Global Indemnity plc
Form 10-Q
August 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2013

OR

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

For the Transition Period from _________ to _________

001-34809

Commission File Number

GLOBAL INDEMNITY PLC

(Exact name of registrant as specified in its charter)

Ireland	**98-0664891**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

25/28 NORTH WALL QUAY

DUBLIN 1

IRELAND

(Address of principal executive office, including zip code)

353 (0) 1 649 2000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

Large accelerated filer ¨; Accelerated filer x; Non-accelerated filer ¨; Smaller reporting company ¨

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

As of August 2, 2013, the registrant had outstanding 13,123,261 A Ordinary Shares and 12,061,370 B Ordinary Shares.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL INDEMNITY PLC

Consolidated Balance Sheets

(In thousands, except share amounts)

	(Unaudited) June 30, 2013	December 31, 2012
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,163,532 and $1,187,094)	$ 1,184,738	$ 1,229,322
Equity securities:		
Available for sale, at fair value (cost: $174,693 and $167,179)	222,583	197,075
Other invested assets:		
Available for sale, at fair value (cost: $3,059 and $3,049)	3,226	3,132
Total investments	1,410,547	1,429,529
Cash and cash equivalents	111,440	104,460
Premiums receivable, net	74,027	45,162
Reinsurance receivables, net	232,645	241,827
Receivable for securities sold	5,160	
Federal income taxes receivable	1,393	6,844
Deferred federal income taxes	10,445	10,824
Deferred acquisition costs	25,980	18,265
Intangible assets	18,166	18,343
Goodwill	4,820	4,820
Prepaid reinsurance premiums	5,248	5,945
Other assets	14,951	17,684
Total assets	$ 1,914,822	$ 1,903,703
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 844,918	$ 879,114
Unearned premiums	128,572	94,114
Ceded balances payable	4,628	4,201
Contingent commissions	7,302	9,911
Payable for securities purchased		2,634
Notes and debentures payable	84,929	84,929
Other liabilities	20,523	22,182
Total liabilities	1,090,872	1,097,085
Commitments and contingencies (Note 9)		
Shareholders equity:		

Ordinary shares, $0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 16,164,587 and 16,087,939, respectively; A ordinary shares outstanding: 13,105,826 and 13,030,938, respectively; B ordinary shares issued and outstanding: 12,061,370 and 12,061,370, respectively	3	3
Additional paid-in capital	514,422	512,304
Accumulated other comprehensive income, net of taxes	47,574	53,350
Retained earnings	363,200	342,171
A ordinary shares in treasury, at cost: 3,058,761 and 3,057,001 shares, respectively	(101,249)	(101,210)
Total shareholders equity	823,950	806,618
Total liabilities and shareholders equity	$ 1,914,822	$ 1,903,703

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY PLC

Consolidated Statements of Operations

(In thousands, except shares and per share data)

	(Unaudited) Quarters Ended June 30, 2013	(Unaudited) Quarters Ended June 30, 2012	(Unaudited) Six Months Ended June 30, 2013	(Unaudited) Six Months Ended June 30, 2012
Revenues:				
Gross premiums written	$ 84,245	$ 67,632	$ 159,184	$ 125,390
Net premiums written	$ 78,346	$ 61,135	$ 149,824	$ 111,416
Net premiums earned	$ 58,671	$ 57,859	$ 114,667	$ 122,329
Net investment income	9,765	11,071	19,799	22,488
Net realized investment gains:				
Other than temporary impairment losses on investments	(1,010)	(1,326)	(1,053)	(3,619)
Other than temporary impairment losses on investments recognized in other comprehensive income				541
Other net realized investment gains	3,816	3,267	9,616	6,780
Total net realized investment gains	2,806	1,941	8,563	3,702
Other income (loss)	247	(40)	301	(392)
Total revenues	71,489	70,831	143,330	148,127
Losses and Expenses:				
Net losses and loss adjustment expenses	34,924	36,158	66,712	78,167
Acquisition costs and other underwriting expenses	24,472	23,760	48,949	46,927
Corporate and other operating expenses	2,472	2,336	4,817	4,824
Interest expense	1,181	1,470	2,354	2,948
Income before income taxes	8,440	7,107	20,498	15,261
Income tax benefit	(224)	(2,497)	(531)	(5,205)
Net income	$ 8,664	$ 9,604	$ 21,029	$ 20,466
Per share data:				
Net income				
Basic	$ 0.35	$ 0.35	$ 0.84	$ 0.73
Diluted	$ 0.34	$ 0.35	$ 0.84	$ 0.72
Weighted-average number of shares outstanding				
Basic	25,049,888	27,829,555	25,052,488	28,223,321
Diluted	25,119,035	27,836,453	25,120,897	28,236,562

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Comprehensive Income

(In thousands)

	(Unaudited) Quarters Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income	$ 8,664	$ 9,604	$ 21,029	$ 20,466
Other comprehensive income (loss), net of taxes:				
Unrealized holding gains (losses)	(11,407)	(6,975)	(154)	13,075
Portion of other-than-temporary impairment losses recognized in other comprehensive income (loss)	(3)	(4)	(4)	(539)
Recognition of previously unrealized holding gains	(1,881)	(1,450)	(5,652)	(3,231)
Unrealized foreign currency translation gains (losses)	66	9	34	(38)
Other comprehensive income (loss), net of taxes	(13,225)	(8,420)	(5,776)	9,267
Comprehensive income (loss), net of taxes	$ (4,561)	$ 1,184	$ 15,253	$ 29,733

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Changes in Shareholders Equity

(In thousands, except share amounts)

	(Unaudited) Six Months Ended June 30, 2013	Year Ended December 31, 2012
Number of A ordinary shares issued:		
Number at beginning of period	16,087,939	21,429,683
Ordinary shares issued under share incentive plans	66,683	29,675
Ordinary shares issued to directors	9,965	
Ordinary shares retired		(5,371,419)
Number at end of period	16,164,587	16,087,939
Number of B ordinary shares issued:		
Number at beginning and end of period	12,061,370	12,061,370
Par value of A ordinary shares:		
Balance at beginning and end of period	$ 2	$ 2
Par value of B ordinary shares:		
Balance at beginning and end of period	$ 1	$ 1
Additional paid-in capital:		
Balance at beginning of period	$ 512,304	$ 621,917
Share compensation plans	2,118	2,582
A ordinary shares retired		(112,195)
Balance at end of period	$ 514,422	$ 512,304
Accumulated other comprehensive income, net of deferred income tax:		
Balance at beginning of period	$ 53,350	$ 40,174
Other comprehensive income (loss):		
Change in unrealized holding gains (losses)	(5,806)	13,218
Change in other than temporary impairment losses recognized in other comprehensive income	(4)	(14)
Unrealized foreign currency translation gains (losses)	34	(28)
Other comprehensive income (loss)	(5,776)	13,176
Balance at end of period	$ 47,574	$ 53,350
Retained earnings:		
Balance at beginning of period	$ 342,171	$ 307,414
Net income	21,029	34,757

Balance at end of period	$	363,200	$	342,171
Number of Treasury Shares:				
Number at beginning of period		3,057,001		4,619,005
A ordinary shares purchased		1,760		3,809,415
A ordinary shares retired				(5,371,419)
Number at end of period		3,058,761		3,057,001
Treasury Shares, at cost:				
Balance at beginning of period	$	(101,210)	$	(130,444)
A ordinary shares purchased, at cost		(39)		(82,961)
A ordinary shares retired				112,195
Balance at end of period	$	(101,249)	$	(101,210)
Total shareholders equity	$	823,950	$	806,618

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited) Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 21,029	$ 20,466
Adjustments to reconcile net income to net cash used for operating activities:		
Amortization of trust preferred securities issuance costs	25	33
Amortization and depreciation	385	941
Restricted stock and stock option expense	2,118	1,287
Deferred federal income taxes	(2,215)	2,111
Amortization of bond premium and discount, net	3,099	3,549
Net realized investment gains	(8,563)	(3,702)
Changes in:		
Premiums receivable, net	(28,865)	(4,852)
Reinsurance receivables, net	9,182	9,891
Unpaid losses and loss adjustment expenses	(34,196)	(30,094)
Unearned premiums	34,458	(10,847)
Ceded balances payable	427	(1,244)
Other assets and liabilities, net	599	(3,165)
Contingent commissions	(2,609)	(1,242)
Federal income tax receivable/payable	5,451	(7,539)
Deferred acquisition costs, net	(7,715)	1,377
Prepaid reinsurance premiums	697	(66)
Net cash used for operating activities	(6,693)	(23,096)
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	193,642	270,873
Proceeds from sale of equity securities	42,551	25,159
Proceeds from maturity of fixed maturities	33,530	25,460
Purchases of fixed maturities	(214,220)	(294,711)
Purchases of equity securities	(41,781)	(27,494)
Purchases of other invested assets	(10)	(6)
Net cash provided by (used for) investing activities	13,712	(719)
Cash flows from financing activities:		
Purchase of A ordinary shares	(39)	(74,850)
Principal payments of term debt		(71)
Net cash used for financing activities	(39)	(74,921)
Net change in cash and cash equivalents	6,980	(98,736)
Cash and cash equivalents at beginning of period	104,460	175,860
Cash and cash equivalents at end of period	$ 111,440	$ 77,124

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Principles of Consolidation and Basis of Presentation

Global Indemnity plc (Global Indemnity or the Company) was incorporated on March 9, 2010 and is domiciled in Ireland. Global Indemnity replaced the Company s predecessor, United America Indemnity, Ltd., as the ultimate parent company as a result of a re-domestication transaction. United America Indemnity, Ltd. was incorporated on August 26, 2003, and is domiciled in the Cayman Islands. United America Indemnity, Ltd. is now a subsidiary of the Company and an Irish tax resident. The Company s A ordinary shares are publicly traded on the NASDAQ Global Select Market. On July 6, 2010, the Company changed its trading symbol on the NASDAQ Global Select Market from INDM to GBLI.

The Company manages its business through two business segments: Insurance Operations, which includes the operations of United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company, American Insurance Adjustment Agency, Inc., Collectibles Insurance Services, LLC, Global Indemnity Insurance Agency, LLC, and J.H. Ferguson & Associates, LLC, and Reinsurance Operations, which includes the operations of Wind River Reinsurance Company, Ltd. (Wind River Reinsurance)

The interim consolidated financial statements are unaudited, but have been prepared in conformity with United States of America generally accepted accounting principles (GAAP), which differs in certain respects from those principles followed in reports to insurance regulatory authorities. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The unaudited consolidated financial statements include all adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair statement of results for the interim periods. Results of operations for the quarters and six months ended June 30, 2013 and 2012 are not necessarily indicative of the results of a full year. The accompanying notes to the unaudited consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company s 2012 Annual Report on Form 10-K.

The consolidated financial statements include the accounts of Global Indemnity and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The Company s wholly owned business trust subsidiaries, United National Group Capital Trust I (UNG Trust I) and United National Group Capital Statutory Trust II (UNG Trust II), are not consolidated pursuant to the Financial Accounting Standards Board (FASB) Accounting Standards Codification. The Company s business trust subsidiaries have issued $30.0 million in floating rate capital securities (Trust Preferred Securities) and $0.9 million of floating rate common securities. The sole assets of the Company s business trust subsidiaries are $30.9 million of junior subordinated debentures issued by the Company, which have the same terms with respect to maturity, payments, and distributions as the Trust Preferred Securities and the floating rate common securities.

2. Profit Enhancement Initiative

In 2010 and 2011, the Company committed to a Profit Enhancement Initiative in response to the continuing impact of the domestic recession and the competitive landscape within the excess and surplus lines market. The total cost of this initiative was recorded in the Company s statements of operations during those years. All action items related to this initiative were completed by December 31, 2011.

For further disclosure regarding the Profit Enhancement Initiative, please see Note 5 of the notes to the consolidated financial statements in Item 8 of Part II of the Company s 2012 Annual Report on Form 10-K.

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

The following table summarizes charges incurred by expense type and the remaining liability as of June 30, 2013 and December 31, 2012:

(Dollars in thousands)	Employee Termination	Operating Leases	Total
Liability at January 1, 2012	$ 785	$ 1,828	$ 2,613
Cash payments	(773)	(690)	(1,463)
Non-cash adjustments		(267)	(267)
Liability at December 31, 2012	$ 12	$ 871	$ 883
Cash payments	(12)	(289)	(301)
Non-cash adjustments		(108)	(108)
Liability at June 30, 2013	$	$ 474	$ 474

There was a reduction in expense of $0.04 million and $0.1 million, respectively, related to the Profit Enhancement Initiative resulting from a revision of expected sub-lease income included in the statement of operations within the Acquisition costs and other underwriting expenses line item for the quarter and six months ended June 30, 2013.

There was a reduction in expense of $0.18 million related to the Profit Enhancement Initiative resulting from a revision of expected sub-lease income included in the statement of operations within the Acquisition costs and other underwriting expenses line item for the quarter and six months ended June 30, 2012.

3. Investments

The amortized cost and estimated fair value of investments were as follows as of June 30, 2013 and December 31, 2012:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of June 30, 2013					
Fixed maturities:					
U.S. treasury and agency obligations	$ 107,669	$ 4,755	$ (133)	$ 112,291	$
Obligations of states and political subdivisions	191,641	4,948	(1,606)	194,983	
Mortgage-backed securities	255,226	4,980	(2,358)	257,848	(6)
Asset-backed securities	109,438	1,294	(503)	110,229	(21)
Commercial mortgage-backed securities	57,810	5	(980)	56,835	

Corporate bonds and loans	391,633	10,401	(930)	401,104	
Foreign corporate bonds	50,115	1,333		51,448	
Total fixed maturities	1,163,532	27,716	(6,510)	1,184,738	(27)
Common stock	174,693	49,010	(1,120)	222,583	
Other invested assets	3,059	167		3,226	
Total	$ 1,341,284	$ 76,893	$ (7,630)	$ 1,410,547	$ (27)

(1) Represents the total amount of other than temporary impairment losses relating to factors other than credit losses recognized in accumulated other comprehensive income (AOCI).

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Other than temporary impairments recognized in AOCI (2)**
As of December 31, 2012					
Fixed maturities:					
U.S. treasury and agency obligations	$ 102,186	$ 6,559	$ (1)	$ 108,744	$
Obligations of states and political subdivisions	194,326	6,883	(132)	201,077	
Mortgage-backed securities	247,639	8,492	(189)	255,942	(8)
Asset-backed securities	111,289	2,071	(9)	113,351	(24)
Commercial mortgage-backed securities	8,070	60	(13)	8,117	
Corporate bonds and loans	469,860	16,739	(428)	486,171	
Foreign corporate bonds	53,724	2,196		55,920	
Total fixed maturities	1,187,094	43,000	(772)	1,229,322	(32)
Common stock	167,179	32,847	(2,951)	197,075	
Other invested assets	3,049	83		3,132	
Total	$ 1,357,322	$ 75,930	$ (3,723)	$ 1,429,529	$ (32)

GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

(2) Represents the total amount of other than temporary impairment losses relating to factors other than credit losses recognized in accumulated other comprehensive income (AOCI).

Excluding U.S. treasuries and agency bonds, the Company did not hold any debt or equity investments in a single issuer that was in excess of 3% of shareholders equity at June 30, 2013 or December 31, 2012.

The amortized cost and estimated fair value of the Company s fixed maturities portfolio classified as available for sale at June 30, 2013, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 105,566	$ 107,190
Due after one year through five years	497,413	512,713
Due after five years through ten years	108,194	109,354
Due after ten years through fifteen years	3,860	4,660
Due after fifteen years	26,025	25,909
Mortgage-backed securities	255,226	257,848
Asset-backed securities	109,438	110,229
Commercial mortgage-backed securities	57,810	56,835
Total	$ 1,163,532	$ 1,184,738

The following table contains an analysis of the Company s securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of June 30, 2013:

	Less than 12 months		12 months or longer (1)		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	$ 6,272	$ (133)	$	$	$ 6,272	$ (133)
Obligations of states and political subdivisions	65,819	(1,543)	4,550	(63)	70,369	(1,606)
Mortgage-backed securities	117,001	(2,356)	188	(2)	117,189	(2,358)
Asset-backed securities	40,810	(502)	3	(1)	40,813	(503)
Commercial mortgage-backed securities	52,096	(980)			52,096	(980)
Corporate bonds and loans	59,032	(829)	1,628	(101)	60,660	(930)
Total fixed maturities	341,030	(6,343)	6,369	(167)	347,399	(6,510)
Common stock	16,046	(881)	1,299	(239)	17,345	(1,120)
Total	$ 357,076	$ (7,224)	$ 7,668	$ (406)	$ 364,744	$ (7,630)

(1) Fixed maturities in a gross unrealized loss position for twelve months or longer are primarily comprised of non-credit losses on investment grade securities where management does not intend to sell, and it is more likely than not that the Company will not be forced to sell the security before recovery. The Company has analyzed these securities and has determined that they are not other than temporarily impaired.

The following table contains an analysis of the Company s securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of December 31, 2012:

(Dollars in thousands)	Less than 12 months Fair Value	Less than 12 months Gross Unrealized Losses	12 months or longer (2) Fair Value	12 months or longer (2) Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	$ 2,002	$ (1)	$	$	$ 2,002	$ (1)
Obligations of states and political subdivisions	33,204	(132)			33,204	(132)
Mortgage-backed securities	33,635	(172)	640	(17)	34,275	(189)
Asset-backed securities	5,722	(3)	4,763	(6)	10,485	(9)
Commercial mortgage-backed securities	2,839	(13)			2,839	(13)
Corporate bonds and loans	8,202	(274)	3,308	(154)	11,510	(428)
Total fixed maturities	85,604	(595)	8,711	(177)	94,315	(772)
Common stock	30,153	(2,284)	3,950	(667)	34,103	(2,951)
Total	$ 115,757	$ (2,879)	$ 12,661	$ (844)	$ 128,418	$ (3,723)

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

(2) Fixed maturities in a gross unrealized loss position for twelve months or longer are primarily comprised of non-credit losses on investment grade securities where management does not intend to sell, and it is more likely than not that the Company will not be forced to sell the security before recovery. The Company has analyzed these securities and has determined that they are not other than temporarily impaired.
The Company regularly performs various analytical valuation procedures with respect to its investments, including reviewing each fixed maturity security in an unrealized loss position to assess whether the security is a candidate for credit loss. Specifically, the Company considers credit rating, market price, and issuer specific financial information, among other factors, to assess the likelihood of collection of all principal and interest as contractually due. Securities for which the Company determines that a credit loss is likely are subjected to further analysis through discounted cash flow testing to estimate the credit loss to be recognized in earnings, if any. The specific methodologies and significant assumptions used by asset class are discussed below. Upon identification of such securities and periodically thereafter, a detailed review is performed to determine whether the decline is considered other than temporary. This review includes an analysis of several factors, including but not limited to, the credit ratings and cash flows of the securities and the magnitude and length of time that the fair value of such securities is below cost.

For fixed maturities, the factors considered in reaching the conclusion that a decline below cost is other than temporary include, among others, whether:

(1) the issuer is in financial distress;

(2) the investment is secured;

(3) a significant credit rating action occurred;

(4) scheduled interest payments were delayed or missed;

(5) changes in laws or regulations have affected an issuer or industry;

(6) the investment has an unrealized loss and was identified by the Company s investment manager as an investment to be sold before recovery or maturity; and

(7) the investment failed cash flow projection testing to determine if anticipated principal and interest payments will be realized.
According to accounting guidance, for debt securities in an unrealized loss position, the Company is required to assess whether it has the intent to sell the debt security or more likely than not will be required to sell the debt security before the anticipated recovery. If either of these conditions is met the Company must recognize an other than temporary impairment with the entire unrealized loss being recorded through earnings. For debt securities in an unrealized loss position not meeting these conditions, the Company assesses whether the impairment of a security is other than temporary. If the impairment is deemed to be other than temporary, the Company must separate the other than temporary impairment into two components: the amount representing the credit loss and the amount related to all other factors, such as changes in interest rates. The credit loss represents the portion of the amortized book value in excess of the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The credit loss component of the other than temporary

impairment is recorded through earnings, whereas the amount relating to factors other than credit losses are recorded in other comprehensive income, net of taxes.

For equity securities, management carefully reviews all securities with unrealized losses to determine if a security should be impaired with a focus on securities that have either:

(1) persisted with unrealized losses for more than twelve consecutive months or

(2) the value of the investment has been 20% or more below cost for six continuous months or more.

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - ***(Continued)***

(Unaudited)

The amount of any write-down, including those that are deemed to be other than temporary, is included in earnings as a realized loss in the period in which the impairment arose.

The following is a description, by asset type, of the methodology and significant inputs that the Company used to measure the amount of credit loss recognized in earnings, if any:

U.S. treasury and agency obligations As of June 30, 2013, gross unrealized losses related to U.S. treasury and agency obligations were $0.133 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All of these securities are rated AA+. The Company s investment manager conducts extensive macroeconomic and market analysis which are driven by moderate interest rate anticipation, yield curve management, and security selection.

Obligations of states and political subdivisions As of June 30, 2013, gross unrealized losses related to obligations of states and political subdivisions were $1.606 million. Of this amount, $0.063 million have been in an unrealized loss position for twelve months or greater. All of these securities are rated AAA. The Company s investment manager considers all factors that influence performance of the municipal bond market, including investor expectations, supply and demand patterns, and current versus historical yield and spread relationships. The manager relies on the output of its fixed income credit analysts, including dedicated municipal bond analysts. The dedicated municipal analysts perform extensive in-house fundamental analysis on each issuer, regardless of their rating by the major agencies.

Mortgage-backed securities (MBS) As of June 30, 2013, gross unrealized losses related to mortgage-backed securities were $2.358 million. Of this amount, $0.002 million have been in an unrealized loss position for twelve months or greater. All of the securities in an unrealized loss position for twelve months or greater are rated BB or higher. The Company s investment manager models each mortgage-backed security to project principal losses under downside, base, and upside scenarios for the economy and home prices. The primary assumption that drives the security and loan level modeling is the Home Price Index (HPI) projection. The Company s investment manager first projects HPI at the national level, then at the zip code level based on the historical relationship between the individual zip code HPI and the national HPI, using inputs from its macroeconomic team, mortgage portfolio management team, and structured analyst team. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and current loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs. The model also includes the explicit treatment of silent second liens, utilization of loan modification history, and the application of roll rate adjustments.

Asset-backed securities (ABS) As of June 30, 2013, gross unrealized losses related to asset-backed securities were $0.503 million. Of this amount, $0.001 million have been in an unrealized loss position for twelve months or greater. All of these securities are rated A. The weighted average credit enhancement for the Company s asset-backed portfolio is 30.1. This represents the percentage of pool losses that can occur before an asset-backed security will incur its first dollar of principle losses. The Company s investment manager analyzes every ABS transaction on a stand-alone basis. This analysis involves a thorough review of the collateral, prepayment, and structural risk in each transaction. Additionally, their analysis includes an in-depth credit analysis of the originator and servicer of the collateral. The Company s investment manager projects an expected loss for a deal given a set of assumptions specific to the asset type. These assumptions are used to calculate at what level of losses that the deal will incur a dollar of loss. The major assumptions used to calculate this ratio are loss severities, recovery lags, and no advances on principal and interest.

Commercial mortgage-backed securities (CMBS) As of June 30, 2013, gross unrealized losses related to CMBS were $0.980 million. All unrealized losses have been in an unrealized loss position for less than twelve

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months. The weighted average credit enhancement for the Company s CMBS portfolio is 31.0. This represents the percentage of pool losses that can occur before a mortgage-backed security will incur its first dollar of principle losses. For the Company s CMBS portfolio, a loan level analysis is utilized where every underlying CMBS loan is re-underwritten based on the Company s investment manager s internally generated set of assumptions that reflect their expectation for the future path of the economy. In the analysis, the focus is centered on stressing the significant variables that influence commercial loan defaults and collateral losses in CMBS deals. These variables include: (1) occupancies are projected to drop; (2) capitalization rates vary by property type and are forecasted to return to more normalized levels as the capital markets repair and capital begins to flow again; and (3) property value was stressed by using projected property performance and projected capitalization rates. Term risk is triggered if projected debt service coverage rate falls below 1x. Balloon risk is triggered if a property s projected performance does not satisfy new, tighter mortgage standards.

Corporate bonds and loans As of June 30, 2013, gross unrealized losses related to corporate bonds and loans were $0.930 million. Of this amount, $0.101 million have been in an unrealized loss position for twelve months or greater. The Company s investment manager s analysis for this sector includes maintaining detailed financial models that include a projection of each issuer s future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, issuer s current competitive position, vulnerability to changes in the competitive environment, regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

Common stocks As of June 30, 2013, gross unrealized losses related to common stock were $1.120 million. Of this amount, $0.239 million have been in an unrealized loss position for twelve months or greater. To determine if an other than temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

The Company recorded the following other than temporary impairments (OTTI) on its investment portfolio for the quarters and six months ended June 30, 2013 and 2012:

(Dollars in thousands)	**Quarters Ended June 30, 2013**	**Quarters Ended June 30, 2012**	**Six Months Ended June 30, 2013**	**Six Months Ended June 30, 2012**
Fixed maturities:				
OTTI losses, gross	$ (68)	$ (164)	$ (111)	$ (1,059)
Portion of loss recognized in other comprehensive income (pre-tax)				541
Net impairment losses on fixed maturities recognized in earnings	(68)	(164)	(111)	(518)
Equity securities	(942)	(1,162)	(942)	(2,560)
Total	$ (1,010)	$ (1,326)	$ (1,053)	$ (3,078)

The following table is an analysis of the credit losses recognized in earnings on debt securities held by the Company for the quarters and six months ended June 30, 2013 and 2012 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	**Quarters Ended June 30, 2013**	**Quarters Ended June 30, 2012**	**Six Months Ended June 30, 2013**	**Six Months Ended June 30, 2012**

Balance at beginning of period	$ 86	$ 141	$ 86	$ 86
Additions where no OTTI was previously recorded				55
Additions where an OTTI was previously recorded				
Reductions for securities for which the company intends to sell or more likely than not will be required to sell before recovery				
Reductions reflecting increases in expected cash flows to be collected				
Reductions for securities sold during the period		(55)		(55)
Balance at end of period	$ 86	$ 86	$ 86	$ 86

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(Unaudited)

Accumulated Other Comprehensive Income, Net of Tax

Accumulated other comprehensive income as of June 30, 2013 and December 31, 2012 was as follows:

(Dollars in thousands)	June 30, 2013	December 31, 2012
Net unrealized gains (losses) from:		
Fixed maturities	$ 21,206	$ 42,228
Common stock	47,890	29,896
Other	(69)	83
Deferred taxes	(21,453)	(18,857)
Accumulated other comprehensive income, net of tax	$ 47,574	$ 53,350

The changes in accumulated other comprehensive income, net of tax, by component for the six months ended June 30, 2013 was as follows:

Six Months Ended June 30, 2013 (Dollars in thousands)	Unrealized Gains and Losses on Available for Sale Securities, Net of Tax	Foreign Currency Items, Net of Tax	Accumulated Other Comprehensive Income, Net of Tax
Beginning balance	$ 53,435	$ (85)	$ 53,350
Other comprehensive income (loss) before reclassification	30	(154)	(124)
Amounts reclassified from accumulated other comprehensive income (loss)	(5,840)	188	(5,652)
Other comprehensive income (loss)	(5,810)	34	(5,776)
Ending balance	$ 47,625	$ (51)	$ 47,574

The reclassifications out of accumulated other comprehensive income for the quarter and six months ended June 30, 2013 were as follows:

(Dollars in thousands) Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income Quarter Ended June 30, 2013	 Six Months Ended June 30, 2013	Affected Line Item in the Statement Where Net Income is Presented

Unrealized gains and losses on available for sale securities	$	(4,018)	$	(9,906)	Other net realized investment gains
		1,010		1,053	Other than temporary impairment losses on investments
		(3,008)		(8,853)	Total before tax
		1,053		3,013	Income tax (expense) benefit
	$	(1,955)	$	(5,840)	Net of tax
Foreign Currency Items					
		202		290	Other net realized investment gains
		(71)		(102)	Income tax (expense) benefit
	$	131	$	188	Net of tax
Total reclassifications	$	(1,824)	$	(5,652)	Net of tax

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Net Realized Investment Gains

The components of net realized investment gains for the quarters and six months ended June 30, 2013 and 2012 were as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Fixed maturities:				
Gross realized gains	$ 287	$ 2,026	$ 674	$ 2,758
Gross realized losses	(339)	(781)	(396)	(1,603)
Net realized gains (losses)	(52)	1,245	278	1,155
Common stock:				
Gross realized gains	4,532	2,123	10,013	5,390
Gross realized losses	(1,674)	(1,427)	(1,728)	(2,843)
Net realized gains	2,858	696	8,285	2,547
Total net realized investment gains	$ 2,806	$ 1,941	$ 8,563	$ 3,702

The proceeds from sales of available-for-sale securities resulting in net realized investment gains for the six months ended June 30, 2013 and 2012 were as follows:

	Six Months Ended June 30,	
(Dollars in thousands)	**2013**	**2012**
Fixed maturities	$ 193,642	$ 270,873
Equity securities	42,551	25,159

Net Investment Income

The sources of net investment income for the quarters and six months ended June 30, 2013 and 2012 were as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Fixed maturities	$ 9,039	$ 10,467	$ 18,866	$ 21,826
Equity securities	1,660	1,628	2,952	2,711
Cash and cash equivalents	31	43	81	86
Other invested assets	141		141	156

Total investment income	10,871	12,138	22,040	24,779
Investment expense	(1,106)	(1,067)	(2,241)	(2,291)
Net investment income	$ 9,765	$ 11,071	$ 19,799	$ 22,488

The Company s total investment return on a pre-tax basis for the quarters and six months ended June 30, 2013 and 2012 were as follows:

(Dollars in thousands)	**Quarters Ended June 30, 2013**	**2012**	**Six Months Ended June 30, 2013**	**2012**
Net investment income	$ 9,765	$ 11,071	$ 19,799	$ 22,488
Net realized investment gains	2,806	1,941	8,563	3,702
Net unrealized investment gains (losses)	(15,391)	(11,951)	(3,180)	11,834
Net investment return	(12,585)	(10,010)	5,383	15,536
Total investment return	$ (2,820)	$ 1,061	$ 25,182	$ 38,024
Total investment return % **(1)**	(0.2%)	0.1%	1.6%	2.4%
Average investment portfolio **(2)**	$ 1,532,639	$ 1,604,406	$ 1,529,251	$ 1,606,186

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(1) Not annualized.
(2) Average of total cash and invested assets, net of receivable/payable for securities purchased and sold, as of the beginning and ending of the period.

Insurance Enhanced Municipal Bonds

As of June 30, 2013, the Company held insurance enhanced municipal bonds of approximately $34.6 million, which represented approximately 2.3% of the Company s total cash and invested assets, net of payable/receivable for securities purchased and sold. These securities had an average rating of AA-. Approximately $4.6 million of these bonds are pre-refunded with U.S. treasury securities, of which $1.6 million are backed by financial guarantors, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond. Of the remaining $30.0 million of insurance enhanced municipal bonds, $15.1 million would have carried a lower credit rating had they not been insured. The following table provides a breakdown of the ratings for these municipal bonds with and without insurance.

(Dollars in thousands) Rating	Ratings with Insurance	Ratings without Insurance
AAA	$ 8,837	$
AA		8,837
A	6,277	6,277
Total	$ 15,114	$ 15,114

A summary of the Company s insurance enhanced municipal bonds that are backed by financial guarantors, including the pre-refunded bonds that are escrowed in U.S. government obligations, as of June 30, 2013, is as follows:

(Dollars in thousands) Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	Exposure Net of Pre-refunded & Government Guaranteed Securities
Ambac Financial Group	$ 2,333	$ 1,267	$	$ 1,066
Assured Guaranty Corporation	11,241			11,241
Municipal Bond Insurance Association	7,134			7,134
Gov t National Housing Association	1,948	285	1,663	
Permanent School Fund Guaranty	8,837		8,837	
Total backed by financial guarantors	31,493	1,552	10,500	19,441
Other credit enhanced municipal bonds	3,060	3,060		
Total	$ 34,553	$ 4,612	$ 10,500	$ 19,441

In addition to the $34.6 million of insurance enhanced municipal bonds, the Company also held insurance enhanced asset-backed and credit securities with a market value of approximately $19.0 million, which represented approximately 1.2% of the Company s total invested assets net of receivable/payable for securities purchased and sold. The financial guarantors of the Company s $19.0 million of insurance enhanced asset-backed and credit securities include Municipal Bond Insurance Association ($4.5 million), Ambac ($1.6 million), Assured Guaranty Corporation ($7.7 million), and Other ($5.2 million).

The Company had no direct investments in the entities that have provided financial guarantees or other credit support to any security held by the Company at June 30, 2013.

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Bonds Held on Deposit

Certain cash balances, cash equivalents, equity securities and bonds available for sale were deposited with various governmental authorities in accordance with statutory requirements, were held as collateral pursuant to borrowing arrangements, or were held in trust pursuant to intercompany reinsurance agreements. The fair values were as follows as of June 30, 2013 and December 31, 2012:

(Dollars in thousands)	Estimated Fair Value June 30, 2013	December 31, 2012
On deposit with governmental authorities	$ 41,931	$ 42,492
Intercompany trusts held for the benefit of U.S. policyholders	570,558	553,893
Held in trust pursuant to third party requirements	116,969	132,684
Held in trust pursuant to U.S. regulatory requirements for the benefit of U.S. policyholders	6,349	6,368
Securities held as collateral for borrowing arrangements	41,236	
Total	$ 777,043	$ 735,437

4. Fair Value Measurements

Unless otherwise noted, the reported value of assets and liabilities approximates their fair value.

The accounting standards related to fair value measurements define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value, and enhance disclosure requirements for fair value measurements. These standards do not change existing guidance as to whether or not an instrument is carried at fair value. The Company has determined that its fair value measurements are in accordance with the requirements of these accounting standards.

The Company s invested assets are carried at their fair value and are categorized based upon a fair value hierarchy:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets that the Company has the ability to access at the measurement date.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for similar assets, either directly or indirectly.

Level 3 inputs are unobservable for the asset, and include situations where there is little, if any, market activity for the asset.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

Both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains and losses for invested assets within the Level 3 category presented in the tables below may include changes in fair value that are attributed to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

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The following table presents information about the Company s invested assets measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of June 30, 2013		**Fair Value Measurements**		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturities:				
U.S. treasury and agency obligations	$ 100,098	$ 12,193	$	$ 112,291
Obligations of states and political subdivisions		194,983		194,983
Mortgage-backed securities		257,848		257,848
Commercial mortgage-backed securities		56,835		56,835
Asset-backed securities		110,229		110,229
Corporate bonds and loans		401,104		401,104
Foreign corporate bonds		51,448		51,448
Total fixed maturities	100,098	1,084,640		1,184,738
Common stock	222,583			222,583
Other invested assets			3,226	3,226
Total invested assets	$ 322,681	$ 1,084,640	$ 3,226	$ 1,410,547

As of December 31, 2012		**Fair Value Measurements**		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturities:				
U.S. treasury and agency obligations	$ 89,981	$ 18,763	$	$ 108,744
Obligations of states and political subdivisions		201,077		201,077
Mortgage-backed securities		255,942		255,942
Commercial mortgage-backed securities		8,117		8,117
Asset-backed securities		113,351		113,351
Corporate bonds and loans		486,171		486,171
Foreign corporate bonds		55,920		55,920
Total fixed maturities	89,981	1,139,341		1,229,322
Common stock	197,075			197,075
Other invested assets			3,132	3,132
Total invested assets	$ 287,056	$ 1,139,341	$ 3,132	$ 1,429,529

The securities classified as Level 1 in the above table consist of U.S. Treasuries and equity securities actively traded on an exchange.

The securities classified as Level 2 in the above table consist primarily of fixed maturity securities. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, security prices are derived through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. If there are no recent reported trades, matrix or model processes are used to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of asset-backed securities, collateralized mortgage obligations, and mortgage-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. For corporate loans, price quotes from multiple dealers along with recent reported trades for identical or similar securities are used to develop prices.

There were no transfers between Level 1 and Level 2 during the quarters and six months ended June 30, 2013 or 2012.

The following table presents changes in Level 3 investments measured at fair value on a recurring basis for the quarters and six months ended June 30, 2013 and 2012:

	Other Invested Assets			
(Dollars in thousands)	**Quarters Ended**		**Six Months Ended**	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Beginning balance	$ 3,105	$ 8,632	$ 3,132	$ 6,617
Total gains (losses) (realized / unrealized):				
Included in accumulated other comprehensive income (loss)	121	(42)	84	1,967
Purchases			10	6
Ending balance	$ 3,226	$ 8,590	$ 3,226	$ 8,590
Losses included in earnings of the period attributable to the change in unrealized losses related to assets still held at the end of the period	$	$	$	$

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The investments classified as Level 3 in the above table relate to investments in limited partnerships that have invested primarily in publicly traded companies. However, not all of the partnerships investments are publicly traded, nor does the Company have access to daily valuations, therefore the estimated fair values of these limited partnerships are measured utilizing net asset value as a practical expedient for the limited partnerships. Material assumptions and factors utilized in pricing these investments include future cash flows, constant default rates, recovery rates, and any market clearing activity that may have occurred since the previous pricing period.

Fair Value of Alternative Investments

Included in Other invested assets in the fair value hierarchy at June 30, 2013 are limited liability partnerships measured at fair value. The following table provides the fair value and future funding commitments related to these investments at June 30, 2013.

(Dollars in thousands)	Fair Value	Future Funding Commitments
Equity Fund, LP (1)	$ 3,226	$ 2,497
Real Estate Fund, LP (2)		
Total	$ 3,226	$ 2,497

(1) This limited partnership invests in companies from various business sectors whereby the partnership has acquired control of the operating business as a lead or organizing investor. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner.

(2) This limited partnership invests in real estate assets through a combination of direct or indirect investments in partnerships, limited liability companies, mortgage loans, and lines of credit. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company continues to hold an investment in this limited partnership and has written the fair value down to zero.

Pricing

The Company s pricing vendors provide prices for all investment categories except for investments in limited partnerships. One vendor provides prices for equity securities and all fixed maturity categories except for corporate loans. A second vendor provides prices for the corporate loan securities.

The following is a description of the valuation methodologies used by the Company s pricing vendors for investment securities carried at fair value:

Equity prices are received from all primary and secondary exchanges.

Corporate and agency bonds are evaluated by utilizing a multi-dimensional relational model. For bonds with early redemption options, the pricing vendor utilizes an option adjusted spread model. Both asset classes use standard inputs and incorporate security set up, defined sector breakdown, benchmark yields, apply base spreads, yield to maturity, and adjust for corporate actions.

A volatility-driven multi-dimensional spread table or an option-adjusted spread model and prepayment model is used for agency commercial mortgage obligations (CMO). For non-agency CMOs, a prepayment/spread/yield/price adjustment model is utilized. CMOs are categorized with mortgage-backed securities in the tables listed above. For ABSs, a multi-dimensional, collateral specific spread / prepayment speed tables is utilized. For both asset classes, evaluations utilize standard inputs plus new issue data, monthly payment information, and collateral performance. The evaluated pricing models incorporate security set-up, prepayment speeds, cash flows, and treasury swap curves and spread adjustments.

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For municipals, a multi-dimensional relational model is used to evaluate securities within this asset class. The evaluated pricing models for this asset class incorporate security set-up, benchmark yields, apply base spreads, yield to worst or market convention, ratings updates, prepayment schedules and adjustments for material events notices.

U.S. treasuries are evaluated by obtaining feeds from a number of live data sources including active market makers and inter-dealer brokers.

For MBSs, the pricing vendor utilizes a matrix model correlation to TBA (a forward MBS trade) or benchmarking to value a security.

Corporate loans are priced using averages of bids and offers obtained from the broker/dealer community involved in trading such loans.

The Company performs certain procedures to validate whether the pricing information received from the pricing vendors is reasonable, to ensure that the fair value determination is consistent with accounting guidance, and to ensure that its assets are properly classified in the fair value hierarchy. The Company s procedures include, but are not limited to:

Reviewing periodic reports provided by the Investment Manager that provides information regarding rating changes and securities placed on watch. This procedure allows the Company to understand why a particular security s market value may have changed.

Understanding and periodically evaluating the various pricing methods and procedures used by the Company s pricing vendors to ensure that investments are properly classified within the fair value hierarchy.

During the three and six months ending June 30, 2013, the Company has not adjusted quotes or prices obtained from the pricing vendors.

5. Income Taxes

The statutory income tax rates of the countries where the Company does business are 35.0% in the United States, 0.0% in Bermuda, 0.0% in the Cayman Islands, 0.0% in Gibraltar, 28.8% in the Duchy of Luxembourg, and 25.0% on non-trading income, 30.0% on capital gains and 12.5% on trading income in the Republic of Ireland. The statutory income tax rate of each country is applied against the expected annual taxable income of the Company in each country to estimate the annual income tax expense. Total estimated annual income tax expense is divided by total estimated annual pre-tax income to determine the expected annual income tax rate used to compute the income tax provision. On an interim basis, the expected annual income tax rate is applied against interim pre-tax income, excluding net realized gains and losses and discrete items such as limited partnership distributions, and then that amount is added to income taxes on net realized gains and losses, discrete items and limited partnership distributions. The Company s income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, including the results of the quota share and stop-loss agreements between Wind River Reinsurance and the Insurance Operations, for the quarters and six months ended June 30, 2013 and 2012 were as follows:

Quarter Ended June 30, 2013:	Eliminations	Total

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries		
Revenues:				
Gross premiums written	$ 51,615	$ 61,879	$ (29,249)	$ 84,245
Net premiums written	$ 51,208	$ 27,138	$	$ 78,346
Net premiums earned	$ 36,268	$ 22,403	$	$ 58,671
Net investment income	9,126	5,545	(4,906)	9,765
Net realized investment gains (losses)	(1)	2,807		2,806
Other income (loss)	(2)	249		247
Total revenues	45,391	31,004	(4,906)	71,489
Losses and Expenses:				
Net losses and loss adjustment expenses	17,059	17,865		34,924
Acquisition costs and other underwriting expenses	14,443	10,029		24,472
Corporate and other operating expenses	1,329	1,143		2,472
Interest expense	309	5,778	(4,906)	1,181
Income (loss) before income taxes	$ 12,251	$ (3,811)	$	$ 8,440

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Quarter Ended June 30, 2012:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 39,177	$ 52,371	$ (23,916)	$ 67,632
Net premiums written	$ 39,177	$ 21,958	$	$ 61,135
Net premiums earned	$ 37,086	$ 20,773	$	$ 57,859
Net investment income	9,271	6,385	(4,585)	11,071
Net realized investment gains	539	1,402		1,941
Other income (loss)	(199)	159		(40)
Total revenues	46,697	28,719	(4,585)	70,831
Losses and Expenses:				
Net losses and loss adjustment expenses	23,239	12,919		36,158
Acquisition costs and other underwriting expenses	14,126	9,634		23,760
Corporate and other operating expenses	1,764	572		2,336
Interest expense		6,055	(4,585)	1,470
Income (loss) before income taxes	$ 7,568	$ (461)	$	$ 7,107

Six Months Ended June 30, 2013:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 100,298	$ 112,967	$ (54,081)	$ 159,184
Net premiums written	$ 99,890	$ 49,934	$	$ 149,824
Net premiums earned	$ 70,662	$ 44,005	$	$ 114,667
Net investment income	18,774	10,795	(9,770)	19,799
Net realized investment gains	246	8,317		8,563
Other income (loss)	(28)	329		301
Total revenues	89,654	63,446	(9,770)	143,330
Losses and Expenses:				
Net losses and loss adjustment expenses	33,409	33,303		66,712
Acquisition costs and other underwriting expenses	29,591	19,358		48,949
Corporate and other operating expenses	2,605	2,212		4,817
Interest expense	626	11,498	(9,770)	2,354

Income (loss) before income taxes	$ 23,423	$ (2,925)	$	$ 20,498

Six Months Ended June 30, 2012:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 70,588	$ 100,205	$ (45,403)	$ 125,390
Net premiums written	$ 70,040	$ 41,376	$	$ 111,416
Net premiums earned	$ 78,841	$ 43,488	$	$ 122,329
Net investment income	19,059	12,599	(9,170)	22,488
Net realized investment gains	331	3,371		3,702
Other income (loss)	(705)	313		(392)
Total revenues	97,526	59,771	(9,170)	148,127
Losses and Expenses:				
Net losses and loss adjustment expenses	50,283	27,884		78,167
Acquisition costs and other underwriting expenses	29,575	17,352		46,927
Corporate and other operating expenses	4,385	439		4,824
Interest expense		12,118	(9,170)	2,948
Income before income taxes	$ 13,283	$ 1,978	$	$ 15,261

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The following table summarizes the components of income tax benefit:

(Dollars in thousands)	Quarters Ended June 30, 2013	Quarters Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Current income tax expense (benefit):				
Foreign	$ 37	$ 45	$ 74	$ (629)
U.S. Federal	2,248	(2,185)	1,610	(6,687)
Total current income tax expense (benefit)	2,285	(2,140)	1,684	(7,316)
Deferred income tax expense (benefit):				
U.S. Federal	(2,509)	(357)	(2,215)	2,111
Total deferred income tax expense (benefit)	(2,509)	(357)	(2,215)	2,111
Total income tax benefit	$ (224)	$ (2,497)	$ (531)	$ (5,205)

The weighted average expected tax provision has been calculated using income before income taxes in each jurisdiction multiplied by that jurisdiction s applicable statutory tax rate.

The following tables summarize the differences between the tax provisions under accounting guidance applicable to interim financial statement periods and the expected tax provision at the weighted average tax rate:

(Dollars in thousands)	Quarters Ended June 30, 2013		2012	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Expected tax provision at weighted average rate	$ (1,297)	(15.4%)	$ (256)	(3.6%)
Adjustments:				
Tax exempt interest	(261)	(3.1)	(372)	(5.2)
Dividend exclusion	(336)	(4.0)	(297)	(4.2)
Effective tax rate adjustment	1,641	19.4	(1,588)	(22.3)
Other	29	0.4	16	0.2
Income tax benefit	$ (224)	(2.7%)	$ (2,497)	(35.1%)

The effective income tax benefit rate for the quarter ended June 30, 2013 was 2.7%, compared to an effective income tax benefit rate of 35.1% for the quarter ended June 30, 2012. The decrease in the effective tax benefit rate is primarily due to an increase in projected income in 2013 compared to 2012. Any difference between the actual tax rate on an interim basis compared to the expected annual tax rate is reflected in the effective tax rate adjustment. The effective income tax benefit rate of 2.7% differed from the weighted average expected income tax benefit rate of 15.4% for the quarter ended June 30, 2013 due to the fact that the Company records income tax expense on an interim basis using the projected annual effective tax rate, net of tax-exempt interest and dividends. The effective income tax benefit rate of 35.1% differed from the weighted average expected income tax benefit rate of 3.6% for the quarter ended June 30, 2012 due to the fact that the Company records income tax expense using an expected annual effective tax rate, net of tax-exempt interest and dividends.

	Six Months Ended June 30,			
(Dollars in thousands)	**2013**		**2012**	
	Amount	**% of Pre-Tax Income**	**Amount**	**% of Pre-Tax Income**
Expected tax provision at weighted average rate	$ (950)	(4.6%)	$ 279	1.8%
Adjustments:				
Tax exempt interest	(556)	(2.7)	(779)	(5.1)
Dividend exclusion	(588)	(2.9)	(532)	(3.5)
Effective tax rate adjustment	1,532	7.5	(4,175)	(27.3)
Other	31	0.1	2	
Income tax benefit	$ (531)	(2.6%)	$ (5,205)	(34.1%)

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The effective income tax benefit rate for the six months ended June 30, 2013 was 2.6%, compared to an effective income tax benefit rate of 34.1% for the six months ended June 30, 2012. The decrease in the effective tax benefit rate is primarily due to an increase in projected income in 2013 compared to 2012. Any difference between the actual tax rate on an interim basis compared to the expected annual tax rate is reflected in the effective tax rate adjustment. The effective income tax benefit rate of 2.6% differed from the weighted average expected income tax benefit rate of 4.6% for the six months ended ended June 30, 2013 due to the fact that the Company records income tax expense on an interim basis using the projected annual effective tax rate, net of tax-exempt interest and dividends. The effective income tax benefit rate of 34.1% differed from the weighted average expected income tax expense rate of 1.8% for the six months ended June 30, 2012 due to the fact that the Company records income tax expense using an expected annual effective tax rate, net of tax-exempt interest and dividends.

The Company had an alternative minimum tax credit carry forward of $9.2 million as of June 30, 2013 and December 31, 2012, respectively, and $6.0 million as of June 30, 2012, which can be carried forward indefinitely.

6. Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Balance at beginning of period	$ 864,167	$ 960,924	$ 879,114	$ 971,377
Less: Ceded reinsurance receivables	237,960	279,341	240,546	283,652
Net balance at beginning of period	626,207	681,583	638,568	687,725
Incurred losses and loss adjustment expenses related to:				
Current year	35,629	36,776	70,087	80,285
Prior years	(705)	(618)	(3,375)	(2,118)
Total incurred losses and loss adjustment expenses	34,924	36,158	66,712	78,167
Paid losses and loss adjustment expenses related to:				
Current year	14,131	12,936	19,264	19,252
Prior years	31,898	37,700	70,913	79,534
Total paid losses and loss adjustment expenses	46,029	50,636	90,177	98,786
Net balance at end of period	615,103	667,105	615,103	667,105
Plus: Ceded reinsurance receivables	229,815	274,178	229,815	274,178
Balance at end of period	$ 844,918	$ 941,283	$ 844,918	$ 941,283

When analyzing loss reserves and prior year development, the Company considers many factors, including the frequency and severity of claims, loss trends, case reserve settlements that may have resulted in significant development, and any other additional or pertinent factors that may impact reserve estimates.

In the second quarter of 2013, the Company reduced its prior accident year loss reserves by $0.7 million, which consisted of a $0.4 million decrease related to Insurance Operations and a $0.3 million decrease related to Reinsurance Operations.

The $0.4 million decrease related to Insurance Operations primarily consisted of the following:

Property: A $2.2 million reduction primarily driven by $1.1 million of better than expected development from accident year 2012 catastrophes as well as lower than expected non-catastrophe severity from accident years 2010 and 2012.

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General liability: A $1.8 million reduction primarily due to better than expected emergence from accident years 2007 through 2011 partially offset by an increase to accident year 2012 due to higher than anticipated loss emergence.

Asbestos: A $3.5 million increase primary related to policies written prior to 1990.

In the second quarter of 2012, the Company reduced its prior accident year loss reserves by $0.6 million, which consisted of a $0.7 million decrease related to Insurance Operations and a $0.1 million increase related to Reinsurance Operations.

The $0.7 million decrease related to Insurance Operations primarily consisted of the following:

General liability: A $0.6 million reduction primarily consisting of net reductions of $2.9 million in accident years 2008 and prior due to continued favorable emergence in small business packages. The Company also decreased its reinsurance allowance by $0.2 million in this line due to changes in its reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of $2.5 million in accident years 2009 to 2011 primarily driven by loss emergence on certain construction defect claims.

Professional liability: A $0.4 million reduction primarily related to recent favorable development on lawyer and real estate exposures.

Marine: A $0.4 million increase primarily driven by unexpected loss emergence in protection and indemnity coverage in accident year 2011.

In the first six months of 2013, the Company reduced its prior accident year loss reserves by $3.4 million, which consisted of a $3.2 million decrease related to Insurance Operations and a $0.2 million decrease related to Reinsurance Operations.

The $3.2 million decrease related to Insurance Operations primarily consisted of the following:

Property: A $5.0 million reduction primarily driven by better than expected development from accident year 2012 catastrophes as well as lower than expected non-catastrophe severity from accident years 2008 through 2012.

General liability: A $1.8 million reduction primarily due to better than expected emergence from accident years 2007 through 2011 partially offset by an increase to accident year 2012 due higher than anticipated loss emergence.

Asbestos: A $3.5 million increase primary related to policies written prior to 1990.

In the first six months of 2012, the Company reduced its prior accident year loss reserves by $2.1 million, which was primarily related to Insurance Operations and primarily consisted of the following:

General liability: A $3.1 million reduction primarily consisting of net reductions of $5.5 million in accident years 2008 and prior due to continued favorable emergence. Incurred losses for these years have developed at a rate lower than the Company s historical averages. The Company also decreased its reinsurance allowance by $0.2 million in this line due to changes in its reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of $2.6 million in accident years 2009 through 2011 primarily driven by loss emergence on certain construction defect claims.

Marine: A $0.9 million increase primarily related to accident year 2011 due to greater than expected loss emergence on hull claims and protection and indemnity claims.

Property: A $0.5 million increase primarily related to accident year 2011 due to greater than expected loss emergence on a large sinkhole claim.

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7. Shareholders Equity

Repurchases of the Company s A ordinary shares

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the quarter ended June 30, 2013:

Period(1)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program(2)
April 1 30, 2013		$		$ 16,857,963
May 1 31, 2013		$		$ 16,857,963
June 1 30, 2013	507**(3)**	$ 23.03		$ 16,857,963
Total	507	$ 23.03		

(1) Based on settlement date.
(2) Approximate dollar value of shares that may yet be purchased is as of the last date of the applicable month.
(3) Surrendered by employees as payment of taxes withheld on the vesting of restricted stock.

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the quarter ended June 30, 2012:

Period(1)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program(2)
April 1 30, 2012	54,419**(3), (5)**	$ 18.83	54,334	$ 60,902,382
May 1 31, 2012				$ 60,902,382
June 1 30, 2012	2,913,959**(4), (5)**	$ 21.75	2,913,464	$
Total	2,968,378	$ 21.70	2,967,798	

(1) Based on settlement date.
(2) Approximate dollar value of shares that may yet be purchased is as of the last date of the applicable month.
(3) Includes 85 shares surrendered by employees as payment of taxes withheld on the vesting of restricted stock.
(4) Includes 495 shares surrendered by employees as payment of taxes withheld on the vesting of restricted stock.
(5) Purchased as part of the repurchase authorization announced in September 2011.

8. Related Party Transactions

Fox Paine & Company

As of June 30, 2013, Fox Paine & Company, LLC (Fox Paine) beneficially owned shares having approximately 93% of the Company s total outstanding voting power. Fox Paine has the right to appoint a number of the Company s Directors equal in aggregate to the pro rata percentage of the voting shares beneficially held by Fox Paine of the Company, for so long as Fox Paine holds an aggregate of 25% or more of the voting power in the Company. Fox Paine controls the election of all of the Company s Directors due to its controlling share ownership. The Company s Chairman is a member of Fox Paine. The Company relies on Fox Paine to provide management services and other services related to the operations of the Company.

As of June 30, 2013 and December 31, 2012, Wind River Reinsurance was a limited partner in Fox Paine Capital Fund, II, which is managed by Fox Paine. This investment was originally made by United National Insurance Company in June 2000 and pre-dates the September 5, 2003 acquisition by Fox Paine of Wind River Investment Corporation, which was the predecessor holding company for United National Insurance Company. The Company s investment in this limited partnership was valued at $3.2 million and $3.1 million at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013, the Company had an unfunded capital commitment of $2.5 million to the partnership. There were no distributions received from the limited partnership during the second quarter of 2013 or 2012.

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The Company incurred management fees of $0.4 million in each of the quarters ended June 30, 2013 and 2012 and $0.8 million in each of the six months ended June 30, 2013 and 2012 as part of the annual management fee that is paid to Fox Paine.

Cozen O Connor

The Company did not incur any fees for legal services rendered by Cozen O Connor during the quarters ended June 30, 2013 and 2012, respectively. The Company incurred $0.02 million and $0.2 million for legal services rendered by Cozen O Connor during the six months ended June 30, 2013 and 2012, respectively. Stephen A. Cozen, the chairman of Cozen O Connor, is a member of the Company s Board of Directors.

Crystal & Company

During each of the quarters and six months ended June 30, 2013 and 2012, the Company incurred $0.1 million in brokerage fees to Crystal & Company, an insurance broker. Prior to October 15, 2012, Crystal & Company was known as Frank Crystal & Company. James W. Crystal, the chairman and chief executive officer of Crystal & Company, is a member of the Company s Board of Directors.

Hiscox Insurance Company (Bermuda) Ltd.

Wind River Reinsurance is a participant in a reinsurance agreement with Hiscox Insurance Company (Bermuda) Ltd. (Hiscox Bermuda) effective January 1, 2013. Steve Green, the President of Wind River Reinsurance, is a member of Hiscox Bermuda s Board of Directors. The Company estimated that the following earned premium and incurred losses related to the agreement have been assumed by Wind River Reinsurance from Hiscox Bermuda:

(Dollars in thousands)	Quarter Ended June 30, 2013	Six Months Ended June 30, 2013
Assumed earned premium	$ 654	$ 1,008
Assumed losses and loss adjustment expenses	289	378

Net balances due to Wind River Reinsurance under this agreement are as follows:

(Dollars in thousands)	As of June 30, 2013
Net balance receivable	$ 3,228

9. Commitments and Contingencies

Legal Proceedings

The Company is, from time to time, involved in various legal proceedings in the ordinary course of business. The Company maintains insurance and reinsurance coverage for such risks in amounts that it considers adequate. However, there can be no assurance that the insurance and reinsurance coverage that the Company maintains is sufficient or will be available in adequate amounts or at a reasonable cost. The Company does not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material adverse effect on its business, results of operations, cash flows, or financial condition.

There is a greater potential for disputes with reinsurers who are in runoff. Some of the Company s reinsurers have operations that are in runoff, and therefore, the Company closely monitors those relationships. The Company anticipates that, similar to the rest of the insurance and reinsurance industry, it will continue to be subject to litigation and arbitration proceedings in the ordinary course of business.

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10. Share-Based Compensation Plans

During the six months ended June 30, 2013, the Company issued 88,162 A ordinary shares at a weighted average grant date value of $21.97 per share to key employees and a former employee of the Company under the Global Indemnity plc Share Incentive Plan (the Plan). Of the shares issued in 2013, 81,587 were subject to certain restrictions and 6,575 were issued as a result of a former employee exercising previously granted options with a strike price of $20.00 per share. During the six months ended June 30, 2012, the Company issued 29,675 A ordinary shares at a weighted average grant date value of $18.60 per share to key employees under the Plan. All of the shares issued in 2012 were subject to certain restrictions.

During the quarter ended June 30, 2013, the Company issued 6,575 A ordinary shares as a result of a former employee exercising previously granted options with a strike price of $20.00 per share. The Company did not issue any shares to key employees during the quarter ended June 30, 2012.

During the six months ended June 30, 2013 and 2012, the Company granted an aggregate of 21,865 and 28,135 fully vested A ordinary shares, respectively, subject to certain restrictions, at a weighted average grant date value of $22.62 and $19.66 per share, respectively, to non-employee directors of the Company under the Plan.

During the quarters ended June 30, 2013 and 2012, the Company granted an aggregate of 9,965 and 13,750 fully vested A ordinary shares, respectively, subject to certain restrictions, at a weighted average grant date value of $23.20 and $19.49 per share, respectively, to non-employee directors of the Company under the Plan.

11. Earnings Per Share

Earnings per share have been computed using the weighted average number of ordinary shares and ordinary share equivalents outstanding during the period.

The following table sets forth the computation of basic and diluted earnings per share:

(Dollars in thousands, except share and per share data)	Quarters Ended June 30, 2013	Quarters Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$ 8,664	$ 9,604	$ 21,029	$ 20,466
Basic earnings per share:				
Weighted average shares outstanding - basic	25,049,888	27,829,555	25,052,488	28,223,321
Net income per share	$ 0.35	$ 0.35	$ 0.84	$ 0.73
Diluted earnings per share:				
Weighted average shares outstanding - diluted	25,119,035	27,836,453	25,120,897	28,236,562
Net income per share	$ 0.34	$ 0.35	$ 0.84	$ 0.72

A reconciliation of weighted average shares for basic earnings per share to weighted average shares for diluted earnings per share is as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Weighted average shares for basic earnings per share	25,049,888	27,829,555	25,052,488	28,223,321
Non-vested restricted stock	33,178	6,880	38,759	