Global Indemnity Ltd
Form 10-Q
August 09, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2018

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 LIMITED

(Exact name of registrant as specified in its charter)

Cayman Islands	**98-1304287**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

27 HOSPITAL ROAD

GEORGE TOWN, GRAND CAYMAN

KY1-9008

CAYMAN ISLANDS

(Address of principal executive office including zip code)

Registrant s telephone number, including area code: (345) 949-0100

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 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 No

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

Large accelerated filer	;	Accelerated filer	;
Non-accelerated filer	;	Smaller reporting company	;
Emerging growth company			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 2, 2018, the registrant had outstanding 10,082,458 A Ordinary Shares and 4,133,366 B Ordinary Shares.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL INDEMNITY LIMITED

Consolidated Balance Sheets

(In thousands, except share amounts)

	(Unaudited) June 30, 2018	December 31, 2017
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,308,735 and $1,243,144)	$ 1,283,870	$ 1,241,437
Equity securities:		
At fair value (cost: $137,789 and $124,915)	137,789	140,229
Other invested assets	83,499	77,820
Total investments	1,505,158	1,459,486
Cash and cash equivalents	47,138	74,414
Premiums receivable, net	92,567	84,386
Reinsurance receivables, net	96,568	105,060
Funds held by ceding insurers	52,110	45,300
Federal income taxes receivable	9,991	10,332
Deferred federal income taxes	32,843	26,196
Deferred acquisition costs	65,504	61,647
Intangible assets	22,285	22,549
Goodwill	6,521	6,521
Prepaid reinsurance premiums	25,237	28,851
Receivable for securities sold		1,543
Other assets	25,897	75,384
Total assets	$ 1,981,819	$ 2,001,669
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 613,670	$ 634,664
Unearned premiums	304,188	285,397
Ceded balances payable	21,848	10,851
Payable for securities purchased	553	
Contingent commissions	6,496	7,984
Debt	287,324	294,713
Other liabilities	45,323	49,666
Total liabilities	$ 1,279,402	$ 1,283,275

Commitments and contingencies (Note 10)		
Shareholders equity:		
Ordinary shares, $0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 10,157,242 and 10,102,927 respectively; A ordinary shares outstanding: 10,082,458 and 10,073,376, respectively; B ordinary shares issued and outstanding: 4,133,366 and 4,133,366, respectively	2	2
Additional paid-in capital	436,035	434,730
Accumulated other comprehensive income, net of taxes	(22,475)	8,983
Retained earnings	291,827	275,838
A ordinary shares in treasury, at cost: 74,784 and 29,551 shares, respectively	(2,972)	(1,159)
Total shareholders equity	702,417	718,394
Total liabilities and shareholders equity	$ 1,981,819	$ 2,001,669

See accompanying notes to consolidated financial statements.

2

Table of Contents

GLOBAL INDEMNITY LIMITED

Consolidated Statements of Operations

(In thousands, except shares and per share data)

	(Unaudited) Quarters Ended June 30, 2018	(Unaudited) Quarters Ended June 30, 2017	(Unaudited) Six Months Ended June 30, 2018	(Unaudited) Six Months Ended June 30, 2017
Revenues:				
Gross premiums written	$ 158,817	$ 143,894	$ 283,064	$ 267,645
Net premiums written	$ 136,454	$ 123,797	$ 244,324	$ 235,303
Net premiums earned	$ 113,917	$ 107,073	$ 221,919	$ 220,199
Net investment income	10,954	8,840	22,358	17,484
Net realized investment gains (losses):				
Other than temporary impairment losses on investments	(371)	(578)	(371)	(688)
Other net realized investment gains (losses)	3,201	(84)	2,885	801
Total net realized investment gains (losses)	2,830	(662)	2,514	113
Other income	324	1,782	878	3,150
Total revenues	128,025	117,033	247,669	240,946
Losses and Expenses:				
Net losses and loss adjustment expenses	58,861	57,700	114,933	120,261
Acquisition costs and other underwriting expenses	47,513	43,457	92,516	90,008
Corporate and other operating expenses	10,918	3,361	20,178	6,415
Interest expense	4,940	4,762	9,801	7,229
Income before income taxes	5,793	7,753	10,241	17,033
Income tax benefit	(1,399)	(2,336)	(2,652)	(5,338)
Net income	$ 7,192	$ 10,089	$ 12,893	$ 22,371
Per share data:				
Net income				
Basic	$ 0.51	$ 0.58	$ 0.92	$ 1.29
Diluted	$ 0.50	$ 0.57	$ 0.90	$ 1.27
Weighted-average number of shares outstanding				
Basic	14,092,397	17,335,914	14,073,813	17,326,019

Diluted	14,334,600	17,690,879	14,308,264	17,670,636
Cash dividends declared per share	$ 0.25	$	$ 0.50	$

See accompanying notes to consolidated financial statements.

Table of Contents

GLOBAL INDEMNITY LIMITED

Consolidated Statements of Comprehensive Income

(In thousands)

	(Unaudited) Quarters Ended June 30, 2018	(Unaudited) Quarters Ended June 30, 2017	(Unaudited) Six Months Ended June 30, 2018	(Unaudited) Six Months Ended June 30, 2017
Net income	$ 7,192	$ 10,089	$ 12,893	$ 22,371
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses)	(5,820)	2,155	(21,008)	7,333
Portion of other-than-temporary impairment losses recognized in other comprehensive income (losses)	(7)	(1)	(8)	(1)
Reclassification adjustment for gains included in net income	611	(823)	686	(1,229)
Unrealized foreign currency translation gains (losses)	(728)	323	(1,100)	501
Other comprehensive income (loss), net of tax	(5,944)	1,654	(21,430)	6,604
Comprehensive income (loss), net of tax	$ 1,248	$ 11,743	$ (8,537)	$ 28,975

See accompanying notes to consolidated financial statements.

Table of Contents

GLOBAL INDEMNITY LIMITED

Consolidated Statements of Changes in Shareholders Equity

(In thousands, except share amounts)

	(Unaudited) Six Months Ended June 30, 2018		Year Ended December 31, 2017	
Number of A ordinary shares issued:				
Number at beginning of period		10,102,927		13,436,548
Ordinary shares issued under share incentive plans		37,381		2,204
Ordinary shares issued to directors		16,934		27,121
Ordinary shares redeemed				(3,397,031)
Adjustment for shares redeemed indirectly owned by subsidiary				34,085
Number at end of period		10,157,242		10,102,927
Number of B ordinary shares issued:				
Number at beginning and end of period		4,133,366		4,133,366
Par value of A ordinary shares:				
Number at beginning and end of period	$	1	$	1
Par value of B ordinary shares:				
Balance at beginning and end of period	$	1	$	1
Additional paid-in capital:				
Balance at beginning of period	$	434,730	$	430,283
Adjustment for shares redeemed indirectly owned by subsidiary				706
Share compensation plans		1,305		3,741
Balance at end of period	$	436,035	$	434,730
Accumulated other comprehensive income, net of deferred income tax:				
Balance at beginning of period	$	8,983	$	(618)
Other comprehensive income (loss):				
Change in unrealized holding gains (losses)		(20,322)		8,829
Change in other than temporary impairment losses recognized in other comprehensive income		(8)		(3)
Unrealized foreign currency translation gains (losses)		(1,100)		775
Other comprehensive income (loss)		(21,430)		9,601
		(10,028)		

Cumulative effect adjustment resulting from adoption of new accounting guidance				
Balance at end of period	$	(22,475)	$	8,983
Retained earnings:				
Balance at beginning of period	$	275,838	$	368,284
Cumulative effect adjustment resulting from adoption of new accounting guidance		10,198		
Ordinary shares redeemed				(83,015)
Adjustment for gain on shares redeemed indirectly owned by subsidiary				120
Net income (loss)		12,893		(9,551)
Dividends to shareholders		(7,102)		
Balance at end of period	$	291,827	$	275,838
Number of treasury shares:				
Number at beginning of period		29,551		
A ordinary shares purchased		45,233		29,551
Number at end of period		74,784		29,551
Treasury shares, at cost:				
Balance at beginning of period	$	(1,159)	$	
A ordinary shares purchased, at cost		(1,813)		(1,159)
Balance at end of period	$	(2,972)	$	(1,159)
Total shareholders equity	$	702,417	$	718,394

See accompanying notes to consolidated financial statements.

Table of Contents

GLOBAL INDEMNITY LIMITED

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited) Six Months Ended June 30, 2018	(Unaudited) Six Months Ended June 30, 2017
Cash flows from operating activities:		
Net income	$ 12,893	$ 22,371
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Amortization and depreciation	3,602	3,142
Amortization of debt issuance costs	132	99
Restricted stock and stock option expense	1,305	1,907
Deferred federal income taxes	(3,648)	(5,521)
Amortization of bond premium and discount, net	3,120	4,258
Net realized investment gains	(2,514)	(113)
Changes in:		
Premiums receivable, net	(8,181)	5,859
Reinsurance receivables, net	8,492	36,322
Funds held by ceding insurers	(7,910)	(24,938)
Unpaid losses and loss adjustment expenses	(20,994)	(35,279)
Unearned premiums	18,791	4,565
Ceded balances payable	10,997	120
Other assets and liabilities, net	44,265	(18,175)
Contingent commissions	(1,488)	(4,791)
Federal income tax receivable/payable	341	80
Deferred acquisition costs, net	(3,857)	(3,847)
Prepaid reinsurance premiums	3,614	10,535
Net cash provided by (used for) operating activities	58,960	(3,406)
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	114,456	631,653
Proceeds from sale of equity securities	17,461	13,740
Proceeds from maturity of fixed maturities	33,041	53,478
Proceeds from limited partnerships	4,871	10,322
Amounts received (paid) in connection with derivatives	6,602	(983)
Purchases of fixed maturities	(214,937)	(781,270)
Purchases of equity securities	(17,330)	(17,517)
Purchases of other invested assets	(10,550)	(16,500)
Acquisition of business	(3,515)	
Net cash used for investing activities	(69,901)	(107,077)

Cash flows from financing activities:				
Net borrowings (repayments) under margin borrowing facility		(7,521)		7,242
Proceeds from issuance of subordinated notes				130,000
Debt issuance cost				(4,246)
Dividends paid to shareholders		(7,001)		
Purchase of A ordinary shares		(1,813)		(1,159)
Net cash provided by (used for) financing activities		(16,335)		131,837
Net change in cash and cash equivalents		(27,276)		21,354
Cash and cash equivalents at beginning of period		74,414		75,110
Cash and cash equivalents at end of period	$	47,138	$	96,464

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY LIMITED

1. Principles of Consolidation and Basis of Presentation

Global Indemnity Limited (Global Indemnity or the Company) was incorporated on February 9, 2016 and is domiciled in the Cayman Islands. On November 7, 2016, Global Indemnity replaced Global Indemnity plc as the ultimate parent company as a result of a redomestication transaction. The Company s A ordinary shares are publicly traded on the NASDAQ Global Select Market under the ticker symbol GBLI. Please see Note 2 of the notes to the consolidated financial statements in Item 8 Part II of the Company s 2017 Annual Report on Form 10-K for more information on the Company s redomestication.

The Company manages its business through three business segments: Commercial Lines, Personal Lines, and Reinsurance Operations. The Company s Commercial Lines offers specialty property and casualty insurance products in the excess and surplus lines marketplace. The Company manages its Commercial Lines by differentiating them into four product classifications: Penn-America, which markets property and general liability products to small commercial businesses through a select network of wholesale general agents with specific binding authority; United National, which markets insurance products for targeted insured segments, including specialty products, such as property, general liability, and professional lines through program administrators with specific binding authority; Diamond State, which markets property, casualty, and professional lines products, which are developed by the Company s underwriting department by individuals with expertise in those lines of business, through wholesale brokers and also markets through program administrators having specific binding authority; and Vacant Express, which insures dwellings which are currently vacant, undergoing renovation, or are under construction and is distributed through aggregators, brokers, and retail agents. These product classifications comprise the Company s Commercial Lines business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage. The Company s Personal Lines segment offers specialty personal lines and agricultural coverage through general and specialty agents with specific binding authority on an admitted basis. Collectively, the Company s U.S. insurance subsidiaries are licensed in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The Commercial Lines and Personal Lines segments comprise the Company s U.S. Insurance Operations (Insurance Operations). The Company s Reinsurance Operations consist solely of the operations of its Bermuda-based wholly-owned subsidiary, Global Indemnity Reinsurance Company, Ltd. (Global Indemnity Reinsurance). Global Indemnity Reinsurance is a treaty reinsurer of specialty property and casualty insurance and reinsurance companies. The Company s Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.

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, 2018 and 2017 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 2017 Annual Report on Form 10-K.

On January 1, 2018, the Company adopted new accounting guidance which requires equity investments, except for those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with the changes in fair value recognized in net income. Upon adoption, the Company recorded a cumulative effect adjustment, net of tax, of $10.0 million which reduced accumulated other comprehensive income and increased retained earnings. During the quarter and six months ended June 30, 2018, net realized investment gains (losses) included a gain of $0.8 million and a loss of $4.2 million, respectively, related to the change in the fair value of equity investments in accordance with this new accounting guidance. In addition, under the new guidance, equity investments, are no longer classified into different categories as either trading or available for sale. Prior to the adoption of this new guidance, equity securities were previously classified as available for sale.

Table of Contents

GLOBAL INDEMNITY LIMITED

On January 1, 2018, the Company adopted new accounting guidance regarding the classification of certain cash receipts and cash payments within the statement of cash flows. Upon adoption, the Company made a policy election to use the cumulative earnings approach for presenting distributions received from equity method investees. Under this approach, distributions up to the amount of cumulative equity in earnings recognized will be treated as returns on investment and presented in operating activities and those in excess of that amount will be treated as returns of investment and presented in the investing section. Prior to adoption, all distributions received from equity method investees were presented in the investing section of the consolidated statements of cash flows. The provisions of this accounting guidance were adopted on a retrospective basis. As a result, the consolidated statement of cash flows for the six months ended June 30, 2017 that was included in the Form 10-Q for the six month period ended June 30, 2017 was restated. For the six months ended June 30, 2017, net cash flows from operating activities was increased by $1.8 million and net cash flows from investing activities was reduced by $1.8 million.

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.

2. Investments

The amortized cost and estimated fair value of investments were as follows as of June 30, 2018 and December 31, 2017:

(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, 2018					
Fixed maturities:					
U.S. treasury and agency obligations	$ 94,588	$ 419	$ (2,282)	$ 92,725	$
Obligations of states and political subdivisions	102,703	242	(754)	102,191	
Mortgage-backed securities	185,803	242	(4,148)	181,897	
Asset-backed securities	209,352	134	(1,432)	208,054	(1)
Commercial mortgage-backed securities	157,948	57	(4,396)	153,609	
Corporate bonds	435,712	208	(10,167)	425,753	
Foreign corporate bonds	122,629	7	(2,995)	119,641	
Total fixed maturities	1,308,735	1,309	(26,174)	1,283,870	(1)
Common stock	137,789			137,789	
Other invested assets	83,499			83,499	

Total	$ 1,530,023	$ 1,309	$ (26,174)	$ 1,505,158	$ (1)

(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 (1)**
As of December 31, 2017					
Fixed maturities:					
U.S. treasury and agency obligations	$ 105,311	$ 562	$ (1,193)	$ 104,680	$
Obligations of states and political subdivisions	94,947	441	(274)	95,114	
Mortgage-backed securities	150,237	404	(1,291)	149,350	
Asset-backed securities	203,827	267	(393)	203,701	(1)
Commercial mortgage-backed securities	140,761	101	(1,067)	139,795	
Corporate bonds	422,486	2,295	(1,391)	423,390	
Foreign corporate bonds	125,575	377	(545)	125,407	
Total fixed maturities	1,243,144	4,447	(6,154)	1,241,437	(1)
Common stock	124,915	18,574	(3,260)	140,229	
Other invested assets	77,820			77,820	
Total	$ 1,445,879	$ 23,021	$ (9,414)	$ 1,459,486	$ (1)

(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).

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 6% and 5% of shareholders equity at June 30, 2018 and December 31, 2017, respectively.

8

Table of Contents

GLOBAL INDEMNITY LIMITED

The amortized cost and estimated fair value of the Company s fixed maturities portfolio classified as available for sale at June 30, 2018, 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	Estimated Fair Value
Due in one year or less	$ 76,366	$ 76,088
Due in one year through five years	434,414	426,933
Due in five years through ten years	232,350	224,914
Due in ten years through fifteen years	8,168	7,997
Due after fifteen years	4,334	4,378
Mortgage-backed securities	185,803	181,897
Asset-backed securities	209,352	208,054
Commercial mortgage-backed securities	157,948	153,609
Total	$ 1,308,735	$ 1,283,870

The following table contains an analysis of the Company s fixed income securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of June 30, 2018. Due to new accounting guidance implemented in 2018 regarding the treatment of gains and losses on equity securities, common stock is no longer included in the table:

	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	$ 70,067	$ (2,050)	$ 18,610	$ (232)	$ 88,677	$ (2,282)
Obligations of states and political subdivisions	51,802	(633)	9,109	(121)	60,911	(754)
Mortgage-backed securities	160,818	(4,066)	3,700	(82)	164,518	(4,148)
Asset-backed securities	139,647	(1,305)	8,586	(127)	148,233	(1,432)
Commercial mortgage-backed securities	118,579	(3,561)	26,865	(835)	145,444	(4,396)
Corporate bonds	346,269	(9,385)	39,371	(782)	385,640	(10,167)
Foreign corporate bonds	93,274	(2,677)	16,669	(318)	109,943	(2,995)
Total fixed maturities	$ 980,456	$ (23,677)	$ 122,910	$ (2,497)	$ 1,103,366	$ (26,174)

(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, 2017:

	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	$ 79,403	$ (962)	$ 17,469	$ (231)	$ 96,872	$ (1,193)
Obligations of states and political subdivisions	34,537	(149)	12,060	(125)	46,597	(274)
Mortgage-backed securities	127,991	(1,247)	1,866	(44)	129,857	(1,291)
Asset-backed securities	97,817	(371)	6,423	(22)	104,240	(393)
Commercial mortgage-backed securities	83,051	(523)	27,976	(544)	111,027	(1,067)
Corporate bonds	147,064	(754)	53,024	(637)	200,088	(1,391)
Foreign corporate bonds	53,320	(305)	20,582	(240)	73,902	(545)
Total fixed maturities	623,183	(4,311)	139,400	(1,843)	762,583	(6,154)
Common stock	32,759	(3,260)			32,759	(3,260)
Total	$ 655,942	$ (7,571)	$ 139,400	$ (1,843)	$ 795,342	$ (9,414)

(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.

GLOBAL INDEMNITY LIMITED

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 has a 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 is recorded in other comprehensive income, net of taxes.

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, 2018, gross unrealized losses related to U.S. treasury and agency obligations were $2.282 million. Of this amount, $0.232 million have been in an unrealized loss position for twelve months or greater and are rated AA+. Macroeconomic and market analysis is conducted in evaluating these securities. Consideration is given to the interest rate environment, duration and yield curve management of the portfolio, sector allocation and security selection.

Obligations of states and political subdivisions As of June 30, 2018, gross unrealized losses related to obligations of states and political subdivisions were $0.754 million. Of this amount, $0.121 million have been in an unrealized loss position for twelve months or greater and are rated investment grade or better. All factors that influence performance of the municipal bond market are considered in evaluating these securities. The aforementioned factors include investor expectations, supply and demand patterns, and current versus historical yield and spread relationships. The analysis relies on the output of fixed income credit analysts, as well as dedicated municipal bond analysts who 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, 2018, gross unrealized losses related to mortgage-backed securities were $4.148 million. Of this amount, $0.082 million have been in an unrealized loss position for twelve months or greater. 98.3% of the unrealized losses for twelve months or greater are related to securities rated AA+ or better. Mortgage-backed

GLOBAL INDEMNITY LIMITED

securities are modeled 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. These forecasts incorporate not just national macro-economic trends, but also regional impacts to arrive at the most granular and accurate projections. These assumptions are incorporated into the model as a basis to generate delinquency probabilities, default curves, loss severity curves, and voluntary prepayment curves at the loan level within each deal. The model utilizes HPI-adjusted current LTV, payment history, loan terms, loan modification history, and borrower characteristics as inputs to generate expected cash flows and principal loss for each bond under various scenarios.

Asset backed securities (ABS) - As of June 30, 2018, gross unrealized losses related to asset backed securities were \$1.432 million. Of this amount, \$0.127 million have been in an unrealized loss position for twelve months or greater. 55.6% of the unrealized losses for twelve months or greater are related to securities rated A or better. The weighted average credit enhancement for the Company s asset backed portfolio is 23.3. This represents the percentage of pool losses that can occur before an asset backed security will incur its first dollar of principal losses. Every ABS transaction is analyzed on a stand-alone basis. This analysis involves a thorough review of the collateral, prepayment, and structural risk in each transaction. Additionally, the analysis includes an in-depth credit analysis of the originator and servicer of the collateral. The analysis 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 the deal will incur its first dollar of principal 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, 2018, gross unrealized losses related to the CMBS portfolio were \$4.396 million. Of this amount, \$0.835 million have been in an unrealized loss position for twelve months or greater and are rated AA+ or better. The weighted average credit enhancement for the Company s CMBS portfolio is 45.1. This represents the percentage of pool losses that can occur before a mortgage-backed security will incur its first dollar of principal loss. For the Company s CMBS portfolio, a loan level analysis is utilized where every underlying CMBS loan is re-underwritten based on a set of assumptions reflecting expectations for the future path of the economy. Each loan is analyzed over time using a series of tests to determine if a credit event will occur during the life of the loan. Inherent in this process are several economic scenarios and their corresponding rent/vacancy and capital market states. The five primary credit events that frame the analysis include loan modifications, term default, balloon default, extension, and ability to pay off at balloon. The resulting output is the expected loss adjusted cash flows for each bond under the base case and distressed scenarios.

Corporate bonds As of June 30, 2018, gross unrealized losses related to corporate bonds were \$10.167 million. Of this amount, \$0.782 million have been in an unrealized loss position for twelve months or greater and are rated A- or better. The analysis for this asset class 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, the issuer s current competitive position, its vulnerability to changes in the competitive and 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.

Foreign bonds As of June 30, 2018, gross unrealized losses related to foreign bonds were $2.995 million. Of this amount, $0.318 million have been in an unrealized loss position for twelve months or greater. 77.2% of the unrealized losses for twelve months or greater are related to securities rated investment grade or better. For this asset class, detailed financial models are maintained 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, the issuer s current competitive position, its vulnerability to changes in the competitive and 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.

Table of Contents

GLOBAL INDEMNITY LIMITED

The Company recorded the following other than temporary impairments (OTTI) on its investment portfolio for the quarters and six months ended June 30, 2018 and 2017:

(Dollars in thousands)	Quarters Ended June 30, 2018	Quarters Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Fixed maturities:				
OTTI losses, gross	$ (371)	$	$ (371)	$ (31)
Portion of loss recognized in other comprehensive income (pre-tax)				
Net impairment losses on fixed maturities recognized in earnings	(371)		(371)	(31)
Equity securities		(578)		(657)
Total	$ (371)	$ (578)	$ (371)	$ (688)

The following table is an analysis of the credit losses recognized in earnings on fixed maturities held by the Company for the quarters and six months ended June 30, 2018 and 2017 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	Quarters Ended June 30, 2018	Quarters Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Balance at beginning of period	$ 13	$ 31	$ 13	$ 31
Additions where no OTTI was previously recorded				
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		(15)		(15)
Balance at end of period	$ 13	$ 16	$ 13	$ 16

Accumulated Other Comprehensive Income, Net of Tax

Accumulated other comprehensive income, net of tax, as of June 30, 2018 and December 31, 2017 was as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Net unrealized gains (losses)from:		
Fixed maturities	$ (24,865)	$ (1,707)
Common stock		15,314
Foreign currency fluctuations	(549)	551
Deferred taxes	2,939	(5,175)
Accumulated other comprehensive income, net of tax	$ (22,475)	$ 8,983

Table of Contents

GLOBAL INDEMNITY LIMITED

The following tables present the changes in accumulated other comprehensive income, net of tax, by component for the quarters and six months ended June 30, 2018 and 2017:

Quarter Ended June 30, 2018 (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	$ (16,710)	$ 179	$ (16,531)
Other comprehensive income (loss) before reclassification	(5,827)	(728)	(6,555)
Amounts reclassified from accumulated other comprehensive income (loss)	611		611
Other comprehensive income (loss)	(5,216)	(728)	(5,944)
Cumulative effect adjustment			
Ending balance	$ (21,926)	$ (549)	$ (22,475)

Quarter Ended June 30, 2017 (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	$ 4,218	$ 114	$ 4,332
Other comprehensive income (loss) before reclassification	2,154	323	2,477
Amounts reclassified from accumulated other comprehensive income (loss)	(823)		(823)
	1,331	323	1,654

Other comprehensive income (loss)			
Ending balance	$ 5,549	$ 437	$ 5,986

Six Months Ended June 30, 2018 **(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	$ 8,272	$ 711	$ 8,983
Other comprehensive income (loss) before reclassification	(21,016)	(1,100)	(22,116)
Amounts reclassified from accumulated other comprehensive income (loss)	686		686
Other comprehensive income (loss)	(20,330)	(1,100)	(21,430)
Cumulative effect adjustment	(9,868)	(160)	(10,028)
Ending balance	$ (21,926)	$ (549)	$ (22,475)

Table of Contents

GLOBAL INDEMNITY LIMITED

Six Months Ended June 30, 2017 (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	$ (554)	$ (64)	$ (618)
Other comprehensive income (loss) before reclassification	7,325	508	7,833
Amounts reclassified from accumulated other comprehensive income (loss)	(1,222)	(7)	(1,229)
Other comprehensive income (loss)	6,103	501	6,604
Ending balance	$ 5,549	$ 437	$ 5,986

The reclassifications out of accumulated other comprehensive income for the quarters and six months ended June 30, 2018 and 2017 were as follows:

(Dollars in thousands) Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	Amounts Reclassified from Accumulated Other Comprehensive Income Quarters Ended June 30, 2018	 2017
Unrealized gains and losses on available for sale securities	Other net realized investment (gains) losses	$ 361	$ (1,739)
	Other than temporary impairment losses on investments	371	578
	Total before tax	732	(1,161)
	Income tax expense (benefit)	(121)	338
		611	$ (823)

	Unrealized gains and losses on available for sale securities, net of tax				
Foreign currency items	Other net realized investment (gains)			$	
	Income tax expense				
	Foreign currency items, net of tax			$	
Total reclassifications	Total reclassifications, net of tax	$	611	$	(823)

14

Table of Contents

GLOBAL INDEMNITY LIMITED

(Dollars in thousands)		Amounts Reclassified from Accumulated Other Comprehensive Income Six Months Ended June 30,	
Details about Accumulated Other Comprehensive Income Components	**Affected Line Item in the Consolidated Statements of Operations**	**2018**	**2017**
Unrealized gains and losses on available for sale securities	Other net realized investment (gains) losses	$ 454	$ (2,440)
	Other than temporary impairment losses on investments	371	688
	Total before tax	825	(1,752)
	Income tax expense (benefit)	(139)	530
	Unrealized gains and losses on available for sale securities, net of tax	686	$ (1,222)
Foreign currency items	Other net realized investment (gains)		$ (11)
	Income tax expense		4
	Foreign currency items, net of tax		$ (7)
Total reclassifications	Total reclassifications, net of tax	$ 686	$ (1,229)

Net Realized Investment Gains (Losses)

The components of net realized investment gains (losses) for the quarters and six months ended June 30, 2018 and 2017 were as follows:

(Dollars in thousands)	Quarters Ended June 30, 2018	Quarters Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Fixed maturities:				
Gross realized gains	$ 20	$ 2,500	$ 44	$ 2,689
Gross realized losses	(752)	(1,976)	(869)	(2,059)
Net realized gains (losses)	(732)	524	(825)	630
Common stock:				

Gross realized gains	2,874	1,219	6,327	1,794
Gross realized losses	(809)	(582)	(8,636)	(661)
Net realized gains (losses)	2,065	637	(2,309)	1,133
Derivatives:				
Gross realized gains	1,966		6,767	336
Gross realized losses	(469)	(1,823)	(1,119)	(1,986)
Net realized gains (losses) (1)	1,497	(1,823)	5,648	(1,650)
Total net realized investment gains (losses)	$ 2,830	$ (662)	$ 2,514	$ 113

Includes periodic net interest settlements related to the derivatives of $0.5 million and $0.9 million for the quarters ended June 30, 2018 and 2017, respectively, and $1.2 million and $2.0 million for the six months ended June 30, 2018 and 2017, respectively.

Table of Contents

GLOBAL INDEMNITY LIMITED

New accounting guidance regarding equity securities was implemented on January 1, 2018 requires companies to disclose realized gains and losses for equity securities still held at period end and gains and losses from securities sold during the period. See Note 15 for additional information regarding new accounting pronouncements. The following table shows the calculation of the portion of realized gains and losses related to common stock held as of June 30, 2018:

(Dollars in thousands)	Quarter Ended June 30, 2018	Six Months Ended June 30, 2018
Net gains and losses recognized during the period on equity securities	$ 2,065	$ (2,309)
Less: Net gains and losses recognized during the period on equity securities sold during the period	1,308	1,862
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$ 757	$ (4,171)

The proceeds from sales and redemptions of available for sale and equity securities resulting in net realized investment gains (losses) for the six months ended June 30, 2018 and 2017 were as follows:

	Six Months Ended June 30,	
(Dollars in thousands)	2018	2017
Fixed maturities	$ 114,456	$ 631,653
Equity securities	17,461	13,740

Net Investment Income

The sources of net investment income for the quarters and six months ended June 30, 2018 and 2017 were as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2018	2017	2018	2017
Fixed maturities	$ 9,188	$ 8,334	$ 17,716	$ 15,012
Equity securities	1,005	844	2,004	1,834
Cash and cash equivalents	265	311	529	395

Other invested assets	1,240	76	3,563	1,768
Total investment income	11,698	9,565	23,812	19,009
Investment expense	(744)	(725)	(1,454)	(1,525)
Net investment income	$ 10,954	$ 8,840	$ 22,358	$ 17,484

The Company s total investment return on a pre-tax basis for the quarters and six months ended June 30, 2018 and 2017 were as follows:

	Quarters Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2018**	**2017**	**2018**	**2017**
Net investment income	$ 10,954	$ 8,840	$ 22,358	$ 17,484
Net realized investment gains (losses)	2,830	(662)	2,514	113
Change in unrealized holding gains and losses	(6,635)	2,073	(24,258)	9,090
Net realized and unrealized investment returns	(3,805)	1,411	(21,744)	9,203
Total investment return	$ 7,149	$ 10,251	$ 614	$ 26,687
Total investment return % **(1)**	0.5%	0.6%	0.0%	1.7%
Average investment portfolio **(2)**	$ 1,546,801	$ 1,626,877	$ 1,543,593	$ 1,565,015

(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 end of the period.

Table of Contents

GLOBAL INDEMNITY LIMITED

Insurance Enhanced Asset-Backed and Credit Securities

As of June 30, 2018, the Company held insurance enhanced commercial mortgage-backed and credit securities with a market value of approximately $34.7 million. Approximately $1.1 million of these securities were tax-free municipal bonds, which represented approximately 0.1% 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. None of these bonds are pre-refunded with U.S. treasury securities, nor would they have carried a lower credit rating had they not been insured.

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, 2018, is as follows:

(Dollars in thousands) Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	Exposure Net of Pre-refunded & Government Guaranteed Securities
Municipal Bond Insurance Association	$ 1,133	$	$	$ 1,133
Total backed by financial guarantors	1,133			1,133
Other credit enhanced municipal bonds				
Total	$ 1,133	$	$	$ 1,133

In addition to the tax-free municipal bonds, the Company held $33.5 million of insurance enhanced bonds, which represented approximately 2.2% of the Company s total invested assets, net of receivable/payable for securities purchased and sold. The insurance enhanced bonds are comprised of $23.5 million of taxable municipal bonds and $10.0 million of commercial mortgage-backed securities. The financial guarantors of the Company s $33.5 million of insurance enhanced commercial-mortgage-backed and taxable municipal securities include Municipal Bond Insurance Association ($6.0 million), Assured Guaranty Corporation ($17.5 million), and Federal Home Loan Mortgage Corporation ($10.0 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, 2018.

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, 2018 and December 31, 2017:

(Dollars in thousands)	Estimated Fair Value June 30, 2018	 December 31, 2017
On deposit with governmental authorities	$ 25,969	$ 26,852
Intercompany trusts held for the benefit of U.S. policyholders	276,687	328,494
Held in trust pursuant to third party requirements	97,650	94,098
Letter of credit held for third party requirements	2,317	3,944
Securities held as collateral for borrowing arrangements (1)	80,483	88,040
Total	$ 483,106	$ 541,428

(1) Amount required to collateralize margin borrowing facility.

Variable Interest Entities

A Variable Interest Entity (VIE) refers to an investment in which an investor holds a controlling interest that is not based on the majority of voting rights. Under the VIE model, the party that has the power to exercise significant management influence and maintain a controlling financial interest in the entity s economics is said to be the primary beneficiary, and is required to consolidate the entity within their results. Other entities that participate in a VIE, for which their financial interests fluctuate with changes in the fair value of the investment entity s net assets but do not have significant management influence and the ability to direct the VIE s significant economic activities are said to have a variable interest in the VIE but do not consolidate the VIE in their financial results.

Table of Contents

GLOBAL INDEMNITY LIMITED

The Company has variable interests in three VIE s for which it is not the primary beneficiary. These investments are accounted for under the equity method of accounting as their ownership interest exceeds 3% of their respective investments.

The fair value of one of the Company s VIE s, which invests in distressed securities and assets, was $20.1 million and $26.3 million as of June 30, 2018 and December 31, 2017, respectively. The Company s maximum exposure to loss from this VIE, which factors in future funding commitments, was $34.3 million and $40.5 million at June 30, 2018 and December 31, 2017, respectively. The fair value of a second VIE that provides financing for middle market companies, was $37.2 million and $33.8 million at June 30, 2018 and December 31, 2017, respectively. The Company s maximum exposure to loss from this VIE, which factors in future funding commitments, was $42.4 million and $43.8 million at June 30, 2018 and December 31, 2017, respectively. The fair value of a third VIE that also invests in distressed securities and assets, was $26.2 million and $17.8 million as of June 30, 2018 and December 31, 2017, respectively. The Company s maximum exposure to loss from this VIE, which factors in future funding commitments, was $51.9 million and $51.3 million at June 30, 2018 and December 31, 2017, respectively. The Company s investment in VIEs is included in other invested assets on the consolidated balance sheet with changes in fair value recorded in the consolidated statements of operations.

3. Derivative Instruments

Interest rate swaps are used by the Company primarily to reduce risks from changes in interest rates. Under the terms of the interest rate swaps, the Company agrees with another party to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts as calculated by reference to an agreed notional amount.

The Company accounts for the interest rate swaps as non-hedge instruments and recognizes the fair value of the interest rate swaps in other assets or other liabilities on the consolidated balance sheets with the changes in fair value recognized as net realized investment gains in the consolidated statements of operations. The Company is ultimately responsible for the valuation of the interest rate swaps. To aid in determining the estimated fair value of the interest rate swaps, the Company relies on the forward interest rate curve and information obtained from a third party financial institution.

The following table summarizes information on the location and the gross amount of the derivatives fair value on the consolidated balance sheets as of June 30, 2018 and December 31, 2017:

(Dollars in thousands)		**June 30, 2018**		**December 31, 2017**	
Derivatives Not Designated as Hedging Instruments under ASC 815	**Balance Sheet Location**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Interest rate swap agreements	Other liabilities	$ 200,000	$ (1,201)	$ 200,000	$ (7,968)

The following table summarizes the net gains (losses) included in the consolidated statements of operations for changes in the fair value of the derivatives and the periodic net interest settlements under the derivatives for the quarters and six months ended June 30, 2018 and 2017:

(Dollars in thousands)	Consolidated Statements of Operations Line	Quarters Ended June 30, 2018	Quarters Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest rate swap agreements	Net realized investment gains (losses)	$ 1,497	$ (1,823)	$ 5,648	$ (1,650)

As of June 30, 2018 and December 31, 2017, the Company is due $2.9 million and $3.1 million, respectively, for funds it needed to post to execute the swap transaction and $2.0 million and $9.5 million, respectively, for margin calls made in connection with the interest rate swaps. These amounts are included in other assets on the consolidated balance sheets.

Table of Contents

GLOBAL INDEMNITY LIMITED

4. Fair Value Measurements

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 and derivative instruments 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.

The following table presents information about the Company s invested assets and derivative instruments measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of June 30, 2018	**Fair Value Measurements**			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$ 92,725	$	$	$ 92,725
Obligations of states and political subdivisions		102,191		102,191
Mortgage-backed securities		181,897		181,897
Commercial mortgage-backed securities		153,609		153,609
Asset-backed securities		208,054		208,054
Corporate bonds		425,753		425,753

Foreign corporate bonds		119,641		119,641
Total fixed maturities	92,725	1,191,145		1,283,870
Common stock	137,789			137,789
Total assets measured at fair value (1)	$ 230,514	$ 1,191,145	$	$ 1,421,659
Liabilities:				
Derivative instruments	$	$ 1,201	$	$ 1,201
Total liabilities measured at fair value	$	$ 1,201	$	$ 1,201

(1) Excluded from the table above are limited partnerships of $83.5 million at June 30, 2018 whose fair value is based on net asset value as a practical expedient.

GLOBAL INDEMNITY LIMITED

As of December 31, 2017 (Dollars in thousands)	Fair Value Measurements Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$ 104,680	$	$	$ 104,680
Obligations of states and political subdivisions		95,114		95,114
Mortgage-backed securities		149,350		149,350
Commercial mortgage-backed securities		139,795		139,795
Asset-backed securities		203,701		203,701
Corporate bonds		423,390		423,390
Foreign corporate bonds		125,407		125,407
Total fixed maturities	104,680	1,136,757		1,241,437
Common stock	140,229			140,229
Total assets measured at fair value (1)	$ 244,909	$ 1,136,757	$	$ 1,381,666
Liabilities:				
Derivative instruments	$	$ 7,968	$	$ 7,968
Total liabilities measured at fair value	$	$ 7,968	$	$ 7,968

(1) Excluded from the table above are limited partnerships of $77.8 million at December 31, 2017 whose fair value is based on net asset value as a practical expedient.

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 and derivative instruments. 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. The estimated fair value of the derivative instruments, consisting of interest rate swaps, is obtained from a third party financial institution that utilizes observable inputs such as the forward interest rate curve.

For the Company s material debt arrangements, the current fair value of the Company s debt at June 30, 2018 and December 31, 2017 was as follows:

	June 30, 2018		December 31, 2017	
(Dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Margin Borrowing Facility	$ 64,709	$ 64,709	$ 72,230	$ 72,230
7.75% Subordinated Notes due 2045 (1)	96,680	99,320	96,619	100,059
7.875% Subordinated Notes due 2047 (2)	125,935	129,782	125,864	130,429
Total	$ 287,324	$ 293,811	$ 294,713	$ 302,718

(1) As of June 30, 2018 and December 31, 2017, the carrying value and fair value of the 7.75% Subordinated Notes due 2045 are net of unamortized debt issuance cost of $3.3 million.

(2) As of June 30, 2018 and December 31, 2017, the carrying value and fair value of the 7.875% Subordinated Notes due 2047 are net of unamortized debt issuance cost of $4.1 million.

The fair value of the margin borrowing facility approximates its carrying value due to the facility being due on demand. The subordinated notes due 2045 and 2047 are publicly traded instruments and are classified as Level 1 in the fair value hierarchy.

GLOBAL INDEMNITY LIMITED

There were no transfers between Level 1 and Level 2 during the quarters ended June 30, 2018 and 2017.

Fair Value of Alternative Investments

Other invested assets consist of limited liability partnerships whose fair value is based on net asset value per share practical expedient. The following table provides the fair value and future funding commitments related to these investments at June 30, 2018 and December 31, 2017.

	June 30, 2018		December 31, 2017	
(Dollars in thousands)	**Fair Value**	**Future Funding Commitment**	**Fair Value**	**Future Funding Commitment**
Real Estate Fund, LP (1)	$	$	$	$
European Non-Performing Loan Fund, LP (2)	20,069	14,214	26,262	14,214
Private Middle Market Loan Fund, LP (3)	37,244	5,200	33,760	10,000
Distressed Debt Fund, LP (4)	26,186	25,750	17,798	33,500
Total	$ 83,499	$ 45,164	$ 77,820	$ 57,714

(1) 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.

(2) This limited partnership invests in distressed securities and assets through senior and subordinated, secured and unsecured debt and equity, in both public and private large-cap and middle-market companies. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. 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. Based on the terms of the partnership agreement, the Company anticipates its interest in this partnership to be redeemed by 2020.

(3) This limited partnership provides financing for middle market companies. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. 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. Based on the terms of the investment management agreement, the Company anticipates its interest to be redeemed no later than 2024.

(4) This limited partnership invests in stressed and distressed securities and structured products. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. 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. Based on the terms of the partnership agreement, the Company anticipates its interest to be redeemed no later than 2027.

Limited Liability Companies and Limited Partnerships with ownership interest exceeding 3%

The Company uses the equity method to account for investments in limited liability companies and limited partnerships where its ownership interest exceeds 3%. The equity method of accounting for an investment in a limited liability company and limited partnership requires that its cost basis be updated to account for the income or loss earned on the investment. The investment income associated with these limited liability companies or limited partnerships, which is reflected in the consolidated statements of operations, was $1.2 million and $0.1 million for the quarters ended June 30, 2018 and 2017, respectively, and $3.6 million and $1.8 million during the six months ended June 30, 2018 and 2017, respectively.

Pricing

The Company s pricing vendors provide prices for all investment categories except for investments in limited partnerships whose fair value is based on net asset values as a practical expedient. Two primary vendors are utilized to provide prices for equity and fixed maturity securities.

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

Common stock prices are received from all primary and secondary exchanges.

Table of Contents

GLOBAL INDEMNITY LIMITED

Corporate and agency bonds are evaluated by utilizing terms and conditions sourced from commercial vendors. Bonds with similar characteristics are grouped into specific sectors. Both asset classes use standard inputs and utilize bid price or spread, quotes, benchmark yields, discount rates, market data feeds, and financial statements.

Data from commercial vendors is aggregated with market information, then converted into a prepayment/spread/LIBOR curve model used for commercial mortgage obligations (CMO). CMOs are categorized with mortgage-backed securities in the tables listed above. For asset-backed securities, data derived from market information along with trustee and servicer reports is converted into spreads to interpolated benchmark curve. For both asset classes, evaluations utilize standard inputs plus new issue data, monthly payment information, and collateral performance. The evaluated pricing models incorporate discount rates, loan level information, prepayment speeds, treasury benchmarks, and LIBOR and swap curves.

For obligations of state and political subdivisions, an integrated evaluation system is used. The pricing models incorporate trades, spreads, benchmark curves, market data feeds, new issue data, and trustee reports.

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

For mortgage-backed securities, various external analytical products are utilized and purchased from commercial vendors.

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 or may potentially change.

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.

On a quarterly basis, the Company corroborates investment security prices received from its pricing vendors by obtaining pricing from a second pricing vendor for a sample of securities.

During the quarters and six months ended June 30, 2018 and 2017, the Company has not adjusted quotes or prices obtained from the pricing vendors.

5. Income Taxes

As of June 30, 2018, the statutory income tax rates of the countries where the Company conducts business are 21% in the United States, 0% in Bermuda, 0% in the Cayman Islands, 26.01% for companies with a registered office in Luxembourg City, 0.25% to 2.5% in Barbados, and 25% on non-trading income, 33% 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. Generally, during interim periods, the Company will divide total estimated annual income tax expense by total estimated annual pre-tax income to determine the expected annual income tax rate used to compute the income tax provision. The expected annual income tax rate is then applied against interim pre-tax income, excluding net realized gains and losses and limited partnership distributions, and that amount is then added to the actual income taxes on net realized gains and losses, discrete items and limited partnership distributions. However, when there is significant volatility in the expected effective tax rate, the Company records its actual income tax provision in lieu of the estimated effective income tax rate.

Table of Contents

GLOBAL INDEMNITY LIMITED

The Company s income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries for the quarters and six months ended June 30, 2018 and 2017 were as follows:

Quarter Ended June 30, 2018:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 20,300	$ 138,517	$	$ 158,817
Net premiums written	$ 20,300	$ 116,154	$	$ 136,454
Net premiums earned	$ 37,111	$ 76,806	$	$ 113,917
Net investment income	12,293	7,036	(8,375)	10,954
Net realized investment gains (losses)	(159)	2,989		2,830
Other income (loss)	(147)	471		324
Total revenues	49,098	87,302	(8,375)	128,025
Losses and Expenses:				
Net losses and loss adjustment expenses	12,768	46,093		58,861
Acquisition costs and other underwriting expenses	16,147	31,366		47,513
Corporate and other operating expenses	4,915	6,003		10,918
Interest expense	1,552	11,763	(8,375)	4,940
Income (loss) before income taxes	$ 13,716	$ (7,923)	$	5,793

Quarter Ended June 30, 2017:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 60,061	$ 126,319	$ (42,486)	$ 143,894
Net premiums written	$ 60,060	$ 63,737	$	$ 123,797
Net premiums earned	$ 49,059	$ 58,014	$	$ 107,073
Net investment income	14,560	5,243	(10,963)	8,840
Net realized investment gains (losses)	196	(858)		(662)
Other income	86	1,696		1,782
Total revenues	63,901	64,095	(10,963)	117,033
Losses and Expenses:				

Net losses and loss adjustment expenses	22,876	34,824		57,700
Acquisition costs and other underwriting expenses	20,934	22,523		43,457
Corporate and other operating expenses	1,123	2,238		3,361
Interest expense	4,650	11,075	(10,963)	4,762
Income (loss) before income taxes	$ 14,318	$ (6,565)	$	$ 7,753

Six Months Ended June 30, 2018:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 30,615	$ 252,449	$	$ 283,064
Net premiums written	$ 30,614	$ 213,710	$	$ 244,324
Net premiums earned	$ 85,133	$ 136,786	$	$ 221,919
Net investment income	27,514	14,224	(19,380)	22,358
Net realized investment gains (losses)	(164)	2,678		2,514
Other income (loss)	(97)	975		878
Total revenues	112,386	154,663	(19,380)	247,669
Losses and Expenses:				
Net losses and loss adjustment expenses	33,333	81,600		114,933
Acquisition costs and other underwriting expenses	37,287	55,229		92,516
Corporate and other operating expenses	9,313	10,865		20,178
Interest expense	6,393	22,788	(19,380)	9,801
Income (loss) before income taxes	$ 26,060	$ (15,819)	$	$ 10,241

Table of Contents

GLOBAL INDEMNITY LIMITED

Six Months Ended June 30, 2017:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 114,163	$ 234,255	$ (80,773)	$ 267,645
Net premiums written	$ 114,147	$ 121,156	$	$ 235,303
Net premiums earned	$ 99,992	$ 120,207	$	$ 220,199
Net investment income	26,888	10,202	(19,606)	17,484
Net realized investment gains (losses)	237	(124)		113
Other income	173	2,977		3,150
Total revenues	127,290	133,262	(19,606)	240,946
Losses and Expenses:				
Net losses and loss adjustment expenses	43,736	76,525		120,261
Acquisition costs and other underwriting expenses	43,622	46,386		90,008
Corporate and other operating expenses	2,330	4,085		6,415
Interest expense	6,974	19,861	(19,606)	7,229
Income (loss) before income taxes	$ 30,628	$ (13,595)	$	$ 17,033

For the quarter and six months ended June 30, 2017, the Company s income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, as reported in the table above, includes the results of the quota share agreement between Global Indemnity Reinsurance and the Insurance Operations. This quota share agreement was cancelled on a runoff basis effective January 1, 2018.

The following table summarizes the components of income tax benefit:

(Dollars in thousands)	Quarters Ended June 30, 2018	Quarters Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Current income tax expense:				
Foreign	$ 85	$ 87	$ 264	$ 183
U.S. Federal	166		732	
Total current income tax expense	251	87	996	183
Deferred income tax benefit:				
U.S. Federal	(1,650)	(2,423)	(3,648)	(5,521)
Total deferred income tax benefit	(1,650)	(2,423)	(3,648)	(5,521)

Total income tax benefit	$ (1,399)	$ (2,336)	$ (2,652)	$ (5,338)

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 table summarizes the differences between the tax provision for financial statement purposes and the expected tax provision at the weighted average tax rate:

	Quarters Ended June 30,			
	2018		2017	
(Dollars in thousands)	**Amount**	**% of Pre-Tax Income**	**Amount**	**% of Pre-Tax Income**
Expected tax provision at weighted average rate	$ (1,497)	(25.8%)	$ (2,210)	(28.5%)
Adjustments:				
Tax exempt interest	(4)	(0.1)	(67)	(0.9)
Dividend exclusion	(70)	(1.2)	(73)	(0.9)
Base Erosion Anti-Abuse Tax	165	2.9		
Other	7	0.1	14	0.2
Actual tax on continuing operations	$ (1,399)	(24.1%)	$ (2,336)	(30.1%)

Table of Contents

GLOBAL INDEMNITY LIMITED

The effective income tax benefit rate for the quarter ended June 30, 2018 was 24.1%, compared with an effective income tax benefit rate of 30.1% for the quarter ended June 30, 2017. The decrease in the effective income tax benefit rate in the quarter ended June 30, 2018 compared to the quarter ended June 30, 2017 is due to the change in the U.S. statutory tax rate from 35% to 21% effective January 1, 2018 and the Base Erosion Anti-Abuse Tax (BEAT) that became effective upon the passage of the Tax Cuts and Jobs Act (TCJA). Taxes were computed using a discrete period computation because a reliable estimate of an effective tax rate could not be made.

	Six Months Ended June 30,			
	2018		2017	
(Dollars in thousands)	**Amount**	**% of Pre-Tax Income**	**Amount**	**% of Pre-Tax Income**
Expected tax provision at weighted average rate	$ (3,033)	(29.6%)	$ (4,574)	(26.9%)
Adjustments:				
Tax exempt interest	(5)	0.0	(151)	(0.9)
Dividend exclusion	(135)	(1.3)	(266)	(1.6)
Base Erosion Anti-Abuse Tax	731	7.1		
Other	(210)	(2.1)	(347)	(1.9)
Actual tax on continuing operations	$ (2,652)	(25.9%)	$ (5,338)	(31.3%)

The effective income tax benefit rate for the six months ended June 30, 2018 was 25.9%, compared with an effective income tax benefit rate of 31.3% for the six months ended June 30, 2017. The decrease in the effective income tax benefit rate in the six months ended June 30, 2018 compared to the six months ended June 30, 2017 is due to the change in the U.S. statutory tax rate from 35% to 21% effective January 1, 2018 and the BEAT that became effective upon the passage of the TCJA. Taxes were computed using a discrete period computation because a reliable estimate of an effective tax rate could not be made.

Financial results for the quarter and six months ended June 30, 2018 reflect provisional tax estimates related to the TCJA. These provisional estimates are based on the Company s initial analysis and current interpretation of the legislation. Given the complexity of the legislation, anticipated guidance from the U.S. Treasury, and the potential for additional guidance from the Securities and Exchange Commission (SEC) or the Financial Accounting Standards Board (FASB), these estimates may be adjusted during 2018. During the quarter and six months ended June 30, 2018, there were no adjustments to provisional tax estimates recorded in prior periods.

The Company had an alternative minimum tax (AMT) credit carryforward of $11.0 million as of December 31, 2017. The TCJA repealed the corporate AMT. The AMT credit carryforward of $11.0 million was reclassed to federal income taxes receivable at December 31, 2017 and will be fully refunded by the end of 2021. The Company has a net operating loss (NOL) carryforward of $16.6 million as of June 30, 2018, which begins to expire in 2035 based on when the original NOL was generated. The Company s NOL carryforward as of December 31, 2017 was $16.3 million. The Company has a Section 163(j) (163(j)) carryforward of $9.6 million and $7.9 million as of June 30, 2018 and December 31, 2017, respectively, which can be carried forward indefinitely. The 163(j) carryforward is for disqualified interest paid or accrued.

Table of Contents

GLOBAL INDEMNITY LIMITED

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)	**2018**	**2017**	**2018**	**2017**
Balance at beginning of period	$ 615,125	$ 622,088	$ 634,664	$ 651,042
Less: Ceded reinsurance receivables	92,314	102,646	97,243	130,439
Net balance at beginning of period	522,811	519,442	537,421	520,603
Purchased reserves, gross		6,465		8,961
Purchased reserves ceded		(39)		510
Purchased reserves, net of third party reinsurance		6,426		9,471
Incurred losses and loss adjustment expenses related to:				
Current year	68,448	73,003	130,447	145,694
Prior years	(9,587)	(15,303)	(15,514)	(25,433)
Total incurred losses and loss adjustment expenses	58,861	57,700	114,933	120,261
Paid losses and loss adjustment expenses related to:				
Current year	33,120	42,975	50,574	67,363
Prior years	26,279	29,075	79,507	71,454
Total paid losses and loss adjustment expenses	59,399	72,050	130,081	138,817
Net balance at end of period	522,273	511,518	522,273	511,518
Plus: Ceded reinsurance receivables	91,397	104,245	91,397	104,245
Balance at end of period	$ 613,670	$ 615,763	$ 613,670	$ 615,763

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.

During the second quarter of 2018, the Company reduced its prior accident year loss reserves by $9.6 million, which consisted of a $5.2 million decrease related to Commercial Lines, $2.1 million decrease related to Personal Lines, and a $2.3 million decrease related to Reinsurance Operations.

The $5.2 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

General Liability: A $2.3 million reduction reflects lower than expected claims severity in the reserving segments excluding construction defect, primarily in the 2006 through 2010, 2012 through 2014, and 2016 accident years, partially offset by an increase in the 2011 and 2017 accident years.

Commercial Auto Liability: A $1.1 million decrease in the 2010, 2012 and 2013 accident years recognizes lower than anticipated claims severity.

Professional Liability: A $0.5 million decrease reflects lower than expected claims severity in the 2008 through 2010 and 2012 through 2014 accident years.

Property: A $1.3 million decrease in aggregate with $1.0 million of favorable development in the property excluding catastrophe reserve categories mainly due to lower than expected claims severity in the 2014 through 2016 accident years and $0.3 million of favorable development in the property catastrophe reserve categories primarily due to lower than anticipated claims severity in the 2017 accident year.

The $2.1 million reduction of prior accident year loss reserves related to Personal Lines primarily consisted of the following:

Property: A $1.8 million reduction primarily due to lower than anticipated claims severity in the 2014 through 2016 accident years partially offset by an increase in the 2017 accident year.

General Liability: A $0.3 million decrease primarily due to lower than expected claims severity in the 2012 and 2016 accident years partially offset by an increase in the 2007 and 2017 accident years.

Table of Contents

GLOBAL INDEMNITY LIMITED

The $2.3 million reduction of prior accident year loss reserves related to Reinsurance Operations was from the property lines for accident years 2011 through 2016 partially offset by an increase in the 2017 accident year. The accident year changes were based on a review of the experience reported from cedants.

In the second quarter of 2017, the Company reduced its prior accident year loss reserves by $15.3 million, which consisted of a $13.7 million decrease related to Commercial Lines and a $1.6 million decrease related to Reinsurance Operations.

The $13.7 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

General Liability: A $6.6 million reduction in aggregate with $5.0 million of favorable development in the construction defect reserve category and $1.6 million of favorable development in the other general liability reserve categories. The favorable development in the construction defect reserve category recognizes lower than anticipated claims frequency and severity which led to reductions primarily in the 2005 through 2016 accident years. For the other general liability reserve categories, lower than expected claims severity was the primary driver of the favorable development mainly in accident years 2008 through 2011 and the 2014 and 2015 accident years.

Professional Liability: A $3.5 million decrease in aggregate primarily reflects lower than expected claims severity in the 2006 through 2009 and 2011 through 2013 accident years.

Property: A $3.5 million reduction in aggregate with $3.0 million of favorable development in the property excluding catastrophe reserve categories mainly due to lower than expected claims frequency and severity in the 2011 through 2016 accident years and $0.5 million of favorable development in the property catastrophe reserve categories primarily due to lower than anticipated claims severity in the 2013 through 2015 accident years.

The $1.6 million reduction of prior accident year loss reserves related to Reinsurance Operations was from the property lines. Ultimate losses were lowered primarily in the 2013 through 2015 accident years based on a review of the experience reported from cedants.

During the first six months of 2018, the Company reduced its prior accident year loss reserves by $15.5 million, which consisted of a $7.9 million decrease related to Commercial Lines, $3.1 million decrease related to Personal Lines, and a $4.5 million decrease related to Reinsurance Operations.

The $7.9 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

General Liability: A $3.4 million reduction in reserve categories excluding construction defect. Lower than expected claims severity was the primary driver of the favorable development, mainly in the 2002 through 2004, 2006 through 2010, 2012 through 2014, and 2016 accident years which was partially offset by increases in the 2005, 2011, 2015, and 2017 accident years.

Commercial Auto Liability: A $2.1 million decrease in the 2010, 2012 and 2013 accident years reflects lower than anticipated claims severity.

Professional Liability: A $0.7 million decrease reflects lower than expected claims severity mainly in the 2010 through 2014 accident years.

Property: A $1.7 million decrease in aggregate with $1.4 million of favorable development in the property excluding catastrophe reserve categories and $0.3 million of favorable development in the property catastrophe reserve categories. The favorable development in the reserve categories excluding catastrophe experience mainly reflects lower than expected claims severity in the 2014 through 2017 accident years. For the property catastrophe reserve categories, lower than anticipated claims severity was the driver of the favorable development mainly in the 2017 accident year, partially offset by an increase in the 2016 accident year.

The $3.1 million reduction of prior accident year loss reserves related to Personal Lines primarily consisted of the following:

Property: A $2.7 million reduction primarily in the 2014 through 2017 accident years mainly reflects lower than anticipated claims severity.

General Liability: A $0.4 million decrease primarily due to lower than expected claims severity in the 2012, 2014 and 2016 accident years partially offset by an increase in the 2007 and 2015 accident years.

Table of Contents

GLOBAL INDEMNITY LIMITED

The $4.5 million reduction of prior accident year loss reserves related to Reinsurance Operations was from the property lines for accident years 2011, 2012, 2015 and 2016, partially offset by increases in the 2013, 2014 and 2017 accident years. Ultimate losses were adjusted in these accident years based on a review of the experience reported from cedants.

During the first six months of 2017, the Company reduced its prior accident year loss reserves by $25.4 million, which consisted of an $18.9 million decrease related to Commercial Lines, a $3.2 million decrease related to Personal Lines, and a $3.3 million decrease related to Reinsurance Operations.

The $18.9 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

General Liability: A $10.3 million reduction in aggregate with $5.0 million of favorable development in the construction defect reserve category and $5.3 million of favorable development in the other general liability reserve categories. The favorable development in the construction defect reserve category recognizes lower than anticipated claims frequency and severity which led to reductions primarily in the 2005 through 2016 accident years. For the other general liability reserve categories, lower than expected claims severity was the primary driver of the favorable development mainly in the 2007 through 2015 accident years.

Professional Liability: A $3.4 million decrease in aggregate primarily reflects lower than expected claims severity in the 2006 through 2009 and 2011 through 2014 accident years.

Property: A $5.2 million reduction in aggregate with $3.0 million of favorable development in the property excluding catastrophe reserve categories and $2.2 million of favorable development in the property catastrophe reserve categories. The favorable development in the reserve categories excluding catastrophe experience reflects lower than expected claims frequency and severity in the 2011 through 2016 accident years. For the property catastrophe reserve categories, lower than anticipated claims severity was the driver of the favorable development in the 2012 through 2016 accident years.

The $3.2 million reduction of prior accident year loss reserves related to Personal Lines primarily consisted of the following:

Property: A $2.7 million reduction in the property reserve categories, both including and excluding catastrophes. The decrease reflects lower than expected case incurred emergence, primarily in the 2016 accident year.

General Liability: A $0.5 million reduction in the agriculture reserve categories. Lower than expected case incurred emergence in the 2016 accident year was the driver of the favorable development.

The $3.3 million reduction of prior accident year loss reserve related to Reinsurance Operations was from the property lines. Ultimate losses were lowered in the 2013 through 2015 accident years based on a review of the experience reported from cedants.

Loss indemnification related to Purchase of American Reliable

On March 8, 2018, the Company settled its final reserve calculation which resulted in $41.5 million being due to Global Indemnity Group, Inc. in accordance with the Stock Purchase Agreement between Global Indemnity Group, Inc. and American Bankers Insurance Group, Inc. for the purchase of American Reliable. The settlement is comprised of (i) receipt of $38.8 million for loss and loss adjustment expenses paid on or after January 1, 2015 or payable as of December 31, 2017 with respect to losses incurred prior to January 1, 2015, (ii) receipt of $6.2 million for accrued interest and (iii) payment of $3.5 million for the difference between the agreed upon purchase price and actual settlement on January 1, 2015. These amounts, which were included in other assets on the consolidated balance sheets as of December 31, 2017, were received on March 9, 2018.

Table of Contents

GLOBAL INDEMNITY LIMITED

7. Debt

The Company s outstanding debt consisted of the following at June 30, 2018 and December 31, 2017:

(Dollars in thousands)	June 30, 2018	December 31, 2017
Margin Borrowing Facility	$ 64,709	$ 72,230
7.75% Subordinated Notes due 2045	96,680	96,619
7.875% Subordinated Notes due 2047	125,935	125,864
Total	$ 287,324	$ 294,713

On April 25, 2018, Global Indemnity Group, Inc. (GIGI), an indirect wholly owned subsidiary of the Company, became a subordinated co-obligor with respect to the 7.75% Subordinated Notes due in 2045 and the 7.875% Subordinated Notes due in 2047 with the same obligations and duties as the Company under the Indenture (including the due and punctual performance and observance of all of the covenants and conditions to be performed by the Company, including, without limitation, the obligation to pay the principal of, and interest on, the Notes of either series when due whether at maturity, by acceleration, redemption or otherwise), and with the same rights, benefits and privileges of the Company thereunder. Notwithstanding the foregoing, GIGI s obligations (including the obligation to pay the principal of and interest in respect of the Notes of any series) are subject to subordination to all monetary obligations or liabilities of GIGI owing to Global Indemnity Reinsurance, Ltd., a wholly owned subsidiary of the Company, and/or any other regulated reinsurance or insurance company that is a direct or indirect subsidiary of the Company, in addition to indebtedness of GIGI for borrowed money. If the Company pays any amount with respect to the subordinated note obligations, the Company is entitled to be reimbursed by GIGI within 10 business days after a demand is made to GIGI by the Company. In consideration for becoming a subordinated co-obligor on the subordinated notes, GIGI received a promissory note from the Company with a principal amount of $230 million due April 15, 2047 that has since been assigned to an affiliate. This promissory note is eliminated in consolidation.

Please see Note 12 of the notes to the consolidated financial statements in Item 8 Part II of the Company s 2017 Annual Report on Form 10-K for more information on the Company s 7.75% Subordinated Notes due in 2045 and the 7.875% Subordinated Notes due in 2047 as well as the Margin Borrowing Facility.

8. Shareholders Equity

There were no A ordinary shares that were surrendered or repurchased during the quarter ended June 30, 2018.

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the quarter ended June 30, 2017:

Period (1)	Total Number of Shares	Average Price Paid	Total Number of Shares Purchased	Approximate Dollar Value of Shares that May

	Purchased	Per Share	as Part of Publicly Announced Plan or Program	Yet Be Purchased Under the Plans or Programs
May 1 - 31, 2017	586(**2**)	$ 38.49		
Total	586	$ 38.49		

(1) Based on settlement date.
(2) Surrendered by employees as payment of taxes withheld on the vesting of restricted stock.

Table of Contents

GLOBAL INDEMNITY LIMITED

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the six months ended June 30, 2018:

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 Plans or Programs
January 1-31, 2018	26,639**(2)**	$ 42.02		
March 1-31, 2018	18,594**(2)**	$ 37.27		
Total	45,233	$ 40.07		

(1) Based on settlement date.
(2) 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 six months ended June 30, 2017:

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 Plans or Programs
January 1-31, 2017	13,656**(2)**	$ 38.21		
February 1-28, 2017	15,309**(2)**	$ 40.18		
May 1-31, 2017	586**(2)**	$ 38.49		
Total	29,551	$ 39.24		

(1) Based on settlement date.
(2) Surrendered by employees as payment of taxes withheld on the vesting of restricted stock.

There were no B ordinary shares that were surrendered or repurchased during the quarters or six months ended June 30, 2018 or 2017.

Please see Note 13 of the notes to the consolidated financial statements in Item 8 Part II of the Company s 2017 Annual Report on Form 10-K for more information on the Company s repurchase program.

Dividends

On March 4, 2018, the Company s Board of Directors approved a dividend payment of $0.25 per ordinary share to all shareholders of record on the close of business on March 21, 2018. On March 29, 2018, dividends totaling $3.5 million were paid to shareholders.

On June 3, 2018, the Company s Board of Directors approved a dividend payment of $0.25 per ordinary share to all shareholders of record on the close of business on June 22, 2018. On June 29, 2018, dividends totaling $3.5 million were paid to shareholders.

As of June 30, 2018, accrued dividends on unvested shares, which were included in other liabilities on the consolidated balance sheets, were $0.1 million.

Please see Note 13 of the notes to the consolidated financial statements in Item 8 Part II of the Company s 2017 Annual Report on Form 10-K for more information on the Company s dividend program.

9. Related Party Transactions

Fox Paine & Company (Fox Paine)

As of June 30, 2018, Fox Paine beneficially owned shares having approximately 82% 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 of the Company beneficially held by Fox Paine for so long as Fox Paine holds an aggregate of 25% or more of the voting power in the Company. Fox