other financial institutions in Canada, the United States or other countries could adversely affect us and the market price of the Series 6 Preferred Shares. Additionally, the value of the Series 6 Preferred Shares are subject to market value fluctuations based upon factors which influence our operations, such as legislative or regulatory developments, competition, technological change and global capital market activity.

Market for Securities

There is currently no market through which the Series 6 Preferred Shares may be sold and purchasers of Series 6 Preferred Shares may not be able to resell the Series 6 Preferred Shares purchased under this Prospectus Supplement. The price offered to the public for the Series 6 Preferred Shares was determined by negotiations among IFC and the Underwriters. The price paid for each Series 6 Preferred Share may bear no relationship to the price at which the Series 6 Preferred Shares will trade in the public market subsequent to this Offering. IFC cannot predict at what price the Series 6 Preferred Shares will trade and there can be no assurance that an active trading market will develop for the Series 6 Preferred Shares or, if developed, that such market will be sustained. The TSX has conditionally approved the listing of the Series 6 Preferred Shares. Listing will be subject to IFC fulfilling all the listing requirements of the TSX. There can be no assurance that the Series 6 Preferred Shares will be accepted for listing on the TSX.

Information Provided by OneBeacon

All information relating to OneBeacon contained in this Prospectus Supplement or incorporated by reference herein is based solely upon information provided by OneBeacon to IFC in connection with the Acquisition and upon information made publicly available by OneBeacon. While IFC, after conducting due diligence that it believes to be a prudent and thorough level of investigation, believes it to be accurate in all material respects, an unavoidable level of risk remains regarding the accuracy and completeness of such information.

Historical Financial Information and Pro Forma Financial Information

The historical financial information relating to OneBeacon incorporated by reference and included in this Prospectus Supplement, including such information used to prepare the *pro forma* financial information, has been derived on a historical basis from the historical accounting records of OneBeacon. The historical financial information may not reflect what OneBeacon's financial position, results of operations or cash flows would have been had IFC owned all of the outstanding common shares of OneBeacon during the period presented or what IFC's financial position, results of operations or cash flows will be in the future. The historical financial information does not contain any adjustments to reflect changes that may occur in IFC's cost structure, financing and operations as a result of the Acquisition.

In preparing the *pro forma* financial information in this Prospectus Supplement, IFC has given effect to, among other items, the Offering, the MTN Offering, the Series 5 Preferred Share Offering, the Subscription Receipt Public Offering, the Concurrent Private Placements and the completion of the Acquisition. The assumptions and estimates underlying the *pro forma* financial information may be materially different from IFC's actual experience going forward. See "Caution Regarding Unaudited *Pro Forma* Condensed Consolidated Financial Statements" and "Forward-Looking Statements".

Exchange Rate Risk

As IFC anticipates funding a portion of the purchase price of the Acquisition from Canadian dollar denominated securities and credit facilities, and the purchase price of the Acquisition is denominated in U.S. dollars, a significant decline in the value of the Canadian dollar relative to the U.S. dollar at the time of closing of the Acquisition could increase the cost to IFC of funding the purchase price of the Acquisition. Although IFC implemented certain hedging strategies in order to mitigate its exposure to such currency exchange risk, there can be no assurance that such hedging or other risk management strategies, if any, undertaken by IFC will be effective. In addition, currency hedging entails a risk of illiquidity and counterparty default and, to the extent the U.S. dollar depreciates against the Canadian dollar, the risk of using hedges could result in losses greater than if the hedging had not been used. Also, hedging arrangements may have the effect of limiting or reducing the total returns to IFC if management's expectations concerning future events or market conditions prove to be incorrect, in which case the costs associated with the hedging strategies may outweigh their benefits.

Other Risk Factors Specific to the Series 6 Preferred Shares

Series 6 Preferred Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series 6 Preferred Shares. The ability of a holder to liquidate its holdings of Series 6 Preferred may be limited.

We may choose to redeem the Series 6 Preferred Shares from time to time, in accordance with our rights described under "Details of the Offering – Certain Provisions of the Series 6 Preferred Shares as a Series – Redemption", including when prevailing interest rates are lower than yield borne by the Series 6 Preferred Shares. If prevailing rates are lower at the time of redemption, a purchaser would not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yield on the Series 6 Preferred Shares being redeemed. Our redemption right also may adversely impact a purchaser's ability to sell Series 6 Preferred Shares as the optional redemption date or period approaches.

Holders of Series 6 Preferred Shares will not generally have voting rights at meetings of shareholders of IFC except under limited circumstances. See "Details of the Offering – Voting Rights".

Use of Proceeds

IFC intends to use the net proceeds of this Offering to fund a portion of the purchase price for the Acquisition as described under "Use of Proceeds". The Offering is not conditional on closing of the Acquisition. If the Acquisition is not completed, the net proceeds of this Offering will be used for general corporate purposes.

Change of Tax Law

On July 18, 2017, the Minister of Finance (Canada) released for consultation a discussion paper seeking input on possible approaches to address certain perceived tax advantages of investing passively through a private corporation. Potential alternatives for amending the current system of corporate taxation under the Tax Act are outlined in this paper, though specific proposals to amend the Tax Act are not included. Legislative proposals are expected to be released by the Minister of Finance (Canada) following such consultation. There can be no assurance that, following the enactment of any such proposals, Series 6 Preferred Shares held by a Canadian corporation will not be taxed under the Tax Act in a manner that is less favourable than under the current system.

LEGAL MATTERS

Certain legal matters relating to the Offering will be passed upon on behalf of IFC by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by McCarthy Tétrault LLP. As of the date of this Prospectus Supplement, the partners and associates of Blake, Cassels & Graydon LLP and McCarthy Tétrault LLP, respectively, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding securities of IFC or any associate or affiliate of IFC.

AUDITORS, TRANSFER AGENT AND REGISTRAR

IFC's auditors are Ernst & Young LLP, 800 René-Lévesque Blvd, Suite 1900, Montreal, Quebec, H3B 1X9. The auditors have confirmed to IFC that they are independent within the meaning of the Code of Ethics of the Ordre des comptables professionnels agréés du Québec.

OneBeacon's auditors are PriceWaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, Minnesota, 55402, United States of America. The auditors have confirmed to OneBeacon that they are independent within the meaning of the Public Company Accounting Oversight Board (PCAOB) Rule 3520, *Auditor Independence*.

The transfer agent and registrar for the Series 6 Preferred Shares will be Computershare Investor Services Inc. at its principal office in Toronto, Ontario.

STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus, and any amendment thereto. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of such purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

FINANCIAL STATEMENTS

OneBeacon Insurance Group, Ltd. Financial Statements

Unaudited interim consolidated financial statements of OneBeacon Insurance Group, Ltd., together with the notes thereto, as at and for the three- and six-month periods ended June 30, 2017.....F-2

Intact Financial Corporation *Pro Forma* Financial Statements

Unaudited *pro forma* condensed consolidated financial statements.....F-49

Unaudited *pro forma* condensed consolidated balance sheet as at June 30, 2017.....F-50

Unaudited *pro forma* condensed consolidated statement of income for the year ended December 31, 2016.....F-51

Unaudited *pro forma* condensed consolidated statement of income for the six months ended June 30, 2017.....F-52

Notes to the unaudited *pro forma* condensed consolidated financial statements.....F-53

**Unaudited interim consolidated financial statements of OneBeacon Insurance Group, Ltd., as at and for the
three- and six-month periods ended June 30, 2017**

ONEBEACON INSURANCE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

(\$ in millions, except per share amounts)	June 30, 2017	December 31, 2016
Assets	(Unaudited)	
Investment Securities:		
Fixed maturity investments, at fair value (amortized cost: \$2,269.8 in 2017 and \$2,164.4 in 2016)	\$ 2,288.6	\$ 2,169.1
Short-term investments, at amortized cost (which approximates fair value)	55.5	112.1
Common equity securities, at fair value (cost: \$183.8 in 2017 and \$182.3 in 2016)	205.5	188.7
Other investments, at fair value (cost: \$107.5 in 2017 and \$120.9 in 2016)	134.1	150.5
Total investment securities	2,683.7	2,620.4
Cash	71.3	69.6
Reinsurance recoverables	198.0	179.5
Premiums receivable	245.4	228.3
Deferred acquisition costs	106.9	96.3
Ceded unearned premiums	56.6	44.2
Net deferred tax asset	130.1	126.7
Investment income accrued	12.9	11.3
Accounts receivable on unsettled investment sales	5.8	1.4
Other assets	185.7	212.2
Total assets	<u>\$ 3,696.4</u>	<u>\$ 3,589.9</u>
Liabilities		
Unpaid loss and loss adjustment expense reserves	\$ 1,411.2	\$ 1,365.6
Unearned premiums	595.2	575.1
Funds held under insurance contracts	210.2	153.0
Debt	273.3	273.2
Accounts payable on unsettled investment purchases	9.3	—
Other liabilities	182.4	197.8
Total liabilities	2,681.6	2,564.7
OneBeacon's common shareholders' equity and noncontrolling interests		
OneBeacon's common shareholders' equity		
Preference shares (Par value \$0.01; 80,000,000 authorized shares; none issued or outstanding)	—	—
Common shares and paid-in surplus (Class A: par value \$0.01; 200,000,000 authorized shares; 22,986,618 and 22,592,731 issued and outstanding)(Class B: par value \$0.01; 200,000,000 authorized shares; 71,754,738 issued and outstanding for both periods)	1,014.5	1,013.2
Retained earnings	4.5	12.3
Accumulated other comprehensive loss (AOCL)	(3.9)	(4.2)
Total OneBeacon's common shareholders' equity	1,015.1	1,021.3
Total noncontrolling interests	(0.3)	3.9
Total OneBeacon's common shareholders' equity and noncontrolling interests	1,014.8	1,025.2
Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests	<u>\$ 3,696.4</u>	<u>\$ 3,589.9</u>

See Notes to Consolidated Financial Statements.

ONEBEACON INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(\$ in millions, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenues				
Earned premiums	\$ 277.4	\$ 271.4	\$ 539.2	\$ 550.0
Net investment income	14.5	12.1	26.7	26.5
Net realized and change in unrealized investment gains	12.3	24.7	27.3	41.3
Net other revenues	2.1	0.8	5.5	1.7
Total revenues	306.3	309.0	598.7	619.5
Expenses				
Loss and loss adjustment expenses	188.6	179.7	339.2	338.5
Policy acquisition expenses	48.4	48.7	93.7	99.7
Other underwriting expenses	59.6	50.9	111.3	106.2
General and administrative expenses	8.8	3.5	13.8	7.4
Interest expense	3.3	3.2	6.6	6.5
Total expenses	308.7	286.0	564.6	558.3
Pre-tax income (loss)	(2.4)	23.0	34.1	61.2
Income tax (expense) benefit	2.7	2.0	(1.2)	10.7
Net income, including noncontrolling interests	0.3	25.0	32.9	71.9
Less: Net income attributable to noncontrolling interests	(0.4)	(0.5)	(0.9)	(1.0)
Net income (loss) attributable to OneBeacon's common shareholders	(0.1)	24.5	32.0	70.9
Other comprehensive income, net of tax	0.2	0.2	0.3	0.2
Comprehensive income attributable to OneBeacon's common shareholders	\$ 0.1	\$ 24.7	\$ 32.3	\$ 71.1
Earnings per share attributable to OneBeacon's common shareholders—basic and diluted				
Net income attributable to OneBeacon's common shareholders per share	\$ —	\$ 0.26	\$ 0.34	\$ 0.75
Dividends declared and paid per OneBeacon's common share	\$ 0.21	\$ 0.21	\$ 0.42	\$ 0.42

See Notes to Consolidated Financial Statements.

ONEBEACON INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY
(Unaudited)

(\$ in millions)	OneBeacon's Common Shareholders' Equity					Noncontrolling interests, after tax	Total OneBeacon's common shareholders' equity and noncontrolling interests
	Common shares outstanding	Common shares and paid-in surplus	Retained earnings	AOCL	Total OneBeacon common shareholders' equity		
Balances at January 1, 2017	94,347,469	\$1,013.2	\$ 12.3	\$ (4.2)	\$ 1,021.3	\$ 3.9	\$ 1,025.2
Comprehensive income:							
Net income	—	—	32.0	—	32.0	0.9	32.9
Other comprehensive income, net of tax	—	—	—	0.3	0.3	—	0.3
Total comprehensive income	—	—	32.0	0.3	32.3	0.9	33.2
Amortization of restricted share awards	—	2.4	—	—	2.4	—	2.4
Issuance of common shares	461,160	—	—	—	—	—	—
Repurchase and retirement of common shares	(67,273)	(1.1)	—	—	(1.1)	(4.1)	(5.2)
Dividends	—	—	(39.8)	—	(39.8)	(1.0)	(40.8)
Balances at June 30, 2017	94,741,356	\$1,014.5	\$ 4.5	\$ (3.9)	\$ 1,015.1	\$ (0.3)	\$ 1,014.8

(\$ in millions)	OneBeacon's Common Shareholders' Equity					Noncontrolling interests, after tax	Total OneBeacon's common shareholders' equity and noncontrolling interests
	Common shares outstanding	Common shares and paid-in surplus	Retained earnings	AOCL	Total OneBeacon common shareholders' equity		
Balances at January 1, 2016	95,089,240	\$1,022.0	\$ (15.9)	\$ (5.2)	\$ 1,000.9	\$ 3.6	\$ 1,004.5
Comprehensive income:							
Net income	—	—	70.9	—	70.9	1.0	71.9
Other comprehensive income, net of tax	—	—	—	0.2	0.2	—	0.2
Total comprehensive income	—	—	70.9	0.2	71.1	1.0	72.1
Amortization of restricted share awards	—	1.3	—	—	1.3	—	1.3
Issuance of common shares	173,559	—	—	—	—	0.1	0.1
Repurchase and retirement of common shares	(915,330)	(11.5)	—	—	(11.5)	—	(11.5)
Dividends	—	—	(39.6)	—	(39.6)	(1.0)	(40.6)
Balances at June 30, 2016	94,347,469	\$1,011.8	\$ 15.4	\$ (5.0)	\$ 1,022.2	\$ 3.7	\$ 1,025.9

See Notes to Consolidated Financial Statements.

ONEBEACON INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(\$ in millions)	Six months ended June 30,	
	2017	2016
Cash flows from operations:		
Net income including noncontrolling interests	\$ 32.9	\$ 71.9
Charges (credits) to reconcile net income to cash flows provided from operations:		
Net realized and change in unrealized investment gains	(27.3)	(41.3)
Deferred income tax (benefit) expense	(2.6)	19.2
Other operating items:		
Net change in loss and LAE reserves	45.6	(13.2)
Net change in unearned premiums	20.1	(3.9)
Net change in ceded unearned premium	(12.4)	(5.0)
Net change in premiums receivable	(17.1)	(19.9)
Net change in reinsurance recoverables on paid and unpaid losses	(18.5)	10.0
Net change in funds held under insurance contracts	57.2	3.2
Net change in other assets and liabilities	8.3	(38.3)
Net cash provided from (used for) operations	86.2	(17.3)
Cash flows from investing activities:		
Net maturities, purchases and sales of short-term investments	56.6	(45.4)
Maturities of fixed maturity investments	158.6	229.5
Sales of fixed maturity investments	686.1	200.5
Sales of common equity securities	5.8	174.4
Return of capital and distributions of other investments	13.5	7.0
Purchases of fixed maturity investments	(957.9)	(449.4)
Purchases of common equity securities	(6.2)	(109.5)
Contributions for other investments	(0.9)	(0.4)
Net change in unsettled investment purchases and sales	4.8	42.5
Acquisitions of property and equipment	(4.0)	(2.1)
Net cash (used for) provided from investing activities	(43.6)	47.1
Cash flows from financing activities:		
Cash dividends paid to common shareholders	(39.8)	(39.6)
Repurchases and retirements of common stock	(1.1)	(11.5)
Payments on capital lease obligation	—	(1.0)
Net cash used for financing activities	(40.9)	(52.1)
Net increase (decrease) in cash during period	1.7	(22.3)
Cash balance at beginning of period	69.6	95.2
Cash balance at end of period	\$ 71.3	\$ 72.9

See 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 with U.S.-based underwriting operating companies that are property and casualty insurance writers and a Bermuda-based reinsurance company, Split Rock Insurance, Ltd. ("Split Rock"). OneBeacon offers a wide range of specialty insurance products and services primarily through independent agencies, regional and national brokers, wholesalers and managing general agencies.

OneBeacon is 75.7% owned by White Mountains Insurance Group, Ltd. ("White Mountains"), a holding company whose businesses provide property and casualty insurance, reinsurance and certain other products. The Company's headquarters are located at 26 Reid Street, Hamilton HM 11, Bermuda. The Company's U.S. corporate headquarters are located at 605 North Highway 169, Plymouth, Minnesota 55441 and its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

On May 2, 2017, Intact Financial Corporation ("Intact"), which is based in Toronto, Ontario, Canada and is the largest provider of property and casualty insurance in Canada, and the Company announced that they had entered into a definitive merger agreement ("Merger Agreement") which provides for the merger of an indirect subsidiary of Intact with and into the Company, following the satisfaction of various closing conditions, including approval by the Company's shareholders and approval by applicable insurance regulatory authorities (the "OneBeacon Acquisition"). See Note 2—"OneBeacon Acquisition".

OneBeacon's reportable segments are Specialty Products, Specialty Industries and Investing, Financing and Corporate. The Specialty Products segment is comprised of ten active underwriting operating segments, representing an aggregation based on those that offer distinct products and tailored coverages and services to a broad customer base across the United States. The Specialty Industries segment is comprised of six active underwriting operating segments, representing an aggregation based on those that focus on solving the unique needs of a particular customer or industry group. The Investing, Financing and Corporate segment includes the investing and financing activities for OneBeacon on a consolidated basis, and certain other activities conducted through the Company and its intermediate holding company subsidiaries. See Note 7—"Segment Information" for changes to underwriting operating and reportable segments during the three months ended March 31, 2017. Prior periods have been restated to conform to the current presentation of segment information.

All significant intercompany transactions have been eliminated in consolidation. These interim financial statements include all adjustments considered necessary by management to fairly state 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 2016 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") on February 27, 2017. The preparation of financial statements 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 2016 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.

Derivatives

During 2017, OneBeacon began purchasing foreign currency forward contracts in order to provide an economic hedge against fluctuations in certain foreign-denominated fixed maturity securities that were purchased during the same time period. These foreign currency forward contracts are considered derivative financial instruments and they have not been designated or accounted for under hedge accounting. OneBeacon recognizes these derivatives as either assets or liabilities, measured at fair value, in the consolidated balance sheets. Changes in the fair value of derivative instruments, or realized gains and losses from the sale or maturity of the forward contracts, are recognized as components of investment results in current period pre-tax income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Recently Adopted Changes in Accounting Principles

Stock Compensation

Effective January 1, 2017, OneBeacon adopted ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* (ASC 718) which simplifies certain aspects of the accounting for share-based compensation. The new guidance provides an accounting policy election to account for forfeitures by either applying an assumption, as required under existing guidance, or by recognizing forfeitures when they actually occur. At adoption, OneBeacon did not change its accounting policy for forfeitures, which is to apply an assumed forfeiture rate. The new guidance has also changed the threshold for partial cash settlement to settle statutory withholding requirements for equity classified awards, increasing the threshold up to the maximum statutory tax rate.

In addition, the new guidance changed the treatment for excess tax benefits which arise from the difference between the deduction for tax purposes and the compensation costs recognized for financial reporting. Previously, excess tax benefits were recognized through other comprehensive income. Under the new guidance, OneBeacon will recognize excess tax benefits or expense in current period earnings.

Short-Duration Contracts

Effective December 31, 2016, OneBeacon adopted ASU 2015-09, *Disclosures about Short Duration Contracts* (ASC 944) which requires expanded footnote disclosures about loss and loss adjustment expense ("LAE") reserves. Upon adoption, OneBeacon modified its disclosures in the Company's 2016 Annual Report on Form 10-K to include loss development tables on a disaggregated basis by accident year and a reconciliation of loss development data to the loss and LAE reserves reflected on the balance sheet. The footnote disclosures were also expanded to include information about claim frequency data, including a description of how the claims frequency data is measured. Prior year disclosures were modified to conform to the new disclosures. There was no impact upon adoption to the financial statements contained herein as OneBeacon was already disclosing the new required loss rollforward. See Note 3—"Unpaid Loss and Loss Adjustment Expense (LAE) Reserves".

Recently Issued Accounting Pronouncements

Cash Flow Statement

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (ASC 230), which addresses the classification and presentation of certain items, including debt prepayment and extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investees, for which there was diversity in practice.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* (ASC 230). Under current guidance, restricted amounts of cash or cash equivalents are excluded from the cash flow statement. The new guidance requires restricted cash and restricted cash equivalents to be included in the reconciliation of beginning and end-of-period amounts presented on the statement of cash flows. In addition, the new guidance requires a description of the nature of the changes in restricted cash and cash equivalents during the periods presented.

The updated guidance in ASU 2016-15 and ASU 2016-18 are both effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. OneBeacon does not expect the adoption of this guidance to have a material impact on its consolidated statement of cash flows.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASC 326), which establishes new guidance for the recognition of credit losses for financial assets measured at amortized cost. The new ASU, which applies to financial assets that have the contractual right to receive cash requires reporting entities to estimate the credit losses expected over the life of a credit exposure using historical information, current information, and reasonable and supportable forecasts that affect the collectability of the financial asset. The types of assets included in the scope of the new guidance includes premium receivables, reinsurance recoverables, and loans. ASU 2016-13 is effective for annual periods beginning after January 1, 2020, including interim periods. OneBeacon measures financial assets at fair value with changes therein recognized in current period earnings and accordingly, does not expect adoption to have a significant impact on its financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 842). The new guidance requires lessees to recognize lease assets and liabilities on the balance sheet for both operating and financing leases, with the exception of leases with an

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

original term of 12 months or less. Under existing guidance recognition of lease assets and liabilities is not required for operating leases. The lease assets and liabilities to be recognized are both measured initially based on the present value of the lease payments. Under the new guidance, a sale-leaseback transaction must meet the recognition criteria under ASC 606, *Revenues* in order to be accounted for as a sale. The new guidance is effective for OneBeacon for years beginning after December 15, 2018, including interim periods therein. OneBeacon is evaluating the expected impact of this new guidance and available adoption methods.

Financial Instruments - Recognition and Measurement

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASC 825-10). The new ASU modifies the guidance for financial instruments, including investments in equity securities. Under the new guidance, all equity securities with readily determinable fair values are required to be measured at fair value with changes therein recognized through current period earnings. In addition, the new ASU requires a qualitative assessment for equity securities without readily determinable fair values to identify impairment, and for impaired equity securities to be measured at fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. OneBeacon measures its portfolio of investment securities at fair value with changes therein recognized through current period earnings accordingly, does not expect the adoption of ASU 2016-01 to have a significant impact on its financial statements.

Stock Compensation

In May 2017, the FASB issued ASU 2017-09, *Stock Compensation: Scope of Modification Accounting* (ASC 718), which narrows the scope of transactions subject to modification accounting to changes in terms of an award that result in a change in the award's fair value, vesting conditions, or classification. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017. OneBeacon does not expect the adoption of this guidance to have a material impact on its financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606), which modifies the guidance for revenue recognition. Under ASU 2014-09, revenue is to be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for goods and services transferred to customers. The new guidance sets forth the steps to be followed to recognize revenue: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Subsequently, the FASB issued additional ASUs clarifying the guidance in and providing implementation guidance for ASU 2014-09. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (ASC 606), which delays the effective date of ASU 2014-09 and all related ASUs to annual and interim periods beginning after December 15, 2017. Most of OneBeacon's revenue from customer relates to insurance contracts, which are excluded from the scope of ASU 2014-09, as are investment income and investment gains and losses. However, the new guidance is applicable to some of OneBeacon's revenue streams, including certain fee arrangements as well as commissions and other non-insurance revenues. OneBeacon is evaluating the new guidance, but does not expect ASU 2014-09 to have a significant effect on recognition of OneBeacon's non-insurance revenues from customers.

NOTE 2. OneBeacon Acquisition

As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies", on May 2, 2017, Intact and the Company announced the OneBeacon Acquisition. The subsidiaries of White Mountains Insurance Group, Ltd. that own the Company's common stock have executed a voting agreement in support of the OneBeacon Acquisition. Under the terms of the Merger Agreement, which has been approved by the board of directors of both companies, the Company's shareholders will be entitled to receive \$18.10 for each outstanding share of the Company's common stock. Aggregate cash consideration to Company shareholders is anticipated to be approximately \$1.7 billion. The OneBeacon Acquisition is expected to be completed in the third quarter or early in the fourth quarter of 2017.

The closing of the OneBeacon Acquisition is subject to the satisfaction of various closing conditions, including the approval by the Company's shareholders, which occurred on July 18, 2017, as well as the approval of various insurance regulatory authorities and other closing conditions customary for a transaction of this type. Pursuant to the Merger Agreement, the Company is required to carry on its business in the ordinary course consistent with past practice, in all material respects; however, certain actions are restricted or may not be taken without Intact's prior written consent.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. Unpaid Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE reserve summary

The following table summarizes the loss and LAE reserve activities of OneBeacon's insurance subsidiaries for the three and six months ended June 30, 2017 and 2016:

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Gross beginning balance	\$ 1,368.8	\$ 1,343.8	\$ 1,365.6	\$ 1,389.8
Less beginning reinsurance recoverables on unpaid losses	(174.7)	(150.4)	(172.9)	(186.0)
Net beginning loss and LAE reserves	1,194.1	1,193.4	1,192.7	1,203.8
Loss and LAE incurred relating to:				
Current year losses	181.3	164.3	331.9	323.1
Prior year losses	7.3	15.4	7.3	15.4
Total incurred loss and LAE	188.6	179.7	339.2	338.5
Loss and LAE paid relating to:				
Current year losses	(36.4)	(37.1)	(57.7)	(59.1)
Prior year losses	(132.1)	(122.2)	(260.0)	(269.4)
Total loss and LAE payments	(168.5)	(159.3)	(317.7)	(328.5)
Net ending loss and LAE reserves	1,214.2	1,213.8	1,214.2	1,213.8
Plus ending reinsurance recoverables on unpaid losses	197.0	162.8	197.0	162.8
Gross ending loss and LAE reserves	<u>\$ 1,411.2</u>	<u>\$ 1,376.6</u>	<u>\$ 1,411.2</u>	<u>\$ 1,376.6</u>

Loss and LAE development

Loss and LAE development—2017

During the three months ended June 30, 2017, OneBeacon experienced \$7.3 million net unfavorable loss and LAE reserve development on prior accident year reserves driven by *Programs*. The unfavorable development in *Programs* was driven by increased loss activity, including numerous mid-size losses, across most accounts, including auto-related programs.

During the six months ended June 30, 2017, OneBeacon experienced \$7.3 million net loss and LAE reserve development on prior accident year reserves as unfavorable reserve development, primarily in *Healthcare* due to an adverse settlement on a single managed care errors and omissions claim, and in *Programs* driven by increased loss activity, including numerous mid-size losses, across most accounts, including auto-related programs, with the unfavorable development partially offset by favorable reserve development driven in part by *Technology* and *Accident & Health* resulting from favorable loss experience.

Loss and LAE development—2016

During both the three and six months ended June 30, 2016, OneBeacon experienced \$15.4 million net unfavorable loss and LAE reserve development on prior accident year reserves. During the three months ended June 30, 2016, the *Healthcare* operating segment recorded \$24.0 million of net unfavorable loss reserve development as a result of increasing claim frequency, as well as higher than expected paid and case activity, most notably within the senior living sub-line, which provides medical malpractice and general liability insurance for extended care facilities, including assisted living, memory care and continuing care facilities. As a result of the continuing loss activity experienced in this sub-line, we performed an in-depth claim file review, which confirmed that the increased case incurred loss activity was driven by frequency, especially in the more recent prior accident years, as opposed to other potential considerations such as changes in claims-handling practices. In addition, a thorough actuarial review was completed, including analysis of the results of enhancements made to the predictive model deployed in the senior living sub-line. Adverse financial results were primarily observed in high-risk categories of business and in difficult geographic venues identified by the predictive model data. As a result of these analyses, management increased its best estimate of prior accident year losses during the prior year period, and increased its loss provisions for the current accident year based on the updated actuarial indications. In addition, also within the *Healthcare* operating segment, there were two large claims within the managed care errors and omissions sub-line related to unexpected outcomes from mediation and extended costs associated with claim defense, which contributed to the unfavorable development in prior accident years. In the six months ended June 30, 2016, *Healthcare* recorded \$34.8 million of adverse prior year development, which included prior year

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. Unpaid Loss and Loss Adjustment Expense (LAE) Reserves

loss activity recorded in the first quarter of 2016 in the complex risk sub-line, which provides professional liability coverage to hospitals, physicians, and physician groups as well as physicians' extended reporting period coverage.

In addition to *Healthcare*, but to a lesser extent, *Programs* also experienced unfavorable development during the three months ended June 30, 2016 primarily as a result of two larger auto-related programs; the total unfavorable development in *Healthcare* and *Programs*, along with a few other businesses, was partially offset by favorable development in *Financial Services* and several other businesses.

During the six months ended June 30, 2016, net unfavorable development was driven by *Healthcare*. In addition, to a lesser extent, unfavorable development in *Programs* and a few other businesses, was partially offset by favorable development in *Technology*, *Financial Services* and *Accident*, as well as other businesses.

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.

Reinsurance Treaties

The Company's reinsurance coverage is discussed in Note 4—"Reinsurance" in the Company's 2016 Annual Report on Form 10-K. All of the Company's expiring reinsurance treaties were renewed during the three months ended June 30, 2017 with terms that were substantially similar to those reported in the 2016 Annual Report on Form 10-K.

Reinsurance Recoverables

As of June 30, 2017, OneBeacon had reinsurance recoverables on paid losses of \$1.0 million and reinsurance recoverables on unpaid losses of \$197.0 million. As reinsurance contracts do not relieve OneBeacon of its obligations, collectibility of balances due from reinsurers is important to OneBeacon's financial strength. The following table summarizes A.M. Best Company, Inc. ("A.M. Best") ratings for OneBeacon's reinsurers, excluding industry pools and associations, based upon reinsurance recoverable amounts on paid and unpaid losses and LAE:

	Balance at June 30, 2017	% of total
A.M. Best's Rating ⁽¹⁾ :	(\$ in millions)	
A+ or better	\$ 85.9	43%
A- to A	83.4	42%
B, Not Rated and Other ⁽²⁾	28.7	15%
Total reinsurance recoverables	<u>\$ 198.0</u>	<u>100%</u>

⁽¹⁾ A.M. Best's ratings as detailed above are "A+ or better" (Superior), "A- to A" (Excellent) and "B" (Fair).

⁽²⁾ Includes reinsurance recoverable on unpaid losses from Bedivere Insurance Company ("Bedivere"), one of the legal entities transferred as part of the runoff transaction in 2014, of \$17.2 million.

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 2016 Annual Report on Form 10-K for a complete discussion.

OneBeacon classifies its portfolio of fixed maturity investments, common equity securities, including exchange traded funds ("ETFs"), and other investments 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 changes in unrealized investment gains on trading securities are reported, on a pre-tax basis, in revenues as net realized and change in unrealized investment gains.

Short-term investments consist of interest-bearing money market funds 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 approximates fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Other investments consist primarily of surplus notes, hedge funds and private equity funds. Surplus notes provided in conjunction with the financing of the sale of the run-off business in 2014 are measured at estimated fair value based on a discounted expected cash flow model, with changes in fair value reported in total revenues as net realized and change in unrealized investment gains. OneBeacon measures its investments in hedge funds and private equity funds at fair value with changes therein reported in total revenues as net realized and change in unrealized investment gains. Other investments also include an investment in a community reinvestment vehicle which is accounted for at fair value, with changes in fair value reported in total revenues as net realized and change in unrealized investment gains, a tax advantaged federal affordable housing development fund, which is accounted for under the proportional amortization method, and beginning in the first quarter of 2017, a foreign currency forward contract which is accounted for at fair value, with changes in fair value reported in total revenues as net realized and change in unrealized investment gains.

OneBeacon's net investment income is comprised primarily of interest income associated with OneBeacon's fixed maturity investments and short-term investments and dividend income from its common equity securities and other investments.

Net investment income for the three and six months ended June 30, 2017 and 2016 consisted of the following:

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Fixed maturity investments	\$ 14.1	\$ 12.2	\$ 26.7	\$ 24.3
Short-term investments	0.1	0.1	0.2	0.1
Common equity securities	0.9	0.5	1.7	1.5
Other investments ⁽¹⁾	0.4	0.5	0.4	3.0
Gross investment income	15.5	13.3	29.0	28.9
Less investment expenses	(1.0)	(1.2)	(2.3)	(2.4)
Net investment income, pre-tax	<u>\$ 14.5</u>	<u>\$ 12.1</u>	<u>\$ 26.7</u>	<u>\$ 26.5</u>

⁽¹⁾ Includes an interest payment on the surplus notes of \$2.4 million received in the six months ended June 30, 2016.

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Fixed maturity investments	\$ 0.8	\$ 0.4	\$ (0.3)	\$ (1.0)
Common equity securities	0.7	3.7	1.0	(1.0)
Other investments	(1.0)	(3.0)	0.2	(2.8)
Net realized investment gains (losses), pre-tax	<u>\$ 0.5</u>	<u>\$ 1.1</u>	<u>\$ 0.9</u>	<u>\$ (4.8)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

The net changes in net unrealized gains for the three and six months ended June 30, 2017 and 2016 are as follows:

(\$ in millions)	Three months ended June 30, 2017			Six months ended June 30, 2017		
	Changes in net unrealized investment gains	Changes in net foreign currency gains (losses)	Total net changes in unrealized gains reflected in revenues	Changes in net unrealized investment gains	Changes in net foreign currency gains (losses)	Total net changes in fair value reflected in revenues
Fixed maturity investments	\$ 4.8	\$ 1.9	\$ 6.7	\$ 12.1	\$ 2.0	\$ 14.1
Common equity securities	5.2	—	5.2	15.3	—	15.3
Other investments	(0.1)	—	(0.1)	(3.0)	—	(3.0)
Net change, pre-tax	<u>\$ 9.9</u>	<u>\$ 1.9</u>	<u>\$ 11.8</u>	<u>\$ 24.4</u>	<u>\$ 2.0</u>	<u>\$ 26.4</u>

(\$ in millions)	Three months ended June 30, 2016			Six months ended June 30, 2016		
	Changes in net unrealized investment gains	Changes in net foreign currency gains (losses)	Total net changes in unrealized gains reflected in revenues	Changes in net unrealized investment gains	Changes in net foreign currency gains (losses)	Total net changes in fair value reflected in revenues
Fixed maturity investments	\$ 12.0	\$ —	\$ 12.0	\$ 27.0	\$ —	\$ 27.0
Common equity securities	(5.4)	—	(5.4)	4.3	—	4.3
Other investments	17.0	—	17.0	14.8	—	14.8
Net change, pre-tax	<u>\$ 23.6</u>	<u>\$ —</u>	<u>\$ 23.6</u>	<u>\$ 46.1</u>	<u>\$ —</u>	<u>\$ 46.1</u>

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 investment portfolio as of June 30, 2017 and December 31, 2016 were as follows:

(\$ in millions)	June 30, 2017	December 31, 2016
Investment securities:		
Gross unrealized investment gains	\$ 72.2	\$ 52.7
Gross unrealized investment losses	(7.1)	(12.0)
Total net unrealized investment gains, pre-tax	65.1	40.7
Income taxes	(20.4)	(14.0)
Total net unrealized investment gains, after-tax	<u>\$ 44.7</u>	<u>\$ 26.7</u>

The cost or amortized cost, gross unrealized pre-tax investment gains and losses, net foreign currency gains and losses and carrying values of OneBeacon's fixed maturity investments as of June 30, 2017 and December 31, 2016 were as follows:

(\$ in millions)	June 30, 2017				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net unrealized foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	\$ 56.0	\$ —	\$ (0.3)	\$ —	\$ 55.7
Debt securities issued by corporations	892.7	9.6	(0.7)	2.0	903.6
Municipal obligations	69.7	1.3	(0.4)	—	70.6
Mortgage and asset-backed securities	1,238.8	3.7	(2.4)	—	1,240.1
Foreign government obligations	4.3	0.1	—	—	4.4
Preferred stocks	8.3	5.9	—	—	14.2
Total fixed maturity investments	<u>\$ 2,269.8</u>	<u>\$ 20.6</u>	<u>\$ (3.8)</u>	<u>\$ 2.0</u>	<u>\$ 2,288.6</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

(\$ in millions)	December 31, 2016				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net unrealized foreign currency gains (losses)	Carrying value
U.S. Government and agency obligations	\$ 169.6	\$ —	\$ (2.3)	\$ —	\$ 167.3
Debt securities issued by corporations	760.6	6.2	(3.7)	—	763.1
Municipal obligations	70.1	0.8	(0.4)	—	70.5
Mortgage and asset-backed securities	1,154.8	1.8	(3.5)	—	1,153.1
Foreign government obligations	1.0	0.2	—	—	1.2
Preferred stocks	8.3	5.6	—	—	13.9
Total fixed maturity investments	<u>\$ 2,164.4</u>	<u>\$ 14.6</u>	<u>\$ (9.9)</u>	<u>\$ —</u>	<u>\$ 2,169.1</u>

The following table summarizes the credit ratings⁽¹⁾ of the debt securities issued by corporations owned by OneBeacon as of June 30, 2017 and December 31, 2016:

(\$ in millions)	at Fair value	
	June 30, 2017	December 31, 2016
AA	\$ 62.6	\$ 63.7
A	255.7	169.1
BBB	491.4	450.8
BB	87.0	70.8
B	6.9	8.7
Debt securities issued by corporations	<u>\$ 903.6</u>	<u>\$ 763.1</u>

⁽¹⁾ Credit ratings are assigned based on the following hierarchy: 1) Standard and Poor's Financial Services LLC ("Standard and Poor's") and 2) Moody's Investor Service ("Moody's").

The cost or amortized cost, gross unrealized pre-tax investment gains and losses, net unrealized pre-tax foreign currency gains and losses and carrying values of common equity securities and other investments as of June 30, 2017 and December 31, 2016 were as follows:

(\$ in millions)	June 30, 2017				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net unrealized foreign currency gains (losses)	Carrying value
Common equity securities	\$ 183.8	\$ 22.5	\$ (0.8)	\$ —	\$ 205.5
Other investments	107.5	29.1	(2.5)	—	134.1
Total common equity securities and other investments	<u>\$ 291.3</u>	<u>\$ 51.6</u>	<u>\$ (3.3)</u>	<u>\$ —</u>	<u>\$ 339.6</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

December 31, 2016					
(\$ in millions)	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net unrealized foreign currency gains (losses)	Carrying value
Common equity securities	\$ 182.3	\$ 6.9	\$ (0.5)	\$ —	\$ 188.7
Other investments	120.9	31.2	(1.6)	—	150.5
Total common equity securities and other investments	\$ 303.2	\$ 38.1	\$ (2.1)	\$ —	\$ 339.2

As of June 30, 2017 and December 31, 2016, the Company held unrestricted collateral from its customers, primarily relating to its surety business, of \$210.2 million and \$153.0 million, respectively, which is included in cash and invested assets. The obligation to return these funds is classified as funds held under insurance contracts in the consolidated balance sheets.

Fair value measurements

Fair value measurements are categorized into a 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"). Quoted prices in active markets for identical assets or liabilities have the highest priority ("Level 1"), followed by observable inputs other than quoted prices, including prices for similar but not identical assets or liabilities ("Level 2") with unobservable inputs, including the reporting entity's estimates of the assumptions that market participants would use, having the lowest priority ("Level 3"). As of both June 30, 2017 and December 31, 2016, approximately 95% of the investment portfolio recorded at fair value was priced based upon observable inputs.

Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equity securities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs are comprised primarily of fixed maturity investments, which have been disaggregated into classes, including debt securities issued by corporations, municipal obligations, mortgage and asset-backed securities, foreign government obligations and preferred stocks. Certain ETFs that track U.S. stock indices such as the S&P 500 but are traded on foreign exchanges are also considered Level 2 measurements, as management values such investments using the fund's published net asset value ("NAV") to account for the difference in market close times. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include OneBeacon's investments in surplus notes and certain fixed maturity investments and common equity securities where quoted market prices are unavailable or are not considered reasonable. OneBeacon determines when transfers between levels have occurred as of the beginning of the period.

OneBeacon uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, OneBeacon uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services used by OneBeacon have indicated that if no observable inputs are available for the security, they will not provide a price. In such circumstances, where quoted market prices are unavailable or are not considered reasonable, OneBeacon estimates the fair value using industry standard pricing methodologies and observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers, prepayment speeds, reference data including research publications and other relevant inputs. Given that many fixed maturity investments do not trade on a daily basis, the outside pricing services evaluate a wide range of fixed maturity investments by regularly drawing parallels from recent trades and quotes of comparable securities with similar features. The characteristics used to identify comparable fixed maturity investments vary by asset type and take into account market convention.

OneBeacon's process to assess the reasonableness of the market prices obtained from the outside pricing sources covers substantially all of its fixed maturity investments and includes, but is not limited to, the evaluation of pricing methodologies and a review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of our invested asset market prices to prices obtained from different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices and review of the underlying assumptions utilized by our pricing services for selected measurements on an ad hoc basis throughout the year. OneBeacon also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and \$1.0 million from the expected price based on these procedures are considered outliers. Also considered outliers are prices that have not changed from period to period and prices that have trended unusually compared to market conditions. In

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

circumstances where the results of OneBeacon's review process do not appear to support the market price provided by the pricing services, OneBeacon challenges the price. If OneBeacon cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question.

The valuation process above is generally applicable to all of OneBeacon's fixed maturity investments. The techniques and inputs specific to asset classes within OneBeacon's fixed maturity investments for Level 2 securities that use observable inputs are as follows:

Debt securities issued by corporations: The fair value of debt securities issued by corporations is determined from a pricing evaluation technique that uses information from market sources and integrates relative credit information, observed market movements, and sector news. Key inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including sector, coupon, credit quality ratings, duration, credit enhancements, early redemption features and market research publications.

Municipal obligations: The fair value of municipal obligations is determined from a pricing evaluation technique that uses information from market makers, broker-dealers, buy-side firms, and analysts along with general market information. Key inputs include benchmark yields, reported trades, issuer financial statements, material event notices and new issue data, as well as broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including type, coupon, credit quality ratings, duration, credit enhancements, geographic location and market research publications.

Mortgage and asset-backed securities: The fair value of mortgage and asset-backed securities is determined from a pricing evaluation technique that uses information from market sources and leveraging similar securities. Key inputs include benchmark yields, reported trades, underlying tranche cash flow data, collateral performance, plus new issue data, as well as broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including issuer, vintage, loan type, collateral attributes, prepayment speeds, default rates, recovery rates, cash flow stress testing, credit quality ratings and market research publications.

Foreign government obligations: The fair value of foreign government obligations is determined from a pricing evaluation technique that uses feeds from data sources in each respective country, including active market makers and inter-dealer brokers. Key inputs include benchmark yields, reported trades, broker-dealer quotes, two-sided markets, benchmark securities, bids, offers, local exchange prices, foreign exchange rates and reference data including coupon, credit quality ratings, duration and market research publications.

Preferred stocks: The fair value of preferred stocks is determined from a pricing evaluation technique that calculates the appropriate spread over a comparable security for each issue. Key inputs include exchange prices (underlying and common stock of same issuer), benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including sector, coupon, credit quality ratings, duration, credit enhancements, early redemption features and market research publications.

Level 3 valuations are generated from techniques that use assumptions not observable in the market. These unobservable assumptions reflect OneBeacon's assumptions that market participants would use in valuing the investment. Generally, certain securities may start out as Level 3 when they are originally issued but as observable inputs become available in the market, they may be reclassified to Level 2.

The fair value of the surplus notes is determined based on a discounted expected cash flow model using information as of the measurement date, and is classified as a Level 3 measurement. OneBeacon's other investments also include an investment in a community reinvestment vehicle and a foreign currency forward contract, which are accounted for at fair value, and a tax advantaged federal affordable housing development fund, which is accounted for under the proportional amortization method.

The fair values of OneBeacon's investments in hedge funds and private equity funds have been classified as NAV as prescribed by ASU 2015-07. OneBeacon employs a number of procedures to assess the reasonableness of the NAV reported by the fund's manager, including obtaining and reviewing periodic and audited financial statements and discussing each fund's pricing with the fund manager throughout the year. In the event OneBeacon believes that its estimate of NAV differs from that reported by the fund due to illiquidity or other factors, OneBeacon will adjust the fund's reported NAV to more appropriately represent the fair value of its interest in the investment. As of June 30, 2017 and December 31, 2016, OneBeacon recorded negative adjustments of \$1.1 million and \$5.0 million, respectively, to the reported NAV of certain investments in hedge funds and private equity funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Fair value measurements by level

The following tables summarize the Company's fair value measurements for investments as of June 30, 2017 and December 31, 2016 by level. The major security types were based on the legal form of the securities. OneBeacon has disaggregated its fixed maturity investments based on the issuing entity type, which impacts credit quality, with debt securities issued by U.S. government entities carrying minimal credit risk, while the credit and other risks associated with other issuers, such as corporations, foreign governments, municipalities or entities issuing asset-backed securities vary depending on the nature of the issuing entity type. OneBeacon further disaggregates debt securities issued by corporations and common equity securities by industry sector because investors often reference commonly used benchmarks and their subsectors to monitor risk and performance. Accordingly, OneBeacon has further disaggregated these asset classes into subclasses based on the similar sectors and industry classifications the Company uses to evaluate investment risk and performance against commonly used benchmarks, such as the Bloomberg Barclays U.S. Intermediate Aggregate and S&P 500 indices.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

(\$ in millions)	Fair value at June 30, 2017	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	\$ 55.7	\$ 55.7	\$ —	\$ —
Debt securities issued by corporations:				
Consumer	187.3	—	187.3	—
Financials	154.9	—	154.9	—
Industrial	141.6	—	140.0	1.6
Health Care	122.3	—	122.3	—
Utilities	81.9	—	81.9	—
Technology	63.8	—	63.8	—
Communications	58.4	—	58.4	—
Basic materials	51.4	—	51.4	—
Energy	42.0	—	42.0	—
Debt securities issued by corporations	903.6	—	902.0	1.6
Municipal obligations	70.6	—	70.6	—
Mortgage and asset-backed securities	1,240.1	—	1,227.4	12.7
Foreign government obligations	4.4	0.6	3.8	—
Preferred stocks	14.2	—	14.2	—
Fixed maturity investments	2,288.6	56.3	2,218.0	14.3
Short-term investments	55.5	55.5	—	—
Common equity securities:				
Exchange traded funds ⁽¹⁾	177.9	152.4	25.5	—
Health Care	6.2	6.2	—	—
Financials	5.4	5.4	—	—
Consumer	4.8	4.8	—	—
Communications	3.3	3.3	—	—
Technology	3.3	3.3	—	—
Industrial	3.3	3.3	—	—
Energy	1.3	1.3	—	—
Common equity securities	205.5	180.0	25.5	—
Other investments ⁽²⁾⁽³⁾	84.7	—	—	84.7
Total⁽¹⁾⁽²⁾⁽³⁾	\$ 2,634.3	\$ 291.8	\$ 2,243.5	\$ 99.0

⁽¹⁾ ETFs traded on foreign exchanges are priced using the fund's published NAV to account for the difference in market close times and are therefore designated as level 2 measurements.

⁽²⁾ Excludes the carrying value of \$11.3 million associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method and (\$2.5) million related to foreign currency forward contracts.

⁽³⁾ As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" investments in hedge funds and private equity funds of \$40.6 million for which NAV is generally the practical expedient are no longer classified within the fair value hierarchy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

(\$ in millions)	Fair value at December 31, 2016	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	\$ 167.3	\$ 167.3	\$ —	\$ —
Debt securities issued by corporations:				
Consumer	194.8	—	194.8	—
Healthcare	129.2	—	129.2	—
Industrial	118.2	—	118.2	—
Financials	96.3	—	96.3	—
Communications	59.4	—	59.4	—
Energy	47.4	—	47.4	—
Technology	40.7	—	40.7	—
Utilities	39.5	—	39.5	—
Basic materials	37.6	—	37.6	—
Debt securities issued by corporations	763.1	—	763.1	—
Municipal obligations	70.5	—	70.5	—
Mortgage and asset-backed securities	1,153.1	—	1,153.1	—
Foreign government obligations	1.2	0.6	0.6	—
Preferred stocks	13.9	—	13.9	—
Fixed maturity investments	2,169.1	167.9	2,001.2	—
Short-term investments	112.1	112.1	—	—
Common equity securities:				
Exchange traded funds ⁽¹⁾	164.4	140.9	23.5	—
Healthcare	7.0	7.0	—	—
Consumer	4.3	4.3	—	—
Financials	3.9	3.9	—	—
Technology	3.7	3.7	—	—
Communications	3.5	3.5	—	—
Energy	1.2	1.2	—	—
Industrial	0.7	0.7	—	—
Common equity securities	188.7	165.2	23.5	—
Other investments ⁽²⁾⁽³⁾	86.2	—	—	86.2
Total ⁽¹⁾⁽²⁾⁽³⁾	\$ 2,556.1	\$ 445.2	\$ 2,024.7	\$ 86.2

⁽¹⁾ ETFs traded on foreign exchanges are priced using the fund's published NAV to account for the difference in market close times and are therefore designated as level 2 measurements.

⁽²⁾ Excludes the carrying value of \$12.3 million associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.

⁽³⁾ As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" investments in hedge funds and private equity funds of \$52.0 million for which NAV is generally the practical expedient are no longer classified within the fair value hierarchy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Rollforwards of Fair Value Measurements by Level

The following tables summarize the changes in OneBeacon's fair value measurements by level for the three and six months ended June 30, 2017 and 2016:

(\$ in millions)	Level 3 Investments					Total ⁽¹⁾⁽²⁾⁽³⁾
	Level 1 Investments	Level 2 Investments	Fixed maturity investments	Other investments ⁽¹⁾	NAV investments ⁽²⁾	
Balance at January 1, 2017	\$ 333.1	\$ 2,024.7	\$ —	\$ 86.2	\$ 52.0	\$ 2,496.0
Amortization/accretion	—	(4.1)	—	—	—	(4.1)
Net realized and unrealized gains	9.4	7.2	0.1	(2.1)	0.6	15.2
Purchases	9.3	539.4	47.1	—	0.8	596.6
Sales	(121.4)	(479.2)	—	—	(13.2)	(613.8)
Transfers in	—	—	—	—	—	—
Transfers out	—	—	—	—	—	—
Balance at March 31, 2017	<u>\$ 230.4</u>	<u>\$ 2,088.0</u>	<u>\$ 47.2</u>	<u>\$ 84.1</u>	<u>\$ 40.2</u>	<u>\$ 2,489.9</u>
Amortization/accretion	—	(3.4)	—	—	—	(3.4)
Net realized and unrealized gains	5.1	8.3	—	0.6	0.6	14.6
Purchases	5.4	348.7	14.3	—	0.1	368.5
Sales	(4.6)	(245.3)	—	—	(0.3)	(250.2)
Transfers in	—	47.2	—	—	—	47.2
Transfers out	—	—	(47.2)	—	—	(47.2)
Balance at June 30, 2017	<u>\$ 236.3</u>	<u>\$ 2,243.5</u>	<u>\$ 14.3</u>	<u>\$ 84.7</u>	<u>\$ 40.6</u>	<u>\$ 2,619.4</u>

⁽¹⁾ Excludes the carrying value of \$11.3 million associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method and \$(2.5) million related to foreign currency forward contracts as of June 30, 2017.

⁽²⁾ As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" investments in hedge funds and private equity funds measured generally using the NAV practical expedient are no longer classified within the fair value hierarchy.

⁽³⁾ Excludes short-term investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

(\$ in millions)	Level 1 Investments	Level 2 Investments	Level 3 Investments		NAV investments ⁽²⁾	Total ⁽¹⁾⁽²⁾⁽³⁾
			Fixed maturity investments	Other investments ⁽¹⁾		
Balance at January 1, 2016	\$ 363.3	\$ 1,945.9	\$ 70.0	\$ 65.8	62.5	\$ 2,507.5
Amortization/accretion	—	(3.2)	—	—	—	(3.2)
Net realized and unrealized gains	5.6	12.5	0.5	0.4	(2.4)	16.6
Purchases	98.2	187.0	—	—	0.4	285.6
Sales	(158.4)	(216.8)	—	—	(3.0)	(378.2)
Transfers in	—	—	—	—	—	—
Transfers out	—	—	—	—	—	—
Balance at March 31, 2016	<u>\$ 308.7</u>	<u>\$ 1,925.4</u>	<u>\$ 70.5</u>	<u>\$ 66.2</u>	<u>\$ 57.5</u>	<u>\$ 2,428.3</u>
Amortization/accretion	—	(2.9)	—	—	—	(2.9)
Net realized and unrealized gains	(2.1)	12.1	0.7	10.9	3.1	24.7
Purchases	38.5	221.2	13.9	—	0.2	273.8
Sales	(75.5)	(153.6)	—	—	(4.1)	(233.2)
Transfers in	—	—	—	—	—	—
Transfers out	—	—	—	—	—	—
Balance at June 30, 2016	<u>\$ 269.6</u>	<u>\$ 2,002.2</u>	<u>\$ 85.1</u>	<u>\$ 77.1</u>	<u>\$ 56.7</u>	<u>\$ 2,490.7</u>

⁽¹⁾ Excludes the carrying value of \$13.4 million associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method as of June 30, 2016.

⁽²⁾ As described in Note 1—"Nature of Operations and Summary of Significant Accounting Policies" investments in hedge funds and private equity funds generally measured using the NAV practical expedient are no longer classified within the fair value hierarchy.

⁽³⁾ Excludes short-term investments.

There were no "Transfers in" to Level 3 investments for the six months ended June 30, 2017 and 2016. "Transfers out" of Level 3 investments for the six months ended June 30, 2017 were comprised of \$47.2 million in residential mortgage backed securities, which were recategorized as Level 2 measurements when quoted market prices for similar securities that were considered reliable and could be validated against an alternative source became available. There were no "Transfers out" of Level 3 investments for the six months ended June 30, 2016.

The following table summarizes the change in net pre-tax unrealized gains or losses for assets designated as Level 3 for the three and six months ended June 30, 2017 and 2016:

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Fixed maturity investments	\$ —	\$ 0.7	\$ 0.1	\$ 1.2
Other investments	0.6	10.9	(1.5)	11.3
Total	<u>\$ 0.6</u>	<u>\$ 11.6</u>	<u>\$ (1.4)</u>	<u>\$ 12.5</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Significant Unobservable Inputs

As previously described, in certain circumstances, OneBeacon estimates the fair value of investments using industry standard pricing methodologies and both observable and unobservable inputs. The following summarizes significant unobservable inputs used in estimating the fair value of fixed maturity and other investments classified within Level 3, as of June 30, 2017 and December 31, 2016.

(\$ in millions)	As of June 30, 2017					
Description	Fair Value	Rating ⁽¹⁾	Valuation Technique	Unobservable Inputs		Input
Surplus notes:						
- Seller priority note	\$ 48.9	N/R	Discounted cash flow	Discount rate ⁽²⁾		10.6%
				Timing of interest payments ⁽³⁾		2020
				Timing of principal payments ⁽³⁾		2030
- Pari passu note	\$ 21.6	N/R	Discounted cash flow	Discount rate ⁽⁴⁾		15.2%
				Timing of interest payments ⁽⁵⁾		2021
				Timing of principal payments ⁽⁵⁾		2035
Non-agency residential mortgage-backed securities	\$ 7.7	AAA	Broker pricing	Broker quote ⁽⁶⁾		\$ 102.0
Non-agency commercial mortgage-backed securities	\$ 5.0	A-	Broker pricing	Broker quote ⁽⁶⁾		\$ 100.0
Debt securities issued by corporations	\$ 1.6	BBB	Broker pricing	Broker quote ⁽⁶⁾		\$ 127.5
Community reinvestment vehicle	\$ 14.2	N/R	Member share of GAAP net equity	GAAP net equity		\$ 14.2
(\$ in millions)	As of December 31, 2016					
Description	Fair Value	Rating ⁽¹⁾	Valuation Technique	Unobservable Inputs		Input
Surplus notes:						
- Seller priority note	\$ 51.1	N/R	Discounted cash flow	Discount rate ⁽²⁾		9.6%
				Timing of interest payments ⁽³⁾		2020
				Timing of principal payments ⁽³⁾		2030
- Pari passu note	\$ 20.8	N/R	Discounted cash flow	Discount rate ⁽⁴⁾		15.0%
				Timing of interest payments ⁽⁵⁾		2021
				Timing of principal payments ⁽⁵⁾		2035
Community reinvestment vehicle	\$ 14.3	N/R	Member share of GAAP net equity	GAAP net equity		\$ 14.3

⁽¹⁾ Credit ratings, if rated, are assigned based on the following hierarchy: 1) Standard & Poor's and 2) Moody's

⁽²⁾ Stochastic modeling supporting the fair value estimation indicates that the average percentage of discounted payments missed on the seller priority note is roughly equivalent to that of a conventional debt security with a credit rating of 'B'. The corresponding credit spread, increased by an additional 400 bps and 250 bps as of June 30, 2017 and December 31, 2016, respectively, to reflect both a liquidity discount for a private debt instrument and regulatory payment approval uncertainty, was added to the treasury rate to determine the discount rate for the seller priority note.

⁽³⁾ As of June 30, 2017 and December 31, 2016, the Company has assumed for the purpose of estimating fair value that all accrued but unpaid interest on the seller priority note since the date of issuance is paid in 2020, with regular annual interest payments beginning thereafter. Principal repayments are assumed to begin on a graduated basis in 2030.

⁽⁴⁾ Stochastic modeling supporting the fair value estimation indicates that the average percentage of discounted payments missed on the pari passu note is roughly equivalent to that of a conventional debt security with a credit rating of 'CCC'. The corresponding credit spread, increased by an additional 400 bps and 250 bps as of June 30, 2017 and December 31, 2016, respectively, to reflect both a liquidity discount for a private debt instrument and regulatory payment approval uncertainty, was added to the treasury rate to determine the discount rate for the seller priority note.

⁽⁵⁾ As of June 30, 2017 and December 31, 2016, the company has assumed for the purpose of estimating fair value that regular annual interest payments on the pari passu note begin in 2021. All accrued but unpaid interest since the date of issuance is assumed to be paid in 2025. Principal repayments are assumed to begin on a graduated basis in 2035.

⁽⁶⁾ As of June 30, 2017, asset type consists of one security.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Mortgage and Asset-backed Securities

OneBeacon purchases commercial mortgage-backed securities ("CMBS") and residential mortgage-backed securities ("RMBS") to maximize its risk adjusted returns in the context of a diversified portfolio. OneBeacon's non-agency CMBS are generally short tenor and structurally senior, with approximately 30 points of subordination on average for fixed rate and floating rate CMBS as of June 30, 2017. 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 this structural protection mitigates the risk of loss tied to refinancing challenges facing the commercial real estate market. As of June 30, 2017, none of the underlying loans of the agency and non-agency CMBS were reported as non-performing.

OneBeacon's non-agency RMBS portfolio is generally of moderate average life, fixed rate, and structurally senior. OneBeacon considers sub-prime mortgage-backed securities to be those that have underlying loan pools that exhibit weak credit characteristics or are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., OneBeacon considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics). OneBeacon did not hold any RMBS categorized as sub-prime as of June 30, 2017.

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, 2017, OneBeacon did not hold any mortgage-backed securities classified as non-prime. OneBeacon's non-agency RMBS portfolio is generally of moderate average life, fixed rate and structurally senior. OneBeacon does not own any collateralized debt obligations, with the exception of \$23.3 million of non-agency RMBS resecuritization tranches, each a senior tranche in its own right and each collateralized by a single earlier vintage Super Senior or Senior non-agency RMBS.

The following table summarizes the carrying value of OneBeacon's mortgage and asset-backed securities as of June 30, 2017 and December 31, 2016:

(\$ in millions)	June 30, 2017			December 31, 2016		
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	\$ 170.7	\$ 170.7	\$ —	\$ 213.5	\$ 213.5	\$ —
FNMA	45.7	45.7	—	42.8	42.8	—
FHLMC	22.3	22.3	—	30.3	30.3	—
Total agency ⁽¹⁾	238.7	238.7	—	286.6	286.6	—
Non-agency:						
Residential	218.5	210.8	7.7	135.0	135.0	—
Commercial	145.8	140.8	5.0	123.6	123.6	—
Total Non-agency	364.3	351.6	12.7	258.6	258.6	—
Total mortgage-backed securities	603.0	590.3	12.7	545.2	545.2	—
Other asset-backed securities:						
Vehicle receivables	216.8	216.8	—	273.6	273.6	—
Credit card receivables	266.3	266.3	—	224.3	224.3	—
Other	154.0	154.0	—	110.0	110.0	—
Total other asset-backed securities	637.1	637.1	—	607.9	607.9	—
Total mortgage and asset-backed securities	\$ 1,240.1	\$ 1,227.4	\$ 12.7	\$ 1,153.1	\$ 1,153.1	\$ —

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Non-agency Mortgage-backed Securities

The security issuance years of OneBeacon's investments in non-agency RMBS and non-agency CMBS securities as of June 30, 2017 are as follows:

(\$ in millions)	Fair Value	Security Issuance Year											
		2004	2005	2006	2008	2010	2011	2012	2013	2014	2015	2016	2017
Total non-agency RMBS	\$ 218.5	\$16.8	\$ 5.0	\$ 2.5	\$ 2.3	\$ 4.7	\$ 7.7	\$ 3.5	\$17.4	\$24.9	\$50.0	\$31.0	\$52.7
Total non-agency CMBS	145.8	—	—	—	—	3.8	—	18.1	11.5	23.5	43.8	21.2	23.9
Total non-agency	\$ 364.3	\$16.8	\$ 5.0	\$ 2.5	\$ 2.3	\$ 8.5	\$ 7.7	\$21.6	\$28.9	\$48.4	\$93.8	\$52.2	\$76.6

Non-agency Residential Mortgage-backed 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, 2017:

(\$ in millions)	Fair Value	Super Senior ⁽¹⁾	Senior ⁽²⁾	Subordinate ⁽³⁾
Prime	\$ 218.5	\$ 46.2	\$ 172.3	\$ —
Total non-agency RMBS	\$ 218.5	\$ 46.2	\$ 172.3	\$ —

⁽¹⁾ At issuance, Super Senior, or in the case of securitization, the underlying securities, were rated AAA by Standard & Poor's, Aaa by Moody's, or AAA by Fitch Ratings ("Fitch") and were senior to other AAA or Aaa securities.

⁽²⁾ At issuance, Senior, or in the case of securitization, the underlying securities, were rated AAA by Standard & Poor's, Aaa by Moody's, or AAA by Fitch and were senior to non-AAA or non-Aaa securities.

⁽³⁾ At issuance, Subordinate were not rated AAA by Standard & Poor's, Aaa by Moody's, or AAA by Fitch and were junior to other AAA or Aaa securities.

Non-agency Commercial Mortgage-backed Securities

The amount of fixed and floating rate securities and their tranche levels of OneBeacon's non-agency CMBS securities are as follows as of June 30, 2017:

(\$ in millions)	Fair Value	Super Senior ⁽¹⁾	Senior ⁽²⁾	Subordinate ⁽³⁾
Fixed rate CMBS	\$ 126.4	\$ 1.6	\$ 83.0	\$ 41.8
Floating rate CMBS	19.4	—	—	19.4
Total non-agency CMBS	\$ 145.8	\$ 1.6	\$ 83.0	\$ 61.2

⁽¹⁾ At issuance, Super Senior, or in the case of securitization, the underlying securities, were rated AAA by Standard & Poor's, Aaa by Moody's or AAA by Fitch and were senior to other AAA or Aaa securities.

⁽²⁾ At issuance, Senior, or in the case of securitization, the underlying securities, were rated AAA by Standard & Poor's, Aaa by Moody's, or AAA by Fitch and were senior to non-AAA or non-Aaa securities.

⁽³⁾ At issuance, Subordinate were not rated AAA by Standard & Poor's, Aaa by Moody's, or AAA by Fitch and were junior to other AAA or Aaa securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Other Investments

As of both June 30, 2017 and December 31, 2016, other investments reported at fair value represented approximately 5% of the total investment portfolio and consisted of the following:

(\$ in millions)	June 30, 2017	December 31, 2016
Hedge funds ⁽¹⁾	\$ 18.2	\$ 18.4
Private equity funds ⁽²⁾	22.4	33.6
Total hedge funds and private equity funds	40.6	52.0
Surplus notes (par value \$101.0) ⁽³⁾	70.5	71.9
Investment in community reinvestment vehicle	14.2	14.3
Foreign currency forward contract	(2.5)	—
Total other investments ⁽⁴⁾	<u>\$ 122.8</u>	<u>\$ 138.2</u>

⁽¹⁾ Consists of 4 hedge funds as of both June 30, 2017 and December 31, 2016.

⁽²⁾ Consists of 14 and 17 private equity funds as of June 30, 2017 and December 31, 2016, respectively.

⁽³⁾ The decrease in fair value of the surplus notes during the six months ended June 30, 2017 was driven primarily by an increase in the assumed liquidity spread, partially offset by the narrowing of non-investment grade credit spreads as well as the time value of money benefit generated by moving six months closer to modeled cash receipts.

⁽⁴⁾ Excludes the carrying value of \$11.3 million and \$12.3 million as of June 30, 2017 and December 31, 2016, respectively, associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.

The largest investment in a single hedge fund or private equity fund was \$16.1 million and \$15.0 million as of June 30, 2017 and December 31, 2016, respectively.

Surplus Notes

In the fourth quarter of 2014, in conjunction with the Runoff Transaction, OneBeacon provided financing in the form of surplus notes, which had a fair value of \$70.5 million and \$71.9 million as of June 30, 2017 and December 31, 2016, respectively. The surplus notes, issued by one of the transferred entities, Bedivere Insurance Company ("Bedivere" or "Issuer"), were in the form of both seller priority and pari passu notes.

The internal valuation model used to estimate the fair value of the surplus notes is based on discounted expected cash flows using information as of the measurement date. The estimated fair value of the surplus notes is sensitive to changes in public debt credit spreads, as well as changes in estimates with respect to other variables including a discount to reflect the private nature of the notes (and the related lack of liquidity), the credit quality of the notes, based on the financial performance of the Issuer relative to expectations, and the timing, amount, and likelihood of interest and principal payments on the notes, which are subject to regulatory approval and therefore may vary from the contractual terms. For the purposes of estimating fair value, the Company has assumed that all accrued but unpaid interest on the seller priority note since the date of issuance is paid in 2020, with regular annual interest payments on both the seller priority note and the pari passu note beginning in 2021, all accrued but unpaid interest on the pari passu note since the date of issuance is paid in 2025 and principal repayments begin on a graduated basis in 2030 for the seller priority note and 2035 for the pari passu note. Although these variables involve considerable judgment, the Company does not currently expect any resulting changes in the estimated value of the surplus notes to be material to its financial position. An interest payment of \$2.4 million was received in the six months ended June 30, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Below is a table illustrating the valuation adjustments taken to arrive at estimated fair value of the surplus notes as of June 30, 2017 and December 31, 2016:

	Type of Surplus Note		Total as of June 30, 2017
	Seller Priority	Pari Passu	
	(in millions)		
Par value	\$ 57.9	\$ 43.1	\$ 101.0
Fair value adjustments to reflect:			
Current market rates on public debt and contract-based repayments ⁽¹⁾	7.9	2.1	10.0
Regulatory approval ⁽²⁾	2.7	(13.7)	(11.0)
Liquidity adjustment ⁽³⁾	(19.6)	(9.9)	(29.5)
Total	(9.0)	(21.5)	(30.5)
Fair value⁽⁴⁾	\$ 48.9	\$ 21.6	\$ 70.5

	Type of Surplus Note		Total as of December 31, 2016
	Seller Priority	Pari Passu	
	(in millions)		
Par value	\$ 57.9	\$ 43.1	\$ 101.0
Fair value adjustments to reflect:			
Current market rates on public debt and contract-based repayments ⁽¹⁾	6.2	(1.1)	5.1
Regulatory approval ⁽²⁾	(0.2)	(15.4)	(15.6)
Liquidity adjustment ⁽³⁾	(12.8)	(5.8)	(18.6)
Total	(6.8)	(22.3)	(29.1)
Fair value	\$ 51.1	\$ 20.8	\$ 71.9

⁽¹⁾ Represents the value of the surplus notes, at current market yields on comparable publicly traded debt, and assuming issuer is allowed to make principal and interest payments when its financial capacity is available, as measured by statutory capital in excess of a 250% RBC score under the National Association of Insurance Commissioners' risk-based capital standards for property and casualty companies. The favorable year-to-date change in impact is due principally to the narrowing of non-investment grade credit spreads as well as the time value of money benefit from moving three months closer to modeled cash receipts.

⁽²⁾ Represents anticipated delay in securing regulatory approvals of interest and principal payments to reflect graduated changes in Issuer's statutory surplus. The monetary impact of the anticipated delay is measured based on credit spreads of public securities with roughly equivalent percentages of discounted payments missed. The favorable year-to-date change in impact is driven primarily by the narrowing of non-investment grade credit spreads, which causes the anticipated delay in securing regulatory approval to be less punitive.

⁽³⁾ Represents impact of liquidity spread to account for OneBeacon's sole ownership of the notes, lack of a trading market, and unique nature of the ongoing regulatory approval process. The unfavorable year-to-date change in impact is due largely to an increase in the assumed liquidity spread to 400 basis points at June 30, 2017 from 250 basis points at December 31, 2016.

⁽⁴⁾ The decrease in fair value of the surplus notes during the six months ended June 30, 2017 was driven primarily by an increase in the assumed liquidity spread, partially offset by the narrowing of non-investment grade credit spreads as well as the time value of money benefit generated by moving six months closer to modeled cash receipts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

Hedge Funds and Private Equity Funds

OneBeacon holds investments in hedge funds and private equity funds which are included in other investments. The fair value of these investments has generally been estimated using the net asset value of the funds. The following table summarizes investments in hedge funds and private equity funds as of June 30, 2017 and December 31, 2016:

(\$ in millions)	June 30, 2017		December 31, 2016	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short equity banks and financials	\$ 16.1	\$ —	\$ 15.0	\$ —
Other	2.1	—	3.4	—
Total hedge funds	18.2	—	18.4	—
Private equity funds				
Multi-sector	11.0	2.0	11.5	2.0
Healthcare	3.4	0.4	3.5	0.4
Energy infrastructure and services	3.2	3.0	14.1	3.2
Private equity secondaries	2.4	2.1	3.0	2.1
Direct lending / mezzanine debt	1.3	6.2	0.4	7.1
Insurance	0.9	0.1	0.8	0.1
Real estate	0.2	0.1	0.3	0.1
Total private equity funds	22.4	13.9	33.6	15.0
Total hedge funds and private equity funds	\$ 40.6	\$ 13.9	\$ 52.0	\$ 15.0

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. As of June 30, 2017, none of OneBeacon's hedge funds were subject to lock-up. The following summarizes the June 30, 2017 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

(\$ in millions)	Hedge Funds Notice Period				Total
	30 - 59 days notice	60 - 89 days notice	90 - 119 days notice	120+ days notice	
Redemption frequency					
Monthly	\$ —	\$ —	\$ —	\$ —	\$ —
Quarterly	16.1	—	—	—	16.1
Annual	—	—	2.1	—	2.1
Total hedge funds	\$ 16.1	\$ —	\$ 2.1	\$ —	\$ 18.2

Certain 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. As of June 30, 2017, OneBeacon's hedge funds in liquidation had a fair value of zero. The actual amount of the final distribution is subject to market fluctuations. The date at which such distributions, if any, will be received is not determinable as of June 30, 2017.

OneBeacon has also submitted redemption requests for certain of its investments in active hedge funds. As of June 30, 2017, redemptions of \$2.1 million were outstanding and remain subject to market fluctuations. The date at which such redemptions will be received is not determinable at June 30, 2017. Redemptions are recorded as receivables when the investment is no longer subject to market fluctuations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. Investment Securities

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. As of June 30, 2017, investments in private equity funds were subject to lock-up periods as follows:

(\$ in millions)	1 - 3 years	3 - 5 years	5 - 10 years	>10 years	Total
Private Equity Funds—expected lock-up period remaining	\$ 18.7	\$ 2.4	\$ —	\$ 1.3	\$ 22.4

Foreign Currency Forward Contracts

During the first quarter of 2017, OneBeacon established a portfolio of investment grade fixed maturity investments denominated in British Pound Sterling ("GBP"). As part of managing exposure to foreign currency risk within that portfolio, the Company entered into a foreign currency forward contract with notional amounts of \$62.6 million (GBP 50.0 million) as of June 30, 2017. The contract does not meet the criteria to be accounted for as a hedge.

As of June 30, 2017, the fair value of the foreign currency forward contracts, as estimated using OTC quotes for similar instruments, which are classified as Level 2 measurements with the fair value hierarchy, was negative \$2.5 million, and was included in other investments. During the three and six months ended June 30, 2017, change in fair value of negative \$2.3 million and negative \$2.5 million, respectively, was included in net realized and change in unrealized investment gains, with no such amount included for the three and six months ended June 30, 2016. The Company's derivative transactions are documented under an International Swaps and Derivatives Association ("ISDA") agreement and are subject to a master netting agreement. In conjunction with the ISDA agreement, no collateral is either pledged or received related to this contract. The following table summarizes the notional amount and uncollateralized balance as of June 30, 2017:

(\$ in millions)	Notional Amount	Carrying Value	Standard & Poor's Rating
Counterparty			
Barclays Bank PLC	\$ 62.6	\$ (2.5)	A-

NOTE 6. Debt

OneBeacon's debt outstanding as of June 30, 2017 and December 31, 2016 consisted of the following:

(\$ in millions)	June 30, 2017	December 31, 2016
Senior unsecured notes, at face value	\$ 275.0	\$ 275.0
Unamortized original issue discount	(0.2)	(0.2)
Unamortized issuance costs	(1.5)	(1.6)
Senior unsecured notes, carrying value	\$ 273.3	\$ 273.2

2012 Senior Notes

In November 2012, OneBeacon U.S. Holdings, Inc. ("OBH") issued \$275.0 million face value of senior unsecured notes ("2012 Senior Notes") through a public offering, at an issue price of 99.9% and received \$272.9 million of proceeds. The 2012 Senior Notes bear an annual interest rate of 4.6% payable semi-annually in arrears on May 9 and November 9, until maturity on November 9, 2022, and are fully and unconditionally guaranteed as to the payment of principal and interest by the Company. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the 2012 Senior Notes have an effective yield to maturity of approximately 4.7% per annum.

Credit Facility

On September 29, 2015, the Company and OBH, as co-borrowers and co-guarantors, entered into a revolving credit facility administered by U.S. Bank N.A. and also including BMO Harris Bank N.A., which has a total commitment of \$65.0 million and has a maturity date of September 29, 2019 (the "Credit Facility"). As of June 30, 2017, the Credit Facility was undrawn.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. Debt

Debt Covenants

The 2012 Senior Notes were issued under indentures that contain restrictive covenants which, among other things, limit the ability of the Company, OBH, and their respective subsidiaries to create liens and enter into sale and leaseback transactions and limits the ability of the Company and OBH to consolidate, merge or transfer its properties and assets. The indentures do not contain any financial ratios or specified levels of net worth or liquidity to which the Company or OBH must adhere. In addition, a failure by the Company or OBH or their respective subsidiaries to pay principal and interest on covered debt, where such failure results in the acceleration of at least \$75.0 million of the principal amount of covered debt, could trigger the acceleration of the 2012 Senior Notes.

The Credit Facility contains various affirmative, negative and financial covenants which OneBeacon considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards. These covenants can restrict the Company, OBH and their respective subsidiaries in several ways, including their ability to incur additional indebtedness. An uncured breach of these covenants could result in an event of default under the Credit Facility, which would allow lenders to declare any amounts owed under the Credit Facility to be immediately due and payable.

As of June 30, 2017, OneBeacon was in compliance with all of the covenants under the 2012 Senior Notes and the Credit Facility. The closing of the OneBeacon Acquisition will not result in any default under the indenture for the 2012 Senior Notes. While the closing of the OneBeacon Acquisition would constitute an event of default under the Credit Facility, OneBeacon intends to voluntarily terminate the Credit Facility, which is undrawn, effective as of the closing.

NOTE 7. Segment Information

The Company has sixteen active underwriting operating segments, which are managed by the Chief Operating Decision Maker ("CODM") and are aggregated into two underwriting reportable segments, Specialty Products and Specialty Industries. In addition, the Investing, Financing and Corporate reportable segment includes the investing and financing activities for OneBeacon on a consolidated basis, and certain other activities conducted through the Company and its intermediate holding company subsidiaries.

Invested assets are not allocated to the Specialty Products and Specialty Industries segments since OneBeacon does not manage them by segment. Invested assets, net investment income and net realized and change in unrealized investment gains related to OneBeacon's Specialty Products and Specialty Industries segments are included in the Investing, Financing and Corporate segment since these assets are available for payment of losses and expenses for all segments. Debt and related interest expense also are not allocated to or managed by segment and are also included in the Investing, Financing and Corporate segment.

During the three months ended March 31, 2017, the Company completed its transition to reflect certain management changes and a re-segmenting of various business lines within underwriting operating segments. As part of the transition, the Company's executive management, including the CODM, began receiving a new CODM package which reflected an adjusted aggregation of the underwriting operating segments among the existing underwriting reportable segments. The new underwriting operating segments are also consistent with how the Company began externally branding the related insurance products during the three months ended March 31, 2017. The following represents a summary of the changes made:

Media liability: The media liability line, which was previously included in the Other Professional Lines underwriting operating segment within Specialty Products, was moved into the Entertainment underwriting operating segment within Specialty Industries.

Medical excess: The medical excess line, which was previously included in the Healthcare underwriting operating segment within Specialty Products, was moved into the Accident underwriting operating segment which, in turn, has been renamed "Accident and Health" within Specialty Industries.

Architects and Engineers: The Architects and Engineers line, which was previously included in the Other Professional Lines underwriting operating segment within Specialty Products, has been separately broken out such that it is now a separate underwriting operating segment.

Other Professional Lines: The Other Professional Lines former underwriting operating segment is no longer considered an underwriting operating segment.

Other than these changes, there have been no material changes to the Company's determination of reportable segments from that reported in the 2016 Annual Report on Form 10-K.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. Segment Information

The Specialty Products segment now includes Healthcare, Tuition Reimbursement, Programs, Surety, Management Liability, Financial Services, Architects and Engineers, Specialty Property, Environmental, and Financial Institutions underwriting operating segments. The Specialty Industries segment includes the Accident and Health, Technology, Ocean Marine, Government Risks, Entertainment, and Inland Marine underwriting operating segments

Prior periods have been restated to conform to the current presentation of segment information. Substantially all of the Company's revenue is generated from customers located in the United States.

Financial information for OneBeacon's reportable segments is as follows:

	Insurance Operations		Investing, Financing and Corporate	Consolidated
(\$ in millions)	Specialty Products	Specialty Industries		
Three months ended June 30, 2017				
Earned premiums	\$ 130.4	\$ 147.0	\$ —	\$ 277.4
Loss and loss adjustment expense	(98.6)	(90.0)	—	(188.6)
Policy acquisition expenses	(22.0)	(26.4)	—	(48.4)
Other underwriting expenses	(24.8)	(34.8)	—	(59.6)
Total underwriting loss	(15.0)	(4.2)	—	(19.2)
Net investment income	—	—	14.5	14.5
Net realized and change in unrealized investment gains	—	—	12.3	12.3
Net other revenues	—	0.2	1.9	2.1
General and administrative expenses	—	(0.5)	(8.3)	(8.8)
Interest expense	—	—	(3.3)	(3.3)
Pre-tax income (loss)	\$ (15.0)	\$ (4.5)	\$ 17.1	\$ (2.4)
Three months ended June 30, 2016				
Earned premiums	\$ 123.1	\$ 148.3	\$ —	\$ 271.4
Loss and loss adjustment expense	(99.4)	(80.3)	—	(179.7)
Policy acquisition expenses	(21.6)	(27.1)	—	(48.7)
Other underwriting expenses	(22.3)	(28.6)	—	(50.9)
Total underwriting income (loss)	(20.2)	12.3	—	(7.9)
Net investment income	—	—	12.1	12.1
Net realized and change in unrealized investment gains	—	—	24.7	24.7
Net other revenues	—	0.2	0.6	0.8
General and administrative expenses	—	(0.5)	(3.0)	(3.5)
Interest expense	—	—	(3.2)	(3.2)
Pre-tax income (loss)	\$ (20.2)	\$ 12.0	\$ 31.2	\$ 23.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. Segment Information

	Insurance Operations		Investing, Financing and Corporate	Consolidated
(\$ in millions)	Specialty Products	Specialty Industries		
Six months ended June 30, 2017				
Earned premiums	\$ 249.6	\$ 289.6	\$ —	\$ 539.2
Loss and loss adjustment expense	(181.5)	(157.7)	—	(339.2)
Policy acquisition expenses	(41.6)	(52.1)	—	(93.7)
Other underwriting expenses	(45.5)	(65.8)	—	(111.3)
Total underwriting income (loss)	(19.0)	14.0	—	(5.0)
Net investment income	—	—	26.7	26.7
Net realized and change in unrealized investment gains	—	—	27.3	27.3
Net other revenues (expenses)	(0.1)	0.4	5.2	5.5
General and administrative expenses	—	(1.0)	(12.8)	(13.8)
Interest expense	—	—	(6.6)	(6.6)
Pre-tax income (loss)	\$ (19.1)	\$ 13.4	\$ 39.8	\$ 34.1
Six months ended June 30, 2016				
Earned premiums	\$ 246.3	\$ 303.7	\$ —	\$ 550.0
Loss and loss adjustment expense	(185.8)	(152.7)	—	(338.5)
Policy acquisition expenses	(44.8)	(54.9)	—	(99.7)
Other underwriting expenses	(43.6)	(62.6)	—	(106.2)
Total underwriting income (loss)	(27.9)	33.5	—	5.6
Net investment income	—	—	26.5	26.5
Net realized and change in unrealized investment gains	—	—	41.3	41.3
Net other revenues (expenses)	(0.1)	0.5	1.3	1.7
General and administrative expenses	—	(1.0)	(6.4)	(7.4)
Interest expense	—	—	(6.5)	(6.5)
Pre-tax income (loss)	\$ (28.0)	\$ 33.0	\$ 56.2	\$ 61.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. Segment Information

	Insurance Operations		Investing, Financing and Corporate	Consolidated
(\$ in millions)	Specialty Products	Specialty Industries		
June 30, 2017				
Assets				
Total investment securities	\$ —	\$ —	\$ 2,683.7	\$ 2,683.7
Premiums receivable	72.9	172.5	—	245.4
Reinsurance recoverables ⁽¹⁾	134.3	46.5	17.2	198.0
Deferred acquisition costs	51.1	55.8	—	106.9
Ceded unearned premiums	46.2	10.4	—	56.6
Other assets	1.0	0.1	404.7	405.8
Total Assets	\$ 305.5	\$ 285.3	\$ 3,105.6	\$ 3,696.4
Liabilities				
Unpaid loss and loss adjustment expense reserves ⁽¹⁾	\$ 778.7	\$ 615.3	\$ 17.2	\$ 1,411.2
Unearned premiums	301.9	293.3	—	595.2
Funds held under insurance contracts	210.2	—	—	210.2
Debt	—	—	273.3	273.3
Other liabilities	—	—	191.7	191.7
Total Liabilities	\$ 1,290.8	\$ 908.6	\$ 482.2	\$ 2,681.6
December 31, 2016				
Assets				
Total investment securities	\$ —	\$ —	\$ 2,620.4	\$ 2,620.4
Premiums receivable	80.1	148.2	—	228.3
Reinsurance recoverables ⁽¹⁾	120.9	40.3	18.3	179.5
Deferred acquisition costs	46.1	50.2	—	96.3
Ceded unearned premiums	33.7	10.5	—	44.2
Other assets	1.1	0.1	420.0	421.2
Total Assets	\$ 281.9	\$ 249.3	\$ 3,058.7	\$ 3,589.9
Liabilities				
Unpaid loss and loss adjustment expense reserves ⁽¹⁾	\$ 734.9	\$ 612.4	\$ 18.3	\$ 1,365.6
Unearned premiums	307.3	267.8	—	575.1
Funds held under insurance contracts	153.0	—	—	153.0
Debt	—	—	273.2	273.2
Other liabilities	—	—	197.8	197.8
Total Liabilities	\$ 1,195.2	\$ 880.2	\$ 489.3	\$ 2,564.7

⁽¹⁾ Atlantic Specialty Insurance Company ("ASIC"), the top tier regulated U.S. insurance operating subsidiary of the Company, is ceding to Bedivere 100% of the legacy runoff business that was written by ASIC or one of the ongoing entities. As of June 30, 2017 and December 31, 2016, \$17.2 million and \$18.3 million, respectively, are included in both unpaid loss and loss adjustment expense reserves and reinsurance recoverables included within Investing, Financing, and Corporate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. Retirement Plans

OneBeacon previously sponsored the OneBeacon qualified pension plan (the "Qualified Plan"). During the six months ended June 30, 2016, the Qualified Plan finalized its termination by purchasing group annuity contracts from the Principal Financial Group ("Principal"), and making lump sum distributions to Qualified Plan participants electing such payments, which eliminated the remaining Qualified Plan liability, and also ceased administratively paying benefits. As a result of these transactions, the Company recognized a pre-tax pension settlement charge of \$0.2 million during the six months ended June 30, 2016, and no longer has a projected benefit obligation with respect to the Qualified Plan. During the year ended December 31, 2016, the Company transferred \$47.1 million of excess invested assets from the Qualified Plan into the trust supporting the OneBeacon 401(k) Savings and Employee Stock Ownership Plan ("KSOP"), which is the Qualified Replacement Plan ("QRP"), with \$14.3 million of excess invested assets remaining in the Qualified Plan trust as of June 30, 2017 in order to wind-down potential post-termination obligations of that plan, as approved by way of a March 2016 private letter ruling from the IRS. The invested assets related to both the legacy Qualified Plan trust and the QRP of \$43.0 million as of June 30, 2017, are included in other assets and are accounted for at fair value with related income recognized in net other revenues.

OneBeacon continues to sponsor a non-qualified, non-contributory, defined benefit pension plan ("Non-qualified Plan") covering certain employees who were employed as of December 31, 2001 and former employees who had met the eligibility requirements, as well as retirees. The Non-qualified Plan was frozen and curtailed in 2002 resulting in the pension benefit obligation being equal to the accumulated benefit obligation. The benefits are based primarily on years of service and employees' compensation through December 31, 2002. OneBeacon's funding policy is generally to contribute amounts to satisfy actual disbursements for the calendar year.

The components of net periodic benefit cost for the three and six months ended June 30, 2017 and 2016 for the Non-qualified Plan and Qualified Plan were as follows:

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2017 ⁽¹⁾	2016	2017	2016
Service cost	\$ —	\$ —	\$ —	\$ 0.2
Interest cost	0.2	0.3	0.4	1.1
Expected return on plan assets	—	—	—	(1.0)
Amortization of unrecognized loss	0.2	0.2	0.4	0.5
Net periodic pension cost	0.4	0.5	0.8	0.8
Settlement loss ⁽²⁾	—	(0.1)	—	0.2
Total net periodic benefit income	<u>\$ 0.4</u>	<u>\$ 0.4</u>	<u>\$ 0.8</u>	<u>\$ 1.0</u>

⁽¹⁾ Represents the components of net periodic benefit cost for the Non-qualified Plan as the Qualified Plan was terminated in 2016.

⁽²⁾ Represents the impact of the termination of the Qualified Plan during the three and six months ended June 30, 2016.

OneBeacon anticipates contributing \$2.1 million to the Non-qualified Plan in 2017, for which OneBeacon has assets held in a rabbi trust. During the three and six months ended June 30, 2017, the Company contributed \$0.5 million and \$1.0 million, respectively, to the Non-qualified Plan.

OneBeacon sponsors an employee savings plan (defined contribution plan) covering the majority of employees. The contributory plan historically provided qualifying employees with matching contributions of 50% of the first 6% of salary (subject to federal limits on allowable contributions in a given year). During mid-2016, the matching contribution of the contributory plan was replaced with a fixed 3% of salary employer contribution (subject to federal limits on allowable contributions in a given year). Total expense for the contribution was \$0.8 million and \$0.7 million in the three months ended June 30, 2017, and 2016, respectively and \$1.8 million and \$1.4 million in the six months ended June 30, 2017 and 2016, respectively. The employee savings plan also includes an employee stock ownership component. See Note 9—"Employee Share-Based Incentive Compensation Plans."

OneBeacon had a post-employment benefit liability related to disability and health benefits available to former employees that are no longer employed by the Company of \$2.7 million and \$3.1 million as of June 30, 2017 and December 31, 2016, respectively.

OneBeacon also had a post-employment benefit liability related to death benefits to beneficiaries of former executives that are no longer employed by the Company of \$12.8 million both June 30, 2017 and December 31, 2016. OneBeacon has set aside funds to satisfy its obligation in a rabbi trust of \$22.7 million and \$29.3 million as of June 30, 2017 and December 31, 2016,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. Retirement Plans

respectively. During the last half of 2016, the Company withdrew \$5.5 million from the rabbi trust in accordance with the trust agreement, which remains overfunded.

NOTE 9. Employee Share-Based Incentive Compensation Plans

OneBeacon's share-based compensation plans include performance shares, restricted shares and restricted stock units ("RSUs"), which 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. Performance shares and restricted stock units 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 OneBeacon's deferred compensation plan. Beginning with the 2017-2019 cycle, performance shares were eliminated as a component of the Company's share-based compensation. Restricted shares vest either annually in equal installments over the specified service period or cliff-vest in full after the service period, depending on the award. OneBeacon expenses the full cost of all its share-based compensation over the requisite service period. The Company recognized expense related to its share-based compensation plans, including the KSOP plan, of \$6.5 million and \$2.5 million for the three months ended June 30, 2017 and 2016, respectively and \$9.5 million and \$5.2 million for the six months ended June 30, 2017 and 2016, respectively.

Performance Shares

The following summarizes performance share activity for the three and six months ended June 30, 2017 and 2016:

(\$ in millions)	Three months ended June 30,			
	2017		2016	
	Target Performance Shares outstanding	Accrued expense	Target Performance Shares outstanding	Accrued expense
Beginning of period	309,796	\$ 1.9	441,206	\$ 1.1
Payments and deferrals ⁽¹⁾	—	—	—	—
New awards	—	—	—	—
Forfeitures and net change in assumed forfeitures	—	—	—	—
Expense (income) recognized ⁽²⁾	—	2.0	—	(0.1)
End of period	309,796	\$ 3.9	441,206	\$ 1.0

(\$ in millions)	Six months ended June 30,			
	2017		2016	
	Target Performance Shares outstanding	Accrued expense	Target Performance Shares outstanding	Accrued expense
Beginning of period	452,519	\$ 1.6	449,435	\$ 1.4
Payments and deferrals ⁽¹⁾	(142,710)	—	(167,300)	(0.7)
New awards	—	—	163,150	—
Forfeitures and net change in assumed forfeitures	(13)	—	(4,079)	—
Expense (income) recognized ⁽²⁾	—	2.3	—	0.3
End of period	309,796	\$ 3.9	441,206	\$ 1.0

⁽¹⁾ There were no Performance share payments in 2017 for the 2014-2016 performance cycle due to the factor being zero. Performance share payments in 2016 for the 2013-2015 performance cycle were based upon a performance factor of 24.3%.

⁽²⁾ The assumed performance factor for the 2015-2017 performance cycle was increased to 100% during the three months ended June 30, 2017 as per the terms of the OneBeacon Acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. Employee Share-Based Incentive Compensation Plans

The following summarizes performance shares outstanding and accrued performance share expense at June 30, 2017 for each performance cycle:

(\$ in millions)	Target OB Performance Shares outstanding	Accrued expense
Performance cycle:		
2015 — 2017	146,646	\$ 2.5
2016 — 2018	163,150	1.4
Subtotal	309,796	3.9
Assumed forfeitures	—	—
Total at June 30, 2017	309,796	\$ 3.9

All performance shares cliff vest on December 31 of the last year in the cycle. If 100% of the outstanding performance shares had been vested on June 30, 2017, the total additional compensation cost to be recognized would have been \$1.9 million, based on current accrual factors (common share price, accumulated dividends and payout assumptions) at June 30, 2017.

All performance shares earned and paid were settled in cash or by deferral into OneBeacon's deferred compensation plan.

Restricted Shares

On February 28, 2017, OneBeacon issued to certain employees 461,160 shares of restricted stock having a grant date fair value of \$7.4 million, of which 235,000 were issued in anticipation of a sale transaction, as described in Note 2—"OneBeacon Acquisition," and are scheduled to cliff vest on August 28, 2018, 110,710 are scheduled to vest in two equal installments on February 24, 2018 and February 24, 2019, and 115,450 are scheduled to cliff vest on January 1, 2020.

On February 24, 2016, OneBeacon issued to certain employees 170,650 shares of restricted stock having a grant date fair value of \$2.3 million, of which 92,500 are scheduled to cliff vest in full on February 24, 2018 and the remaining 78,150 are scheduled to cliff vest in full on January 1, 2019.

On February 24, 2015, OneBeacon issued to certain employees 75,950 shares of restricted stock having a grant date fair value of \$1.1 million, of which 67,722 were outstanding as of June 30, 2017 and are scheduled to cliff vest in full on January 1, 2018.

On May 25, 2011, OneBeacon issued to its CEO 630,000 shares of restricted stock, of which 157,500 restricted shares vested on each of February 22, 2014, 2015, 2016, and 2017.

The restricted shares contain dividend participation features and therefore are considered participating securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. Employee Share-Based Incentive Compensation Plans

The following summarizes restricted shares activity for the three and six months ended June 30, 2017 and 2016:

(\$ in millions)	Three months ended June 30,			
	2017		2016	
	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value
Beginning of period	699,532	\$ 8.6	395,872	\$ 4.3
New awards	—	—	—	—
Forfeitures	—	—	—	—
Vested	—	—	—	—
Expense recognized	—	(1.5)	—	(0.8)
End of period	699,532	\$ 7.1	395,872	\$ 3.5

(\$ in millions)	Six months ended June 30,			
	2017		2016	
	Restricted Shares	Unamortized Issue Date Fair Value	Restricted Shares	Unamortized Issue Date Fair Value
Beginning of period	395,872	\$ 2.1	382,722	\$ 2.5
New awards	461,160	7.4	170,650	2.3
Forfeitures	—	—	—	—
Vested	(157,500)	—	(157,500)	—
Expense recognized	—	(2.4)	—	(1.3)
End of period	699,532	\$ 7.1	395,872	\$ 3.5

Restricted shares that vested during the six months ended June 30, 2017 and 2016 had a grant date fair value of \$2.1 million and \$2.1 million, respectively. No shares vested during the three months ended June 30, 2017 or 2016. As of June 30, 2017, unrecognized compensation expense of \$7.1 million related to restricted stock awards is expected to be recognized over a weighted-average period of 0.8 years.

Restricted Stock Units

During the six months ended June 30, 2017, 240,840 RSUs were issued, 239,470 of which were outstanding as of June 30, 2017. The RSUs are scheduled to cliff vest in full on December 31, 2019, at which time the RSUs will be paid out in cash or shares at the discretion of the Compensation Committee. During the six months ended June 30, 2016, 227,788 RSUs were issued, of which 206,502 were outstanding as of June 30, 2017. The expense associated with the RSUs, which is being recognized over the vesting period, was \$1.5 million and \$0.5 million for the three months ended June 30, 2017 and 2016, respectively, and \$2.1 million and \$0.9 million for the six months ended June 30, 2017 and 2016, respectively.

If 100% of outstanding RSUs had vested on June 30, 2017, additional compensation cost to be recognized would have been \$7.0 million, based on current accrual factors (common share price and accumulated dividends) as of June 30, 2017.

Share-Based Compensation under Qualified Retirement Plans

OneBeacon sponsors a defined contribution plan, the KSOP. Under the KSOP, participants have the ability to invest their balances in several different investment options, including the common shares of White Mountains and the common shares of the Company. OneBeacon has recorded \$1.5 million and \$1.3 million in compensation expense to pay benefits and allocate common shares to participants' accounts for the three months ended June 30, 2017 and 2016, respectively, and recorded \$2.7 million and \$2.7 million for the six months ended June 30, 2017 and 2016, respectively.

As of June 30, 2017 and December 31, 2016, the KSOP owned less than 3% of either of the total White Mountains common shares outstanding or the total Company common shares outstanding. All common shares held by the KSOP are considered outstanding for earnings per share computations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10. Income Taxes

OneBeacon and its Bermuda-domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event that there is a change in the current law such that taxes are imposed, OneBeacon and its Bermuda-domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. OneBeacon also has subsidiaries that operate in Gibraltar, Barbados, Luxembourg, Ireland, the United Kingdom and the United States. U.S. operations are financed with a combination of debt and equity and the financing income and underwriting income currently account for the majority of non-U.S. earnings.

OneBeacon's income tax benefit related to pre-tax income for the three months ended June 30, 2017 and 2016 represented a net effective tax rate of 112.5% and (8.7)%, respectively, and for the six months ended June 30, 2017 and 2016 represented a net effective tax rate of 3.5% and (17.5)%, respectively. The effective tax rates for the three and six months ended June 30, 2017 and 2016, were lower than the U.S. statutory rate of 35% due to income generated in jurisdictions other than the United States, principally representing interest income and underwriting income taxed in a jurisdiction with a lower effective tax rate. Additionally, the rate for the three months ended June 30, 2016 was impacted by a \$3.5 million favorable settlement of the 2010-2012 IRS exam and the rate for the six months ended June 30, 2016 was impacted by a \$12.8 million favorable settlement of the 2007-2009 IRS exam in addition to the \$3.5 million favorable settlement of the 2010-2012 IRS exam. For the three months ended June 30, 2017 and 2016, the effective tax rate on non-U.S. income was 0.7% and 0.5%, respectively and for the six months ended June 30, 2017 and 2016, the effective tax rate on non-U.S. income was 0.3% and 0.7%, respectively.

In arriving at the effective tax rate for the three and six months ended June 30, 2017 and 2016, OneBeacon forecasted all income and expense items including the realized and change in unrealized investment gains for the years ending December 31, 2017 and 2016, and included these gains in the effective tax rate calculation.

OneBeacon records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in income tax expense in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, OneBeacon considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods as well as prudent and economically feasible strategies that, if executed would result in the realization of a deferred tax asset. It is possible that certain planning strategies or projected earnings in certain subsidiaries may not be feasible to utilize the entire deferred tax asset, which could result in material changes to OneBeacon's deferred tax assets and tax expense.

OneBeacon classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. 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 2013.

NOTE 11. Fair Value of Financial Instruments

OneBeacon carries its financial instruments on its balance sheet at fair value with the exception of its investment in qualified affordable housing projects, which is accounted for using the proportional amortization method, and fixed-rate, long-term indebtedness. For certain financial instruments where quoted market prices are not available, other independent valuation techniques and assumptions are used. Because considerable judgment is used, these estimates are not necessarily indicative of amounts that could be realized in a current market exchange. Certain financial instruments are excluded from disclosure, including insurance contracts.

As of June 30, 2017 and December 31, 2016, the fair value of OneBeacon's 2012 Senior Notes (its fixed-rate, long-term indebtedness) was \$282.4 million and \$274.2 million, respectively. As described in Note 6—"Debt", the net carrying value of the 2012 Senior Notes was \$273.3 million and \$273.2 million as of June 30, 2017 and December 31, 2016, respectively. The fair value measurement of the 2012 Senior Notes is classified as Level 2 in the valuation hierarchy and determined based on the closing market price at the end of the fiscal quarter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. Legal Contingencies

OneBeacon, and the insurance and reinsurance industry in general, is routinely subject to claims related litigation and arbitration in the normal course of business, as well as litigation and arbitration that does not arise from, or directly relate to, claims activity. OneBeacon's estimates of the costs of settling matters routinely encountered in claims activity are reflected in the reserves for unpaid loss and LAE. See Note 3—"Unpaid Loss and Loss Adjustment Expense ("LAE") Reserves."

OneBeacon evaluates its exposure to non-claims related litigation and arbitration and establishes accruals for litigation and arbitration if it is probable that a loss has been incurred and it can be reasonably estimated. Disclosure of litigation and arbitration is made if it is probable that a loss has been incurred or if there is a reasonable possibility that a loss may have been incurred. Although the ultimate outcome of claims and non-claims related litigation and arbitration, and the amount or range of potential loss at any particular time, is often inherently uncertain, management does not believe that the ultimate outcome of such claims and non-claims related litigation and arbitration will have a material adverse effect on OneBeacon's financial position, full year results of operations, or cash flows.

The following summarizes significant ongoing non-claims related litigation or arbitration as of June 30, 2017:

Litigation Related to the OneBeacon Acquisition

On June 2, 2017, Stephen Bushansky, a purported Company shareholder, filed a class action complaint against the Company and each of the Company's directors in the U.S. District Court for the District of Minnesota (the "Minnesota Court"), purportedly on behalf of the Company's public shareholders. Thereafter, three additional lawsuits were filed in the Minnesota Court by additional purported shareholders, Darrin Dickers, Raymond Martino and Robert Berg (collectively with Bushansky, the "Plaintiffs"). The complaints in each pending class action allege that the Company's preliminary proxy statement filed with the U.S. Securities and Exchange Commission ("SEC") omitted or misrepresented certain material information, allegedly in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 14a-9 and sought to enjoin the Company and Intact Financial Corporation from closing the OneBeacon Acquisition, or if the Acquisition closes, to award Plaintiffs damages and costs.

On June 26, 2017, Plaintiffs jointly filed a motion for preliminary injunction to enjoin the shareholder vote on the OneBeacon Acquisition, but withdrew their motion on July 7, 2017. Company shareholders approved the OneBeacon Acquisition on July 18, 2017 at a special general meeting of shareholders. Plaintiffs have not dismissed their cases and OneBeacon's responsive pleadings are due August 14, 2017. The Company believes the cases lack merit and continues to vigorously defend this litigation.

Deutsche Bank Litigation

In June 2011, Deutsche Bank Trust Company Americas, Law Debenture Company of New York and Wilmington Trust Company (collectively referred to as "Plaintiffs"), in their capacity as trustees for certain senior notes issued by the Tribune Company ("Tribune"), filed lawsuits in various jurisdictions (the "Noteholder Actions") against numerous defendants including OneBeacon, OneBeacon-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune seeking recovery of the proceeds from the sale of common stock of Tribune in connection with Tribune's leveraged buyout in 2007 (the "LBO"). Tribune filed for bankruptcy in 2008 in the Delaware bankruptcy court (the "Bankruptcy Court"). The Bankruptcy Court granted Plaintiffs permission to commence these LBO-related actions, and in 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate the actions for pretrial matters and transferred all such proceedings to the United States District Court for the Southern District of New York (the SDNY). Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. OneBeacon has entered into a joint defense agreement with other affiliates of White Mountains that are defendants in the action. OneBeacon and OneBeacon-sponsored benefit plans received approximately \$32 million for Tribune common stock tendered in connection with the LBO. The Court granted an omnibus motion to dismiss the Noteholders Action in September 2013 and plaintiffs appealed. On March 29, 2016, a three judge panel of the U.S Second Circuit Court of Appeals affirmed the dismissal of the Noteholders Action. On July 22, 2016, the Plaintiff's petition to the Second Circuit for reconsideration or for a rehearing en banc was denied in full. On September 9, 2016 the Plaintiffs filed for a writ of certiorari, seeking review in the United States Supreme Court.

In addition, OneBeacon, OneBeacon-sponsored benefit plans and other affiliates of White Mountains in their capacity as former shareholders of Tribune, along with thousands of former Tribune shareholders, have been named as defendants in an adversary proceeding brought by the Official Committee of Unsecured Creditors of the Tribune Company (the "Committee"), on behalf of the Tribune Company, which seeks to avoid the repurchase of shares by Tribune in the LBO on a theory of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. Legal Contingencies

intentional fraudulent transfer (the “Committee Action”). Tribune emerged from bankruptcy in 2012, and a litigation trustee replaced the Committee as plaintiff in the Committee Action. This matter was consolidated for pretrial matters with the Noteholder Actions in the SDNY and was stayed pending the motion to dismiss in the Noteholder Action. An omnibus motion to dismiss the shareholder defendants in the Committee Action was filed in May 2014 and the motion was granted on January 6, 2017. The plaintiff has requested permission to move the SDNY to certify the decision as a final judgment capable of immediate appeal. No amount has been accrued in connection with this matter as of June 30, 2017, as the amount of loss, if any, cannot be reasonably estimated.

NOTE 13. Earnings per Share

Basic and diluted earnings per share amounts are based on the weighted average number of common shares outstanding, including unvested restricted shares that are considered participating securities. Diluted earnings per share amounts are based on the weighted average number of common shares including unvested restricted shares.

The following table outlines the Company's computation of earnings per share for net income attributable to OneBeacon's common shareholders for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Earnings attributable to OneBeacon's common shareholders—basic and diluted (in millions):				
Net income (loss) attributable to OneBeacon's common shareholders	\$ (0.1)	\$ 24.5	\$ 32.0	\$ 70.9
Allocation of income for participating unvested restricted common shares	—	(0.1)	(0.2)	(0.3)
Dividends paid on participating restricted common shares	(0.2)	(0.1)	(0.3)	(0.1)
Total allocation to restricted common shares	(0.2)	(0.2)	(0.5)	(0.4)
Net income (loss) attributable to OneBeacon's common shareholders, net of restricted common share amounts	<u>\$ (0.3)</u>	<u>\$ 24.3</u>	<u>\$ 31.5</u>	<u>\$ 70.5</u>
Undistributed net earnings (in millions):				
Net income attributable to OneBeacon's common shareholders, net of restricted common share amounts	\$ (0.3)	\$ 24.3	\$ 31.5	\$ 70.5
Dividends paid, net of restricted common share amounts	(19.7)	(19.7)	(39.5)	(39.5)
Total undistributed (overdistributed) net earnings, net of restricted common share amounts	<u>\$ (20.0)</u>	<u>\$ 4.6</u>	<u>\$ (8.0)</u>	<u>\$ 31.0</u>
Earnings per share denominator—basic and diluted (in millions):				
Total weighted average common shares outstanding	94.7	94.3	94.6	94.4
Weighted average unvested restricted common shares ⁽¹⁾	(0.7)	(0.4)	(0.6)	(0.4)
Basic and diluted earnings per share denominator	<u>94.0</u>	<u>93.9</u>	<u>94.0</u>	<u>94.0</u>
Earnings per share attributable to OneBeacon's common shareholders—basic and diluted (in dollars):				
Net income attributable to OneBeacon's common shareholders	\$ —	\$ 0.26	\$ 0.34	\$ 0.75
Dividends declared and paid	(0.21)	(0.21)	(0.42)	(0.42)
Undistributed (overdistributed) earnings	<u>\$ (0.21)</u>	<u>\$ 0.05</u>	<u>\$ (0.08)</u>	<u>\$ 0.33</u>

⁽¹⁾ Restricted shares outstanding vest in equal installments upon a stated date or upon the occurrence of a specified event.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. Common Shareholders' Equity and Noncontrolling Interest

Common Shares Repurchased and Retired

On August 22, 2007, the Company's Board authorized the repurchase of up to \$200.0 million of its Class A common shares from time to time, subject to market conditions. Shares may be repurchased on the open market or through privately negotiated transactions. This authorization does not have a stated expiration date. No shares were repurchased under the share repurchase authorization during the six months ended June 30, 2017. During the six months ended June 30, 2016, 850,349 shares were repurchased under the share repurchase authorization for \$10.6 million at an average share price of \$12.42. The amount of authorization remaining is \$75.0 million as of June 30, 2017.

During the six months ended June 30, 2017 and 2016, the Company repurchased 67,273 and 64,981 common shares, respectively, for \$1.1 million and \$0.9 million, to satisfy employee income tax withholding, pursuant to employee benefit plans. Shares repurchased pursuant to employee benefit plans do not reduce the board authorization referred to above.

Dividends on Common Shares

During the six months ended June 30, 2017 and 2016 the Company declared and paid cash dividends to OneBeacon shareholders of 0.42 per common share for a total of \$39.8 million and \$39.6 million, respectively.

Accumulated Other Comprehensive Loss

The pre-tax components of the Company's other comprehensive income and the related tax expense are as follows:

(\$ in millions)	Six months ended June 30,	
	2017	2016
Net change in benefit plan assets and obligations	\$ 0.4	\$ 0.3
Income tax expense	(0.1)	(0.1)
Net change in benefit plan assets and obligations, net of tax	\$ 0.3	\$ 0.2

Noncontrolling Interests

On June 30, 2017, A.W.G. Dewar, Inc. ("Dewar"), which is consolidated within OneBeacon's financial statements, repurchased \$4.1 million of stock from Dewar management. As a result of the repurchase, OneBeacon owns approximately 89% of Dewar as of June 30, 2017, an increase from ownership of 81% as of December 31, 2016.

NOTE 15. Consolidating Financial Information

The Company has fully and unconditionally guaranteed the 2012 Senior Notes issued by its 100% owned subsidiary, OBH, as well as any draw made by OBH on the Credit Facility, which was undrawn as of June 30, 2017. The following tables present OneBeacon's consolidating balance sheets as of June 30, 2017 and December 31, 2016 and statements of operations and comprehensive income for the three and six months ended June 30, 2017 and 2016 and cash flows for the six months ended June 30, 2017 and 2016. These financial statements reflect the Company's ("guarantor") financial position, results of operations and cash flows on a stand-alone basis, that of OBH ("the issuer") and of the Company's other entities ("non-guarantor subsidiaries") as well as the necessary consolidating adjustments to eliminate intercompany balances and transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. Consolidating Financial Information

Consolidating Balance Sheet As of June 30, 2017 (in millions)	The Company (guarantor)	Non- guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Assets					
Investment Securities:					
Fixed maturity investments, at fair value	\$ —	\$ 2,288.6	\$ —	\$ —	\$ 2,288.6
Short-term investments, at amortized cost (which approximates fair value)	5.4	44.2	5.9	—	55.5
Common equity securities, at fair value	—	205.5	—	—	205.5
Other investments	—	134.1	—	—	134.1
Total investment securities	5.4	2,672.4	5.9	—	2,683.7
Cash	—	71.2	0.1	—	71.3
Reinsurance recoverables	—	198.0	—	—	198.0
Premiums receivable	—	245.4	—	—	245.4
Deferred acquisition costs	—	106.9	—	—	106.9
Ceded unearned premiums	—	56.6	—	—	56.6
Net deferred tax asset	—	130.0	—	0.1	130.1
Investment income accrued	—	12.9	—	—	12.9
Accounts receivable on unsettled investment sales	—	5.8	—	—	5.8
Investments in subsidiaries	1,015.6	—	966.9	(1,982.5)	—
Other assets	0.6	184.0	1.1	—	185.7
Total assets	<u>\$ 1,021.6</u>	<u>\$ 3,683.2</u>	<u>\$ 974.0</u>	<u>\$ (1,982.4)</u>	<u>\$ 3,696.4</u>
Liabilities					
Unpaid loss and loss adjustment expense reserves	\$ —	\$ 1,411.2	\$ —	\$ —	\$ 1,411.2
Unearned premiums	—	595.2	—	—	595.2
Funds held under insurance contracts	—	210.2	—	—	210.2
Debt	—	—	273.3	—	273.3
Accounts payable on unsettled investment purchases	—	9.3	—	—	9.3
Other liabilities	6.5	171.0	4.9	—	182.4
Total liabilities	6.5	2,396.9	278.2	—	2,681.6
OneBeacon's common shareholders' equity and noncontrolling interests					
Total OneBeacon's common shareholders' equity	1,015.1	1,286.6	695.8	(1,982.4)	1,015.1
Total noncontrolling interests	—	(0.3)	—	—	(0.3)
Total OneBeacon's common shareholders' equity and noncontrolling interests	1,015.1	1,286.3	695.8	(1,982.4)	1,014.8
Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests	<u>\$ 1,021.6</u>	<u>\$ 3,683.2</u>	<u>\$ 974.0</u>	<u>\$ (1,982.4)</u>	<u>\$ 3,696.4</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. Consolidating Financial Information

Consolidating Balance Sheet As of December 31, 2016 (in millions)	The Company (guarantor)	Non- guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Assets					
Investment Securities:					
Fixed maturity investments, at fair value	\$ —	\$ 2,169.1	\$ —	\$ —	\$ 2,169.1
Short-term investments, at amortized cost (which approximates fair value)	2.5	108.1	1.5	—	112.1
Common equity securities, at fair value	—	188.7	—	—	188.7
Other investments	—	150.5	—	—	150.5
Total investment securities	2.5	2,616.4	1.5	—	2,620.4
Cash	—	69.5	0.1	—	69.6
Reinsurance recoverables	—	179.5	—	—	179.5
Premiums receivable	—	228.3	—	—	228.3
Deferred acquisition costs	—	96.3	—	—	96.3
Ceded unearned premiums	—	44.2	—	—	44.2
Net deferred tax asset	—	126.6	—	0.1	126.7
Investment income accrued	—	11.3	—	—	11.3
Accounts receivable on unsettled investment sales	—	1.4	—	—	1.4
Investments in subsidiaries	1,018.8	—	989.4	(2,008.2)	—
Other assets	0.4	211.4	0.4	—	212.2
Total assets	<u>\$ 1,021.7</u>	<u>\$ 3,584.9</u>	<u>\$ 991.4</u>	<u>\$ (2,008.1)</u>	<u>\$ 3,589.9</u>
Liabilities					
Unpaid loss and loss adjustment expense reserves	\$ —	\$ 1,365.6	\$ —	\$ —	\$ 1,365.6
Unearned premiums	—	575.1	—	—	575.1
Funds held under insurance contracts	—	153.0	—	—	153.0
Debt	—	—	273.2	—	273.2
Other liabilities	0.4	190.6	6.8	—	197.8
Total liabilities	0.4	2,284.3	280.0	—	2,564.7
OneBeacon's common shareholders' equity and noncontrolling interests					
Total OneBeacon's common shareholders' equity	1,021.3	1,296.7	711.4	(2,008.1)	1,021.3
Total noncontrolling interests	—	3.9	—	—	3.9
Total OneBeacon's common shareholders' equity and noncontrolling interests	1,021.3	1,300.6	711.4	(2,008.1)	1,025.2
Total liabilities, OneBeacon's common shareholders' equity and noncontrolling interests	<u>\$ 1,021.7</u>	<u>\$ 3,584.9</u>	<u>\$ 991.4</u>	<u>\$ (2,008.1)</u>	<u>\$ 3,589.9</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. Consolidating Financial Information

Consolidating Statement of Operations and Comprehensive Income (Loss) Three months ended June 30, 2017 (in millions)	The Company (guarantor)	Non- guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Revenues					
Earned premiums	\$ —	\$ 277.4	\$ —	\$ —	\$ 277.4
Net investment income	—	14.5	—	—	14.5
Net realized and change in unrealized investment gains	—	12.3	—	—	12.3
Net other revenues	—	2.1	—	—	2.1
Total revenues	—	306.3	—	—	306.3
Expenses					
Loss and loss adjustment expenses	—	188.6	—	—	188.6
Policy acquisition expenses	—	48.4	—	—	48.4
Other underwriting expenses	—	59.6	—	—	59.6
General and administrative expenses	6.5	2.2	0.1	—	8.8
Interest expense	—	—	3.3	—	3.3
Total expenses	6.5	298.8	3.4	—	308.7
Pre-tax income (loss)	(6.5)	7.5	(3.4)	—	(2.4)
Income tax benefit	—	1.5	1.2	—	2.7
Income (loss) before equity in earnings of unconsolidated affiliates	(6.5)	9.0	(2.2)	—	0.3
Equity in earnings of subsidiaries, net of tax	6.4	—	0.5	(6.9)	—
Net income including noncontrolling interests	(0.1)	9.0	(1.7)	(6.9)	0.3
Less: Net income attributable to noncontrolling interests	—	(0.4)	—	—	(0.4)
Net income (loss) attributable to OneBeacon's common shareholders	(0.1)	8.6	(1.7)	(6.9)	(0.1)
Other comprehensive income, net of tax	0.2	—	0.2	(0.2)	0.2
Comprehensive income attributable to OneBeacon's common shareholders	\$ 0.1	\$ 8.6	\$ (1.5)	\$ (7.1)	\$ 0.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. Consolidating Financial Information

Consolidating Statement of Operations and Comprehensive Income Three months ended June 30, 2016 (in millions)	The Company (guarantor)	Non- guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Revenues					
Earned premiums	\$ —	\$ 271.4	\$ —	\$ —	\$ 271.4
Net investment income	—	12.1	—	—	12.1
Net realized and change in unrealized investment gains	—	24.7	—	—	24.7
Net other revenues	—	0.8	—	—	0.8
Total revenues	—	309.0	—	—	309.0
Expenses					
Loss and loss adjustment expenses	—	179.7	—	—	179.7
Policy acquisition expenses	—	48.7	—	—	48.7
Other underwriting expenses	—	50.9	—	—	50.9
General and administrative expenses	1.2	2.1	0.2	—	3.5
Interest expense	—	—	3.2	—	3.2
Total expenses	1.2	281.4	3.4	—	286.0
Pre-tax income (loss)	(1.2)	27.6	(3.4)	—	23.0
Income tax benefit	—	—	2.0	—	2.0
Net income (loss) before equity in earnings of unconsolidated affiliates	(1.2)	27.6	(1.4)	—	25.0
Equity in earnings of subsidiaries, net of tax	25.7	—	18.0	(43.7)	—
Net income including noncontrolling interests	24.5	27.6	16.6	(43.7)	25.0
Less: Net income attributable to noncontrolling interests	—	(0.5)	—	—	(0.5)
Net income attributable to OneBeacon's common shareholders	24.5	27.1	16.6	(43.7)	24.5
Other comprehensive income, net of tax	0.2	—	0.2	(0.2)	0.2
Comprehensive income attributable to OneBeacon's common shareholders	\$ 24.7	\$ 27.1	\$ 16.8	\$ (43.9)	\$ 24.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. Consolidating Financial Information

Consolidating Statement of Operations and Comprehensive Income Six months ended June 30, 2017 (in millions)	The Company (guarantor)	Non- guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Revenues					
Earned premiums	\$ —	\$ 539.2	\$ —	\$ —	\$ 539.2
Net investment income	—	26.7	—	—	26.7
Net realized and change in unrealized investment gains	—	27.3	—	—	27.3
Net other revenues	—	5.5	—	—	5.5
Total revenues	—	598.7	—	—	598.7
Expenses					
Loss and loss adjustment expenses	—	339.2	—	—	339.2
Policy acquisition expenses	—	93.7	—	—	93.7
Other underwriting expenses	—	111.3	—	—	111.3
General and administrative expenses	9.4	4.2	0.2	—	13.8
Interest expense	—	—	6.6	—	6.6
Total expenses	9.4	548.4	6.8	—	564.6
Pre-tax income (loss)	(9.4)	50.3	(6.8)	—	34.1
Income tax benefit (expense)	—	(3.8)	2.6	—	(1.2)
Net income (loss) before equity in earnings of unconsolidated affiliates	(9.4)	46.5	(4.2)	—	32.9
Equity in earnings of subsidiaries, net of tax	41.4	—	11.7	(53.1)	—
Net income including noncontrolling interests	32.0	46.5	7.5	(53.1)	32.9
Less: Net income attributable to noncontrolling interests	—	(0.9)	—	—	(0.9)
Net income attributable to OneBeacon's common shareholders	32.0	45.6	7.5	(53.1)	32.0
Other comprehensive income, net of tax	0.3	—	0.3	(0.3)	0.3
Comprehensive income attributable to OneBeacon's common shareholders	\$ 32.3	\$ 45.6	\$ 7.8	\$ (53.4)	\$ 32.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. Consolidating Financial Information

Consolidating Statement of Operations and Comprehensive Income Six months ended June 30, 2016 (in millions)	The Company (guarantor)	Non- guarantor subsidiarie s	OBH (issuer)	Consolidating adjustments	Consolidated
Revenues					
Earned premiums	\$ —	\$ 550.0	\$ —	\$ —	\$ 550.0
Net investment income	—	26.5	—	—	26.5
Net realized and change in unrealized investment gains	—	41.3	—	—	41.3
Net other revenues	—	1.7	—	—	1.7
Total revenues	—	619.5	—	—	619.5
Expenses					
Loss and loss adjustment expenses	—	338.5	—	—	338.5
Policy acquisition expenses	—	99.7	—	—	99.7
Other underwriting expenses	—	106.2	—	—	106.2
General and administrative expenses	2.4	4.8	0.2	—	7.4
Interest expense	—	—	6.5	—	6.5
Total expenses	2.4	549.2	6.7	—	558.3
Pre-tax income (loss)	(2.4)	70.3	(6.7)	—	61.2
Income tax benefit	—	7.1	3.6	—	10.7
Net income (loss) before equity in earnings of unconsolidated affiliates	(2.4)	77.4	(3.1)	—	71.9
Equity in earnings of subsidiaries, net of tax	73.3	—	40.7	(114.0)	—
Net income including noncontrolling interests	70.9	77.4	37.6	(114.0)	71.9
Less: Net income attributable to noncontrolling interests	—	(1.0)	—	—	(1.0)
Net income attributable to OneBeacon's common shareholders	70.9	76.4	37.6	(114.0)	70.9
Other comprehensive income, net of tax	0.2	—	0.2	(0.2)	0.2
Comprehensive income attributable to OneBeacon's common shareholders	\$ 71.1	\$ 76.4	\$ 37.8	\$ (114.2)	\$ 71.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. Consolidating Financial Information

Consolidating Statement of Cash Flows Six months ended June 30, 2017 (in millions)	The Company (guarantor)	Non- guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Cash flows from operations:					
Net income including noncontrolling interests	\$ 32.0	\$ 46.5	\$ 7.5	\$ (53.1)	\$ 32.9
Charges (credits) to reconcile net income to cash flows provided from (used for) operations:					
Undistributed earnings from subsidiaries	(41.4)	—	(11.7)	53.1	—
Net realized and change in unrealized investment gains	—	(27.3)	—	—	(27.3)
Deferred income tax benefit	—	(2.6)	—	—	(2.6)
Dividends received from subsidiaries	45.0	—	—	(45.0)	—
Other operating items:					
Net change in loss and LAE reserves	—	45.6	—	—	45.6
Net change in unearned premiums	—	20.1	—	—	20.1
Net change in ceded unearned premiums	—	(12.4)	—	—	(12.4)
Net change in premiums receivable	—	(17.1)	—	—	(17.1)
Net change in reinsurance recoverables on paid and unpaid losses	—	(18.5)	—	—	(18.5)
Net change in funds held under insurance contracts	—	57.2	—	—	57.2
Net change in other assets and liabilities	8.2	2.5	(2.4)	—	8.3
Net cash provided from (used for) operations	43.8	94.0	(6.6)	(45.0)	86.2
Cash flows from investing activities:					
Net maturities, purchases and sales of short-term investments	(2.9)	63.9	(4.4)	—	56.6
Maturities of fixed maturity investments	—	158.6	—	—	158.6
Sales of fixed maturity investments	—	686.1	—	—	686.1
Sales of common equity securities	—	5.8	—	—	5.8
Return of capital and distributions of other investments	—	13.5	—	—	13.5
Purchases of fixed maturity investments	—	(957.9)	—	—	(957.9)
Purchases of common equity securities	—	(6.2)	—	—	(6.2)
Contributions for other investments	—	(0.9)	—	—	(0.9)
Net change in unsettled investment purchases and sales	—	4.8	—	—	4.8
Net acquisitions of property and equipment	—	(4.0)	—	—	(4.0)
Capital contribution from parent	—	23.5	34.5	(58.0)	—
Net cash provided from (used for) investing activities	(2.9)	(12.8)	30.1	(58.0)	(43.6)
Cash flows from financing activities:					
Cash dividends paid to common shareholders	(39.8)	—	—	—	(39.8)
Cash dividends paid to parent	—	(45.0)	—	45.0	—
Capital contribution to subsidiary	—	(34.5)	(23.5)	58.0	—
Repurchases and retirements of common stock	(1.1)	—	—	—	(1.1)
Payments on capital lease obligation	—	—	—	—	—
Net cash used for financing activities	(40.9)	(79.5)	(23.5)	103.0	(40.9)
Net increase in cash during period	—	1.7	—	—	1.7
Cash balance at beginning of period	—	69.5	0.1	—	69.6
Cash balance at end of period	\$ —	\$ 71.2	\$ 0.1	\$ —	\$ 71.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. Consolidating Financial Information

Consolidating Statement of Cash Flows Six months ended June 30, 2016 (in millions)	The Company (guarantor)	Non- guarantor subsidiaries	OBH (issuer)	Consolidating adjustments	Consolidated
Cash flows from operations:					
Net income including noncontrolling interests	\$ 70.9	\$ 77.4	\$ 37.6	\$ (114.0)	\$ 71.9
Charges (credits) to reconcile net income to cash flows provided from (used for) operations:					
Undistributed earnings from subsidiaries	(73.3)	—	(40.7)	114.0	—
Net realized and change in unrealized investment gains	—	(41.3)	—	—	(41.3)
Deferred income tax expense	—	19.2	—	—	19.2
Dividends received from subsidiaries	51.0	—	—	(51.0)	—
Other operating items:					
Net change in loss and LAE reserves	—	(13.2)	—	—	(13.2)
Net change in unearned premiums	—	(3.9)	—	—	(3.9)
Net change in ceded unearned premiums	—	(5.0)	—	—	(5.0)
Net change in premiums receivable	—	(19.9)	—	—	(19.9)
Net change in reinsurance recoverables on paid and unpaid losses	—	10.0	—	—	10.0
Net change in funds held under insurance contracts	—	3.2	—	—	3.2
Net change in other assets and liabilities	1.2	(35.4)	(4.1)	—	(38.3)
Net cash provided from (used for) operations	49.8	(8.9)	(7.2)	(51.0)	(17.3)
Cash flows from investing activities:					
Net maturities, purchases and sales of short-term investments	1.3	(47.8)	1.1	—	(45.4)
Maturities of fixed maturity investments	—	229.5	—	—	229.5
Sales of fixed maturity investments	—	218.8	24.2	(42.5)	200.5
Sales of common equity securities	—	174.4	—	—	174.4
Return of capital and distributions of other investments	—	7.0	—	—	7.0
Purchases of fixed maturity investments	—	(473.6)	(18.3)	42.5	(449.4)
Purchases of common equity securities	—	(109.5)	—	—	(109.5)
Contributions for other investments	—	(0.4)	—	—	(0.4)
Net change in unsettled investment purchases and sales	—	42.5	—	—	42.5
Net acquisitions of property and equipment	—	(2.1)	—	—	(2.1)
Capital contribution from parent	—	27.3	28.5	(55.8)	—
Net cash provided from investing activities	1.3	66.1	35.5	(55.8)	47.1
Cash flows from financing activities:					
Cash dividends paid to common shareholders	(39.6)	—	—	—	(39.6)
Cash dividends paid to parent	—	(51.0)	—	51.0	—
Capital contribution to subsidiary	—	(28.5)	(27.3)	55.8	—
Repurchases and retirements of common stock	(11.5)	—	—	—	(11.5)
Payments on capital lease obligation	—	(1.0)	—	—	(1.0)
Net cash used for financing activities	(51.1)	(80.5)	(27.3)	106.8	(52.1)
Net increase (decrease) in cash during period	—	(23.3)	1.0	—	(22.3)
Cash balance at beginning of period	—	94.6	0.6	—	95.2
Cash balance at end of period	\$ —	\$ 71.3	\$ 1.6	\$ —	\$ 72.9

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited *pro forma* condensed consolidated financial statements (“*pro formas*”) give effect to the proposed acquisition (the “Acquisition”) of OneBeacon Insurance Group, Ltd. (“OneBeacon”) under the purchase method of accounting. The *pro formas* have been prepared as if the Acquisition had occurred on January 1, 2016 for the purpose of the unaudited *pro forma* consolidated statement of income for the six-month period ended June 30, 2017 and the unaudited *pro forma* consolidated statement of income for the year ended December 31, 2016, and as if the Acquisition occurred on June 30, 2017 for the purpose of the unaudited *pro forma* condensed consolidated balance sheet as at June 30, 2017. The *pro formas* are not necessarily indicative of the results that actually would have been achieved if the transactions reflected therein had been completed on the dates indicated or the results which may occur in the future.

The *pro formas* are presented for illustrative purposes only. The unaudited *pro forma* adjustments are based upon available information and certain assumptions that we believe are reasonable in the circumstances, as described in the notes to the *pro formas*.

These *pro formas* are based on unaudited consolidated Intact Financial Corporation (“IFC”) financial statements prepared in accordance with International Accounting Standards (“IAS”) 34 – *Interim Financial Reporting* as at and for the six months ended June 30, 2017, OneBeacon’s unaudited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) as at and for the six-month period ended June 30, 2017, OneBeacon’s US GAAP audited consolidated financial statements as at and for the year ended December 31, 2016 and IFC audited consolidated financial statements for the year ended December 31, 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”).

These *pro formas* exclude the allocation of the purchase price. Therefore, the difference between the purchase price and the net assets acquired excluding pre-acquisition goodwill has been allocated to goodwill. Actual amounts will be recorded once the purchase price allocation is finalized. The final purchase price allocation is dependent on, amongst other things, valuation of assets and liabilities of OneBeacon. Therefore, we believe that the actual adjustments will differ from the unaudited *pro forma* adjustments, and the differences may be material. As at the closing date of the Acquisition, the difference between the estimate of final consideration and the valuation of tangible and identifiable intangible assets, at that date, will be recorded as goodwill.

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

AS AT JUNE 30, 2017

(unaudited)

(\$ millions)

	IFC CAD \$	OneBeacon US GAAP USD \$	OneBeacon IFRS CAD \$	Pro Forma Adjustments CAD \$		Pro Forma Condensed Consolidated Balance Sheet CAD \$
		Note 1	Note 2	Note	Note	
Assets						
Cash and cash equivalents	\$ 155	71	93	—	(d), (f), (g), (h), (j), (k)	\$ 248
Debt securities	9,477	2,275	2,952	(1,179)	(f)	11,250
Preferred shares	1,395	14	18	—	—	1,413
Common shares	3,505	206	267	(324)	(f)	3,448
Loans and other investments	358	189	245	—	—	603
Investments	14,890	2,755	3,575	(1,503)	—	16,962
Accrued investment income	61	13	17	—	—	78
Premium receivables	3,144	245	318	—	—	3,462
Reinsurance assets	452	254	330	—	—	782
Income taxes receivable	36	—	—	—	—	36
Deferred tax assets	342	130	201	(b), (c)	8 (c), (g), (h), (j)	551
Deferred acquisition costs	776	107	139	—	—	915
Other assets	528	177	229	—	—	757
Investments in associates and joint ventures	573	—	—	—	—	573
Property and equipment	136	15	19	—	—	155
Goodwill and intangibles	2,778	—	—	1,121	(d)	3,899
Total assets	\$ 23,716	3,696	4,828	(374)	—	\$ 28,170
Liabilities						
Claims liabilities	8,589	1,411	1,973	(b)	—	10,562
Unearned premiums	4,681	595	773	—	—	5,454
Financial liabilities related to investments	630	9	12	(326)	(f)	316
Income taxes payable	155	7	9	—	—	164
Deferred tax liabilities	427	—	—	—	—	427
Other liabilities	1,261	386	501	—	—	1,762
Debt outstanding	1,815	273	354	275	(k)	2,444
Total liabilities	\$ 17,558	2,681	3,622	(51)	—	\$ 21,129
Shareholders' equity						
Common shares	2,081	1,015	1,315	(579)	(a), (g), (h)	2,817
Preferred shares	636	—	—	148	(j)	784
Contributed surplus	118	—	—	—	—	118
Retained earnings	3,298	5	(103)	103	(b), (c) (a)	3,298
Non controlling interest	—	(1)	(1)	—	—	(1)
Accumulated other comprehensive income (loss)	—	—	—	—	—	—
Available-for-sale securities	154	—	—	—	—	154
Derivatives designated as cash flow hedges	(121)	—	—	—	—	(121)
Other	(8)	(4)	(5)	5	(a)	(8)
Total Shareholder's equity	\$ 6,158	1,015	1,206	(323)	—	\$ 7,041
Total liabilities and Shareholder's equity	\$ 23,716	3,696	4,828	(374)	—	\$ 28,170

1) Certain amounts were reclassified to align OneBeacon presentation with IFC presentation.

2) Amounts have been converted to IFRS and translated from US \$ to Canadian dollars using the daily average rate as published by the Bank of Canada in effect as at June 30, 2017 which was \$1.2977 for US\$1.00.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(unaudited)
(\$ millions, except for per share amounts)

	IFC CAD \$	OneBeacon US GAAP USD \$	OneBeacon IFRS CAD \$	Pro Forma Adjustments CAD \$	Pro Forma Condensed Consolidated Statement of income CAD \$	
		Note 1	Note 2	Note	Note	
Direct premiums written	\$ 8,197	1,193	1,580	—	\$ 9,777	
Net premiums earned	7,902	1,101	1,458	—	9,360	
Other underwriting revenues	122	—	—	—	122	
Total underwriting revenues	8,024	1,101	1,458	—	9,482	
Net claims incurred	(5,108)	(656)	(871)	(b)	(5,979)	
Underwriting expenses	(2,533)	(415)	(550)	—	(3,083)	
Underwriting results	383	30	37	—	420	
Net investment income and net investment gains (losses)	344	88	117	(14)	(f)	447
Share profit from investment in associates and joint ventures	16	—	—	—	—	16
Other revenues	143	6	7	—	—	150
Other expenses	(128)	(14)	(19)	—	—	(147)
Finance costs	(72)	(13)	(17)	(18)	(k)	(107)
Income before income taxes	686	96	125	(32)	—	779
Income tax (expense) benefit	(145)	12	17	8	(c)	(120)
Net income attributable to shareholders	\$ 541	108	142	(24)	—	\$ 659
Basic and diluted average number of common shares (in millions)	131.2	n/a	n/a	—	—	139.4
Earnings per share, basic and diluted (in dollars)	\$ 3.97	n/a	n/a	—	(i)	\$ 4.47
Dividends per share (in dollars)	\$ 2.32	n/a	n/a	—	—	\$ 2.32

1) Certain amounts were reclassified to align OneBeacon presentation with IFC presentation.

2) Amounts have been converted to IFRS and translated from US \$ to Canadian dollars using the average closing exchange rate as published by the Bank of Canada for the twelve-month period ended December 31, 2016 which was \$1.3245 for US\$1.00.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2017
(unaudited)
(\$ millions, except for per share amounts)

	IFC CAD \$	OneBeacon US GAAP USD \$	OneBeacon IFRS CAD \$	Pro Forma Adjustments CAD \$	Pro Forma Condensed Consolidated Statement of income CAD \$	
		Note 1	Note 2	Note	Note	
Direct premiums written	\$ 4,244	608	811	—	\$ 5,055	
Net premiums earned	4,048	539	720	—	4,768	
Other underwriting revenues	54	—	—	—	54	
Total underwriting revenues	4,102	539	720	—	4,822	
Net claims incurred	(2,713)	(339)	(463)	(b)	(3,176)	
Underwriting expenses	(1,252)	(205)	(274)	—	(1,526)	
Underwriting results	137	(5)	(17)	—	120	
Net investment income and net investment gains (losses)	344	54	72	(7)	(f)	409
Share profit from investment in associates and joint ventures	13	—	—	—	—	13
Other revenues	74	6	7	—	—	81
Other expenses	(54)	(14)	(18)	—	—	(72)
Finance costs	(38)	(7)	(9)	(8)	(k)	(55)
Income before income taxes	476	34	35	(15)	—	496
Income tax (expense) benefit	(87)	(1)	1	(c)	(c)	(82)
	389	33	36	(11)	—	414
Net income attributable to noncontrolling interests	—	(1)	(1)	—	—	(1)
Net income attributable to shareholders	\$ 389	32	35	(11)	—	\$ 413
Basic and diluted average number of common shares (in millions)	131.0	n/a	n/a	—	—	139.2
Earnings per share, basic and diluted (in dollars)	\$ 2.90	n/a	n/a	—	(f)	\$ 2.85
Dividends per share (in dollars)	\$ 1.28	n/a	n/a	—	—	\$ 1.28

1) Certain amounts were reclassified to align OneBeacon presentation with IFC presentation.

2) Amounts have been converted to IFRS and translated from US \$ to Canadian dollars using the average rate for the six-month period ended June 30, 2017 as published by the Bank of Canada which was \$1.3343 for US\$1.00.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(all amounts in CDN dollars)

(unaudited)

1. BASIS OF PRESENTATION

The accompanying *pro formas* give effect to the Acquisition of all of the issued and outstanding shares of OneBeacon. The accompanying *pro formas* have been prepared by management of IFC and are derived from the interim consolidated financial statements (unaudited) of IFC as at and for the six-month period ended June 30, 2017 and the audited consolidated financial statements of IFC for the year ended December 31, 2016; and the interim consolidated financial statements of OneBeacon as at and for the six-month period ended June 30, 2017 and the audited consolidated financial statements of OneBeacon for the year ended December 31, 2016.

The accounting policies used in the preparation of these *pro formas* are those disclosed in IFC's financial statements applicable for each of the respective periods and also consider the *pro forma* assumptions and adjustments described in note 2. Management has determined that adjustments to OneBeacon's financial statements are required to comply with IFRS and the accounting policies used by IFC in the preparation of its *pro formas*. Those adjustments are described in note 2.

These *pro formas* should be read in conjunction with the description of the transaction and financing described in the Prospectus Supplement and have been prepared using the following information:

Unaudited *Pro forma* consolidated balance sheet as at June 30, 2017 and unaudited *pro forma* consolidated statement of income for the six months ended June 30, 2017:

- interim consolidated financial statements (unaudited) of IFC as at and for the six months ended June 30, 2017 prepared in accordance with IAS 34 — *Interim Financial Reporting* and using the accounting policies that IFC expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2017;
- interim consolidated financial statements (unaudited) of OneBeacon as at and for the six months ended June 30, 2017 prepared in accordance with US GAAP.

Unaudited *Pro forma* consolidated statement of income for the year ended December 31, 2016:

- audited consolidated financial statements of IFC as at and for the year ended December 31, 2016 prepared in accordance with IFRS;
- audited consolidated financial statements of OneBeacon as at and for the year ended December 31, 2016 prepared in accordance with US GAAP.

The underlying assumptions for the unaudited *pro forma* adjustments provide a reasonable basis for presenting the significant financial effect directly attributable to the Acquisition. These unaudited *pro forma* adjustments are tentative and are based on available financial information and certain estimates and assumptions. The actual adjustments to the consolidated financial statements will depend on a number of factors. We believe that the actual adjustments will differ from the

unaudited *pro forma* adjustments, and the differences may be material. In addition, these *pro formas* do not include financial benefits from items such as potential cost savings or synergies arising from the Acquisition or the costs of integration and business attrition which may occur.

2. UNAUDITED PRO FORMA SIGNIFICANT ASSUMPTIONS AND ADJUSTMENTS

These *pro formas* give effect to the completion of the Acquisition, as if it had occurred on June 30, 2017 in respect of the unaudited *pro forma* consolidated balance sheet, and on January 1, 2016 in respect of the unaudited *pro forma* consolidated statement of income for the year ended December 31, 2016 and the unaudited *pro forma* consolidated statement of income for the six-month period ended June 30, 2017. The Acquisition has been reflected in the *pro formas* statements using the purchase method of accounting.

[a] OneBeacon's historical shareholders' equity balances

The historical shareholders' share capital, retained earnings and accumulated other comprehensive income (loss) balances of OneBeacon have been eliminated.

IFRS / US GAAP ADJUSTMENTS

OneBeacon's historical financial statements were originally prepared in accordance with US GAAP and presented in US\$. Adjustments were made to translate the balances to Canadian dollars and to convert those financial statements to IFRS.

[b] Claims Liabilities - PFAD and Discount

Margins referred to as provisions for adverse deviation (PFAD) and the discounting of claims liabilities (using a discount rate of 1.73%) were recognized in the balance sheet to be on a consistent basis with the method used by IFC and in conformity with generally accepted Canadian actuarial standard techniques. The claims liabilities have been increased by \$142 million as at June 30, 2017. The claims incurred have increased by \$3 million for the twelve-month period ended December 31, 2016 and increased by \$10 million for the six-month period ended June 30, 2017.

PRO FORMA ADJUSTEMENTS

[c] Income taxes

The unaudited *pro forma* adjustments are tax affected, where appropriate, using either IFC's statutory tax rates of 27% or OneBeacon statutory tax rates of 35% for the year-ended December 31, 2016 and the six-month period ended June 30, 2017.

[d] Estimated consideration

Estimated cash consideration paid (\$US1,702 ¹)	\$2,328 million
Net assets acquired excluding pre-acquisition goodwill ²	<u>\$1,207 million</u>
Unallocated purchase price	\$1,121 million

[e] Allocation of consideration

For the purpose of these *pro formas*, Management has not made any fair value adjustment allocation to the value of the acquired assets and liabilities on the balance sheet of OneBeacon due to considerable uncertainty with respect to the measurement of fair value amounts. IFC expects that a significant portion of the unallocated purchase price will be allocated among amortizable intangible assets and goodwill. When the acquisition will close, IFC can elect to either include gains and losses accumulated in Accumulated other comprehensive income (“AOCI”) in the acquisition cost of OneBeacon (against goodwill) or leave such gains and losses in AOCI until the investment is sold. IFC is currently evaluating the impact those options will have on its financial statements.

[f] Excess capital

To fund a portion of the Acquisition purchase price and related transaction fees, IFC plans to use approximately \$1,177 million of its excess capital by disposing of investments. This amount includes the invested net proceeds of the Series 5 preferred shares and Series 7 unsecured medium term notes financings described in [j] and [k] below. The investment income shortfall resulting from the disposition of investments was based on an average investment income yield of 1.2% (pre-tax) impacting results by a decrease of \$14 million for the year ended December 31, 2016 and \$7 million for the six-month period ended June 30, 2017.

[g] Common share issuance

To fund a portion of the Acquisition purchase price, IFC plans to issue 4.5 million common shares concurrently with the closing of the Acquisition resulting in estimated gross proceeds of approximately \$414 million, or net proceeds after common share issuance costs of \$396 million (\$18 million common share issuance costs recorded in deduction of equity). The price of \$91.85 per share, being the offering price for the issuance of 4.5 million subscription receipts of IFC pursuant to a public offering that was completed on May 11, 2017, has been used as the issue price per share in these *pro formas*. The 4.5 million of common shares includes 588,000 subscription receipts as a result of the over-allotment option.

¹ Amount has been translated from US dollars to Canadian dollars using the cash flow hedge exchange rate which is \$1.3680 for the hedged portion and using the daily average rate as published by the Bank of Canada in effect as at June 30, 2017 which was \$1.2977 for US \$1.00 for the unhedged portion.

² Amount has been translated from US dollars to Canadian dollars using the daily average rate as published by the Bank of Canada in effect as at June 30, 2017 which was \$1.2977 for US \$1.00.

[h] Private Placements

To fund a portion of the Acquisition purchase price, IFC entered into separate subscription agreements on May 2, 2017 with three subscribers to issue on a private placement basis 3.7 million common shares concurrently with the closing of the Acquisition (the “Private Placements”) resulting in estimated gross proceeds of approximately \$340 million (\$7 million issuance costs recorded in deduction of equity). The price of \$ 91.85 per share, being the offering price for the issuance of 3.7 million subscription receipts of IFC pursuant to the subscription agreements that was completed on May 11, 2017, has been used as the issue price per share in the *pro formas*.

[i] Earnings per common share

The calculation of the unaudited *pro forma* earnings per common share for the year ended December 31, 2016, and for the six-month period ended June 30, 2017, considers the issuance of 8.2 million common shares referred to in [g] and [h] above, as if the issuance had taken place as at January 1, 2016.

The earnings available to common shareholders also consider the dividends on preferred shares referred to in [j] below, as if the issuance had taken place as at January 1, 2016.

[j] Preferred shares

IFC plans to issue preferred shares Series 6 for an estimated gross proceeds of approximately \$150 million (\$3 million issuance costs recorded in deduction of equity) with an annual dividend rate of 5.30%. IFC has granted to the Underwriters an option, exercisable, in whole or in part, at any time and from time to time, until 8:30 a.m. on the date that is two business days prior to the closing of the offering of the preferred shares Series 6, to purchase up to an aggregate of 2,000,000 additional preferred shares Series 6 on the same terms as such offering (\$50 million). For the purposes of these *pro formas*, it has been assumed that such option will not be exercised.

Also, IFC issued on May 24, 2017 6,000,000 Series 5 preferred shares for a gross proceeds of \$150 million (\$3 million issuance cost recorded in deduction of equity) with an annual dividend rate of 5.20%. For the purpose of the unaudited *pro forma* consolidated statement of income, dividends declared were adjusted as if these shares were issued on January 1, 2016.

[k] Debt

In addition, for the purposes of these *pro formas*, Management has assumed remaining financing of the Acquisition purchase price consists of bank debt of \$275 million bearing interest at an annual rate of 1.95%.

IFC issued on June 7, 2017 Series 7 unsecured medium term notes (“MTN”) for a gross proceeds of \$425 million (\$3 million issuance cost recorded in deduction of debt and amortized over the term of the MTN) bearing interest at a fixed annual rate of 2.85% until maturity on June 7, 2027. For the purpose of the unaudited *pro forma* consolidated statement of income, interest expense was adjusted as if these MTN were issued on January 1, 2016.

[l] Retention bonus and other transaction costs

OneBeacon intends to establish a retention pool for key employees, in an aggregate amount not to exceed \$45 million. Other direct acquisition costs (including legal and advisory fees) are assumed to approximate \$17 million of which \$3 million are included as expenses in IFC Consolidated statement of comprehensive income for the period ended June 30, 2017. These costs have not been reflected in *pro formas* as they are not recurring costs.

CERTIFICATE OF THE UNDERWRITERS

Dated: August 11, 2017

To the best of our knowledge, information and belief, the short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this Prospectus Supplement as required by the securities legislation of all provinces and territories of Canada.

**CIBC WORLD MARKETS
INC.**

By: (signed) Shannan M.
Levere

**BMO NESBITT BURNS
INC.**

By: (signed) Timothy Tutsch

**NATIONAL BANK
FINANCIAL INC.**

By: (signed) Maude
Leblond

TD SECURITIES INC.

By: (signed) Jonathan
Broer

RBC DOMINION SECURITIES INC.

By: (signed) John Bylaard

SCOTIA CAPITAL INC.

By: (signed) Burhan Khan

DESJARDINS SECURITIES INC.

By: (signed) Wes Fulford

GMP SECURITIES L.P.

By: (signed) Kevin Sullivan

RAYMOND JAMES LTD.

By: (signed) Sean C. Martin

CORMARK SECURITIES INC.

By: (signed) Alfred Avanesy

MACQUARIE CAPITAL MARKETS CANADA LTD.

By: (signed) Michael P. Mackasey