

Global Indemnity plc  
Form 10-Q  
August 08, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the Quarterly Period Ended June 30, 2014**

**OR**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**001-34809**

**Commission File Number**

**GLOBAL INDEMNITY PLC**

**(Exact name of registrant as specified in its charter)**

**Ireland**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**25/28 NORTH WALL QUAY**

**DUBLIN 1**

**IRELAND**

**(Address of principal executive office, including zip code)**

**353 (0) 1 649 2000**

**(Registrant's telephone number, including area code)**

**98-0664891**  
**(I.R.S. Employer**  
**Identification No.)**

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

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

Large accelerated filer ; Accelerated filer ;

Non-accelerated filer ; Smaller reporting company

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

As of August 5, 2014, the registrant had outstanding 13,248,332 A Ordinary Shares and 12,061,370 B Ordinary Shares.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GLOBAL INDEMNITY PLC****Consolidated Balance Sheets**

(In thousands, except share amounts)

|   | <b>(Unaudited)</b><br><b>June 30, 2014</b> | <b>December 31, 2013</b> |
|---|--|--------------------------|
| <b>ASSETS</b>   |  |                          |
| Fixed maturities:   |  |                          |
| Available for sale, at fair value (amortized cost: \$1,187,660 and \$1,187,685) | \$ 1,205,713                               | \$ 1,204,364             |
| Equity securities:  |  |                          |
| Available for sale, at fair value (cost: \$95,021 and \$191,425)                | 125,010                                    | 254,070                  |
| Other invested assets:  |  |                          |
| Available for sale, at fair value (cost: \$15,040 and \$3,065)                  | 15,034                                     | 3,489                    |
| Total investments   | 1,345,757                                  | 1,461,923                |
| Cash and cash equivalents   | 118,353                                    | 105,492                  |
| Premiums receivable, net  | 70,459                                     | 49,888                   |
| Reinsurance receivables, net  | 182,042                                    | 197,887                  |
| Funds held by ceding insurers   | 25,822                                     | 18,662                   |
| Deferred federal income taxes   | 13,891                                     | 4,206                    |
| Deferred acquisition costs  | 26,864                                     | 22,177                   |
| Intangible assets   | 17,813                                     | 17,990                   |
| Goodwill  | 4,820                                      | 4,820                    |
| Prepaid reinsurance premiums  | 6,486                                      | 5,199                    |
| Receivable for securities sold  | 138,359                                    | 723                      |
| Other assets  | 27,021                                     | 22,812                   |
| Total assets  | \$ 1,977,687                               | \$ 1,911,779             |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                                      |  |                          |
| <b>Liabilities:</b>   |  |                          |
| Unpaid losses and loss adjustment expenses                                      | \$ 754,595                                 | \$ 779,466               |
| Unearned premiums   | 133,589                                    | 116,629                  |
| Federal income taxes payable  | 6,610                                      | 1,595                    |
| Ceded balances payable  | 5,896                                      | 5,177                    |
| Contingent commissions  | 10,622                                     | 12,677                   |
| Margin borrowing facility   | 142,560                                    | 100,000                  |

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|   |              |              |
|---|--------------|--------------|
| Other liabilities   | 26,987       | 22,955       |
| Total liabilities   | 1,080,859    | 1,038,499    |
| <b>Commitments and contingencies (Note 10)</b>  |              |              |
| <b>Shareholders equity:</b>   |              |              |
| Ordinary shares, \$0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 16,313,147 and 16,200,406, respectively; A ordinary shares outstanding: 13,248,332 and 13,141,035, respectively; B ordinary shares issued and outstanding: 12,061,370 and 12,061,370, respectively | 3            | 3            |
| Additional paid-in capital  | 518,336      | 516,653      |
| Accumulated other comprehensive income, net of taxes  | 34,001       | 54,028       |
| Retained earnings   | 445,892      | 403,861      |
| A ordinary shares in treasury, at cost: 3,064,815 and 3,059,371 shares, respectively  | (101,404)    | (101,265)    |
| Total shareholders equity   | 896,828      | 873,280      |
| Total liabilities and shareholders equity   | \$ 1,977,687 | \$ 1,911,779 |

See accompanying notes to consolidated financial statements.

**Table of Contents****GLOBAL INDEMNITY PLC****Consolidated Statements of Operations**

(In thousands, except shares and per share data)

|   | (Unaudited)<br>Quarters Ended June 30, |           | (Unaudited)<br>Six Months Ended June 30, |            |
|---|--|-----------|--|------------|
|   | 2014                                   | 2013      | 2014                                     | 2013       |
| <b>Revenues:</b>                                      |  |           |  |            |
| Gross premiums written                                | \$ 82,905                              | \$ 84,245 | \$ 160,102                               | \$ 159,184 |
| Net premiums written                                  | \$ 76,372                              | \$ 78,346 | \$ 149,233                               | \$ 149,824 |
| Net premiums earned                                   | \$ 66,017                              | \$ 58,671 | \$ 133,561                               | \$ 114,667 |
| Net investment income                                 | 7,677                                  | 9,765     | 15,961                                   | 19,799     |
| Net realized investment gains:                        |  |           |  |            |
| Other than temporary impairment losses on investments | (37)                                   | (1,010)   | (62)                                     | (1,053)    |
| Other net realized investment gains                   | 39,918                                 | 3,816     | 39,130                                   | 9,616      |
| Total net realized investment gains                   | 39,881                                 | 2,806     | 39,068                                   | 8,563      |
| Other income  | 155                                    | 247       | 323                                      | 301        |
| Total revenues  | 113,730                                | 71,489    | 188,913                                  | 143,330    |
| <b>Losses and Expenses:</b>                           |  |           |  |            |
| Net losses and loss adjustment expenses               | 38,270                                 | 34,924    | 76,842                                   | 66,712     |
| Acquisition costs and other underwriting expenses     | 27,171                                 | 24,472    | 53,656                                   | 48,949     |
| Corporate and other operating expenses                | 3,172                                  | 2,472     | 6,133                                    | 4,817      |
| Interest expense                                      | 319                                    | 1,181     | 510                                      | 2,354      |
| Income before income taxes                            | 44,798                                 | 8,440     | 51,772                                   | 20,498     |
| Income tax expense (benefit)                          | 11,590                                 | (224)     | 9,741                                    | (531)      |
| Net income  | \$ 33,208                              | \$ 8,664  | \$ 42,031                                | \$ 21,029  |
| <b>Per share data:</b>                                |  |           |  |            |
| Net income  |  |           |  |            |
| Basic   | \$ 1.32                                | \$ 0.35   | \$ 1.67                                  | \$ 0.84    |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Diluted  | \$ 1.31    | \$ 0.34    | \$ 1.66    | \$ 0.84    |
| Weighted-average number of shares<br>outstanding |            |            |            |            |
| Basic  | 25,128,280 | 25,049,888 | 25,121,171 | 25,052,488 |
| Diluted  | 25,312,938 | 25,119,035 | 25,301,783 | 25,120,897 |

See accompanying notes to consolidated financial statements.



Table of Contents**GLOBAL INDEMNITY PLC****Consolidated Statements of Comprehensive Income**

(In thousands)

|  | (Unaudited)<br>Quarters Ended June 30, |            | (Unaudited)<br>Six Months Ended June 30, |           |
|--|--|------------|--|-----------|
|  | 2014                                   | 2013       | 2014                                     | 2013      |
| Net income   | \$ 33,208                              | \$ 8,664   | \$ 42,031                                | \$ 21,029 |
| Other comprehensive income (loss), net of taxes:   |  |            |  |           |
| Unrealized holding gains (losses)  | 11,728                                 | (11,464)   | 13,769                                   | (154)     |
| Portion of other-than-temporary impairment losses<br>recognized in other comprehensive income (loss) | (2)                                    | (3)        | (3)                                      | (4)       |
| Recognition of previously unrealized holding gains   | (29,756)                               | (1,824)    | (33,788)                                 | (5,652)   |
| Unrealized foreign currency translation gains (losses)   | (21)                                   | 66         | (5)                                      | 34        |
| Other comprehensive income (loss), net of taxes  | (18,051)                               | (13,225)   | (20,027)                                 | (5,776)   |
| Comprehensive income (loss), net of taxes  | \$ 15,157                              | \$ (4,561) | \$ 22,004                                | \$ 15,253 |

See accompanying notes to consolidated financial statements.

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## GLOBAL INDEMNITY PLC

## Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except share amounts)

|   | (Unaudited)<br>Six Months Ended<br>June 30, 2014 | Year Ended<br>December 31, 2013 |
|---|--|---------------------------------|
| <b>Number of A ordinary shares issued:</b>  |  |                                 |
| Number at beginning of period   | 16,200,406                                       | 16,087,939                      |
| Ordinary shares issued under share incentive plans  | 94,563   | 74,400                          |
| Ordinary shares issued to directors   | 18,178   | 38,067                          |
| Number at end of period   | 16,313,147                                       | 16,200,406                      |
| <b>Number of B ordinary shares issued:</b>  |  |                                 |
| Number at beginning and end of period   | 12,061,370                                       | 12,061,370                      |
| <b>Par value of A ordinary shares:</b>  |  |                                 |
| Balance at beginning and end of period  | \$ 2   | \$ 2                            |
| <b>Par value of B ordinary shares:</b>  |  |                                 |
| Balance at beginning and end of period  | \$ 1   | \$ 1                            |
| <b>Additional paid-in capital:</b>  |  |                                 |
| Balance at beginning of period  | \$ 516,653                                       | \$ 512,304                      |
| Share compensation plans  | 1,683  | 4,349                           |
| Balance at end of period  | \$ 518,336                                       | \$ 516,653                      |
| <b>Accumulated other comprehensive income, net of deferred income tax:</b>                |  |                                 |
| Balance at beginning of period  | \$ 54,028  | \$ 53,350                       |
| Other comprehensive income (loss):  |  |                                 |
| Change in unrealized holding gains (losses)   | (20,019)   | 514                             |
| Change in other than temporary impairment losses recognized in other comprehensive income | (3)  | 1                               |
| Unrealized foreign currency translation gains (losses)                                    | (5)  | 163                             |
| Other comprehensive income (loss)   | (20,027)   | 678                             |

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|                                      |    |           |    |           |
|--------------------------------------|----|-----------|----|-----------|
| Balance at end of period             | \$ | 34,001    | \$ | 54,028    |
| <b>Retained earnings:</b>            |    |           |    |           |
| Balance at beginning of period       | \$ | 403,861   | \$ | 342,171   |
| Net income                           |    | 42,031    |    | 61,690    |
| Balance at end of period             | \$ | 445,892   | \$ | 403,861   |
| <b>Number of Treasury Shares:</b>    |    |           |    |           |
| Number at beginning of period        |    | 3,059,371 |    | 3,057,001 |
| A ordinary shares purchased          |    | 5,444     |    | 2,370     |
| Number at end of period              |    | 3,064,815 |    | 3,059,371 |
| <b>Treasury Shares, at cost:</b>     |    |           |    |           |
| Balance at beginning of period       | \$ | (101,265) | \$ | (101,210) |
| A ordinary shares purchased, at cost |    | (139)     |    | (55)      |
| Balance at end of period             | \$ | (101,404) | \$ | (101,265) |
| Total shareholders' equity           | \$ | 896,828   | \$ | 873,280   |

See accompanying notes to consolidated financial statements.

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## GLOBAL INDEMNITY PLC

## Consolidated Statements of Cash Flows

(In thousands)

|  | (Unaudited)               |           |
|--|---------------------------|-----------|
|  | Six Months Ended June 30, |           |
|  | 2014                      | 2013      |
| <b>Cash flows from operating activities:</b>                                   |                           |           |
| Net income   | \$ 42,031                 | \$ 21,029 |
| Adjustments to reconcile net income to net cash used for operating activities: |                           |           |
| Amortization of trust preferred securities issuance costs                      |                           | 25        |
| Amortization and depreciation  | 1,806                     | 1,821     |
| Restricted stock and stock option expense                                      | 1,683                     | 2,118     |
| Deferred federal income taxes  | 2,065                     | (2,215)   |
| Amortization of bond premium and discount, net                                 | 3,700                     | 3,099     |
| Net realized investment gains  | (39,068)                  | (8,563)   |
| Changes in:  |                           |           |
| Premiums receivable, net   | (20,571)                  | (9,483)   |
| Reinsurance receivables, net   | 15,845                    | 9,182     |
| Funds held by ceding insurers  | (7,160)                   | (19,382)  |
| Unpaid losses and loss adjustment expenses                                     | (24,871)                  | (34,196)  |
| Unearned premiums  | 16,960                    | 34,458    |
| Ceded balances payable   | 719                       | 427       |
| Other assets and liabilities, net  | (3,589)                   | (837)     |
| Contingent commissions   | (2,055)                   | (2,609)   |
| Federal income tax receivable/payable  | 5,015                     | 5,451     |
| Deferred acquisition costs, net  | (4,687)                   | (7,715)   |
| Prepaid reinsurance premiums   | (1,287)                   | 697       |
| Net cash used for operating activities   | (13,464)                  | (6,693)   |
| <b>Cash flows from investing activities:</b>                                   |                           |           |
| Proceeds from sale of fixed maturities   | 219,195                   | 193,642   |
| Proceeds from sale of equity securities  | 35,837                    | 42,551    |
| Proceeds from maturity of fixed maturities                                     | 50,781                    | 33,530    |
| Amounts paid in connection with derivatives                                    | (10,640)                  |           |
| Purchases of fixed maturities  | (271,496)                 | (214,220) |
| Purchases of equity securities   | (27,798)                  | (41,781)  |
| Purchases of other invested assets   | (11,975)                  | (10)      |
| Net cash provided by (used for) investing activities                           | (16,096)                  | 13,712    |

**Cash flows from financing activities:**

|   |            |            |
|---|------------|------------|
| Purchase of A ordinary shares                           | (139)      | (39)       |
| Borrowings (repayments) under margin borrowing facility | 42,560     |            |
| Net cash provided by (used for) financing activities    | 42,421     | (39)       |
| Net change in cash and cash equivalents                 | 12,861     | 6,980      |
| Cash and cash equivalents at beginning of period        | 105,492    | 104,460    |
| Cash and cash equivalents at end of period              | \$ 118,353 | \$ 111,440 |

See accompanying notes to consolidated financial statements.

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**GLOBAL INDEMNITY PLC**

**1. Principles of Consolidation and Basis of Presentation**

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

The Company manages its business through two business segments: Insurance Operations, which includes the operations of United National Insurance Company, Diamond State Insurance Company, United National Specialty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company, American Insurance Adjustment Agency, Inc., Collectibles Insurance Services, LLC, Global Indemnity Insurance Agency, LLC, and J.H. Ferguson & Associates, LLC, and Reinsurance Operations, which includes the operations of Global Indemnity Reinsurance Company, Ltd ( Global Indemnity Reinsurance ). On June 10, 2014, Global Indemnity Reinsurance Company, Ltd. changed its name from Wind River Reinsurance Company, Ltd.

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, 2014 and 2013 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 2013 Annual Report on Form 10-K.

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

The Consolidated Statement of Cash Flows for the six months ended June 30, 2013 that was included in the June 30, 2013 10Q erroneously classified \$1.4 million as Other assets and liabilities, net within the Cash flows from operating activities section. This amount was properly reclassified to the line item Amortization and depreciation in the Consolidated Statement of Cash Flows for the six months ended June 30, 2013 as included in the June 30, 2014 10Q. This reclassification does not impact Net cash flows used for operating activities nor does it impact any other financial metric or disclosure within the June 30, 2014 10Q. The Company does not believe that this adjustment is material to the current or to any prior years consolidated financial statements.

**Table of Contents****GLOBAL INDEMNITY PLC****2. Investments**

The amortized cost and estimated fair value of investments were as follows as of June 30, 2014 and December 31, 2013:

| (Dollars in thousands)                           | Amortized<br>Cost   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Other<br>than<br>temporary<br>impairments<br>recognized in<br>AOCI<br>(1) |
|--|---------------------|------------------------------|-------------------------------|-------------------------|---|
| <b>As of June 30, 2014</b>                       |                     |                              |                               |                         |   |
| Fixed maturities:                                |                     |                              |                               |                         |   |
| U.S. treasury and agency obligations             | \$ 75,123           | \$ 2,921                     | \$ (97)                       | \$ 77,947               | \$  |
| Obligations of states and political subdivisions | 188,837             | 4,458                        | (794)                         | 192,501                 |   |
| Mortgage-backed securities                       | 218,030             | 4,314                        | (1,040)                       | 221,304                 | (4)   |
| Asset-backed securities                          | 166,315             | 1,073                        | (59)                          | 167,329                 | (16)  |
| Commercial mortgage-backed securities            | 61,125              | 48                           | (239)                         | 60,934                  |   |
| Corporate bonds and loans                        | 392,983             | 6,441                        | (111)                         | 399,313                 |   |
| Foreign corporate bonds                          | 85,247              | 1,141                        | (3)                           | 86,385                  |   |
| Total fixed maturities                           | 1,187,660           | 20,396                       | (2,343)                       | 1,205,713               | (20)  |
| Common stock                                     | 95,021              | 30,454                       | (465)                         | 125,010                 |   |
| Other invested assets                            | 15,040              | 391                          | (397)                         | 15,034                  |   |
| <b>Total</b>                                     | <b>\$ 1,297,721</b> | <b>\$ 51,241</b>             | <b>\$ (3,205)</b>             | <b>\$ 1,345,757</b>     | <b>\$ (20)</b>  |

(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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Other<br>than<br>temporary<br>impairments<br>recognized in<br>AOCI<br>(2) |
|--------------------------------|-------------------|------------------------------|-------------------------------|-------------------------|---|
| <b>As of December 31, 2013</b> |                   |                              |                               |                         |   |

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Fixed maturities:

|  |                     |                  |                   |                     |                |
|--|---------------------|------------------|-------------------|---------------------|----------------|
| U.S. treasury and agency obligations             | \$ 78,510           | \$ 3,330         | \$ (166)          | \$ 81,674           | \$             |
| Obligations of states and political subdivisions | 178,705             | 4,472            | (2,241)           | 180,936             |                |
| Mortgage-backed securities                       | 228,550             | 4,219            | (2,859)           | 229,910             | (5)            |
| Asset-backed securities                          | 167,454             | 1,210            | (228)             | 168,436             | (19)           |
| Commercial mortgage-backed securities            | 54,822              | 9                | (856)             | 53,975              |                |
| Corporate bonds and loans                        | 426,872             | 9,112            | (592)             | 435,392             |                |
| Foreign corporate bonds                          | 52,772              | 1,269            |                   | 54,041              |                |
| <b>Total fixed maturities</b>                    | <b>1,187,685</b>    | <b>23,621</b>    | <b>(6,942)</b>    | <b>1,204,364</b>    | <b>(24)</b>    |
| Common stock                                     | 191,425             | 63,281           | (636)             | 254,070             |                |
| Other invested assets                            | 3,065               | 424              |                   | 3,489               |                |
| <b>Total</b>                                     | <b>\$ 1,382,175</b> | <b>\$ 87,326</b> | <b>\$ (7,578)</b> | <b>\$ 1,461,923</b> | <b>\$ (24)</b> |

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

Excluding U.S. treasuries and agency bonds, the Company did not hold any investments in a single issuer that was in excess of 4% of shareholders' equity at June 30, 2014 or December 31, 2013.



**Table of Contents****GLOBAL INDEMNITY PLC**

The amortized cost and estimated fair value of the Company's fixed maturities portfolio classified as available for sale at June 30, 2014, 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.

| <b>(Dollars in thousands)</b>          | <b>Amortized<br/>Cost</b> | <b>Estimated<br/>Fair Value</b> |
|--|---------------------------|---------------------------------|
| Due in one year or less                | \$ 149,020                | \$ 151,466                      |
| Due in one year through five years     | 513,595                   | 523,822                         |
| Due in five years through ten years    | 57,556                    | 58,800                          |
| Due in ten years through fifteen years | 4,403                     | 4,814                           |
| Due after fifteen years                | 17,616                    | 17,244                          |
| Mortgage-backed securities             | 218,030                   | 221,304                         |
| Asset-backed securities                | 166,315                   | 167,329                         |
| Commercial mortgage-backed securities  | 61,125                    | 60,934                          |
| <b>Total</b>                           | <b>\$ 1,187,660</b>       | <b>\$ 1,205,713</b>             |

The following table contains an analysis of the Company's securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of June 30, 2014:

| <b>(Dollars in thousands)</b>                    | <b>Less than 12 months</b> |  | <b>12 months or longer<br/>(1)</b> |  | <b>Total</b>      |  |
|--|----------------------------|--|------------------------------------|--|-------------------|--|
|  | <b>Fair Value</b>          | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair Value</b>                  | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |
| Fixed maturities:                                |                            |  |                                    |  |                   |  |
| U.S. treasury and agency obligations             | \$ 998                     | \$ (1)                                 | \$ 3,317                           | \$ (96)                                | \$ 4,315          | \$ (97)                                |
| Obligations of states and political subdivisions | 14,983                     | (153)                                  | 32,643                             | (641)                                  | 47,626            | (794)                                  |
| Mortgage-backed securities                       | 27,222                     | (204)                                  | 70,731                             | (836)                                  | 97,953            | (1,040)                                |
| Asset-backed securities                          | 19,812                     | (23)                                   | 8,617                              | (36)                                   | 28,429            | (59)                                   |
| Commercial mortgage-backed securities            | 7,712                      | (19)                                   | 27,169                             | (220)                                  | 34,881            | (239)                                  |
| Corporate bonds and loans                        | 33,764                     | (44)                                   | 5,185                              | (67)                                   | 38,949            | (111)                                  |
| Foreign corporate bonds                          | 10,040                     | (3)                                    |                                    |  | 10,040            | (3)                                    |
| <b>Total fixed maturities</b>                    | <b>114,531</b>             | <b>(447)</b>                           | <b>147,662</b>                     | <b>(1,896)</b>                         | <b>262,193</b>    | <b>(2,343)</b>                         |
| Common stock                                     | 9,777                      | (465)                                  |                                    |  | 9,777             | (465)                                  |
| Other invested assets                            | 11,524                     | (397)                                  |                                    |  | 11,524            | (397)                                  |

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Total \$ 135,832 \$ (1,309) \$ 147,662 \$ (1,896) \$ 283,494 \$ (3,205)

(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, 2013:

| (Dollars in thousands)                           | Less than 12 months |                         | 12 months or longer (2) |                         | Total      |                         |
|--|---------------------|-------------------------|-------------------------|-------------------------|------------|-------------------------|
|  | Fair Value          | Gross Unrealized Losses | Fair Value              | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Fixed maturities:                                |                     |                         |                         |                         |            |                         |
| U.S. treasury and agency obligations             | \$ 9,335            | \$ (166)                | \$                      | \$                      | \$ 9,335   | \$ (166)                |
| Obligations of states and political subdivisions | 61,401              | (2,000)                 | 9,922                   | (241)                   | 71,323     | (2,241)                 |
| Mortgage-backed securities                       | 110,304             | (2,859)                 | 2                       |                         | 110,306    | (2,859)                 |
| Asset-backed securities                          | 42,247              | (228)                   | 3                       |                         | 42,250     | (228)                   |
| Commercial mortgage-backed securities            | 45,642              | (856)                   |                         |                         | 45,642     | (856)                   |
| Corporate bonds and loans                        | 60,306              | (582)                   | 376                     | (10)                    | 60,682     | (592)                   |
| Total fixed maturities                           | 329,235             | (6,691)                 | 10,303                  | (251)                   | 339,538    | (6,942)                 |
| Common stock                                     | 18,622              | (627)                   | 140                     | (9)                     | 18,762     | (636)                   |
| Total  | \$ 347,857          | \$ (7,318)              | \$ 10,443               | \$ (260)                | \$ 358,300 | \$ (7,578)              |

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

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The Company regularly performs various analytical valuation procedures with respect to its investments, including reviewing each fixed maturity security in an unrealized loss position to assess whether the security is a candidate for credit loss. Specifically, the Company considers credit rating, market price, and issuer specific financial information, among other factors, to assess the likelihood of collection of all principal and interest as contractually due. Securities for which the Company determines that a credit loss is likely are subjected to further analysis through discounted cash flow testing to estimate the credit loss to be recognized in earnings, if any. The specific methodologies and significant assumptions used by asset class are discussed below. Upon identification of such securities and periodically thereafter, a detailed review is performed to determine whether the decline is considered other than temporary. This review includes an analysis of several factors, including but not limited to, the credit ratings and cash flows of the securities and the magnitude and length of time that the fair value of such securities is below cost.

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

- (1) the issuer is in financial distress;
- (2) the investment is secured;
- (3) a significant credit rating action occurred;
- (4) scheduled interest payments were delayed or missed;
- (5) changes in laws or regulations have affected an issuer or industry;
- (6) the investment has an unrealized loss and was identified by the Company's investment manager as an investment to be sold before recovery or maturity; and
- (7) the investment failed cash flow projection testing to determine if anticipated principal and interest payments will be realized.

According to accounting guidance for debt securities in an unrealized loss position, the Company is required to assess whether it has the intent to sell the debt security or more likely than not will be required to sell the debt security before the anticipated recovery. If either of these conditions is met the Company must recognize an other than temporary impairment with the entire unrealized loss being recorded through earnings. For debt securities in an unrealized loss position not meeting these conditions, the Company assesses whether the impairment of a security is other than temporary. If the impairment is deemed to be other than temporary, the Company must separate the other than temporary impairment into two components: the amount representing the credit loss and the amount related to all

other factors, such as changes in interest rates. The credit loss represents the portion of the amortized book value in excess of the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The credit loss component of the other than temporary impairment is recorded through earnings, whereas the amount relating to factors other than credit losses is recorded in other comprehensive income, net of taxes.

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

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

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

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

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

**U.S. treasury and agency obligations** As of June 30, 2014, gross unrealized losses related to U.S. treasury and agency obligations were \$0.097 million. Of this amount, \$0.096 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. The analysis is driven by moderate interest rate anticipation, yield curve management, and security selection.

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**Obligations of states and political subdivisions** As of June 30, 2014, gross unrealized losses related to obligations of states and political subdivisions were \$0.794 million. Of this amount, \$0.641 million have been in an unrealized loss position for twelve months or greater and are rated A- 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, 2014, gross unrealized losses related to mortgage-backed securities were \$1.040 million. Of this amount, \$0.836 million have been in an unrealized loss position for twelve months or greater and are rated AA+. Mortgage-backed 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. The model first projects HPI at the national level, then at the zip-code level based on the historical relationship between the individual zip code HPI and the national HPI. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and current loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs. The model also includes the explicit treatment of silent second liens, utilization of loan modification history, and the application of roll rate adjustments.

**Asset-backed securities ( ABS )** As of June 30, 2014, gross unrealized losses related to asset backed securities were \$0.059 million. Of this amount, \$0.036 million have been in an unrealized loss position for twelve months or greater and are rated A or better. The weighted average credit enhancement for the Company's asset backed portfolio is 21.4. 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, 2014, gross unrealized losses related to the CMBS portfolio were \$0.239 million. Of this amount, \$0.220 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 33.3. 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. In the analysis, the focus is centered on stressing the significant variables that influence commercial loan defaults and collateral losses in CMBS deals. These variables include: (1) a projected drop in occupancies; (2) capitalization rates that vary by property type and are forecasted to return to more normalized levels as the capital markets repair and capital begins to flow again; and (3) property value stress testing using projected property performance and projected capitalization rates. Term risk is triggered if the projected debt service coverage rate falls below 1x. Balloon risk is triggered if a property's projected performance does not satisfy new tighter

mortgage standards.

**Corporate bonds and loans** As of June 30, 2014, gross unrealized losses related to corporate bonds and loans were \$0.111 million. Of this amount, \$0.067 million have been in an unrealized loss position for twelve months or greater and are rated A+ or better. The analysis for this sector includes maintaining detailed financial models that include a projection of each issuer's future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, 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.

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**Foreign bonds** As of June 30, 2014, gross unrealized losses related to foreign bonds were \$0.003 million. All unrealized losses have been in an unrealized loss position for less than twelve months and are rated A. For this sector, 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.

**Common stock** As of June 30, 2014, gross unrealized losses related to common stock were \$0.465 million. All unrealized losses have been in an unrealized loss position for less than twelve months. To determine if an other than temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

**Other invested assets** As of June 30, 2014, gross unrealized losses related to other invested assets were \$0.397 million. All securities have been in an unrealized loss position for less than twelve months.

The Company recorded the following other than temporary impairments ( OTTI ) on its investment portfolio for the quarters and six months ended June 30, 2014 and 2013:

| (Dollars in thousands)   | Quarters Ended June 30 |            | Six Months Ended June 30, |            |
|--|------------------------|------------|---------------------------|------------|
|  | 2014                   | 2013       | 2014                      | 2013       |
| Fixed maturities:  |                        |            |                           |            |
| OTTI losses, gross   | \$                     | \$ (68)    | \$ (25)                   | \$ (111)   |
| Portion of loss recognized in other comprehensive income (pre-tax) |                        |            |                           |            |
| Net impairment losses on fixed maturities recognized in earnings   |                        | (68)       | (25)                      | (111)      |
| Equity securities  | (37)                   | (942)      | (37)                      | (942)      |
| Total  | \$ (37)                | \$ (1,010) | \$ (62)                   | \$ (1,053) |

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, 2014 and 2013 for which a portion of the OTTI loss was recognized in other comprehensive income.

| (Dollars in thousands) | Quarters Ended June 30 | Six Months Ended June 30, |
|------------------------|------------------------|---------------------------|
|------------------------|------------------------|---------------------------|

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|  | <b>2014</b> | <b>2013</b> | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|-------------|-------------|
| Balance at beginning of period   | \$ 54       | \$ 86       | \$ 54       | \$ 86       |
| 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   | (4)         |             | (4)         |             |
| Balance at end of period   | \$ 50       | \$ 86       | \$ 50       | \$ 86       |



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*Accumulated Other Comprehensive Income, Net of Tax*

Accumulated other comprehensive income, net of tax, as of June 30, 2014 and December 31, 2013 was as follows:

| (Dollars in thousands)                                    | June 30, 2014 | December 31, 2013 |
|---|---------------|-------------------|
| Net unrealized gains (losses) from:                       |               |                   |
| Fixed maturities  | \$ 18,053     | \$ 16,679         |
| Common stock  | 29,989        | 62,645            |
| Other   | (308)         | 184               |
| Deferred taxes  | (13,733)      | (25,480)          |
| <br>Accumulated other comprehensive income,<br>net of tax | <br>\$ 34,001 | <br>\$ 54,028     |

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, 2014 and 2013:

| Quarter Ended June 30, 2014  | Unrealized<br>Gains<br>and Losses<br>on<br>Available for Sale Securities,<br>Foreign Currency Items,<br>and Other |                         | Accumulated Other<br>Comprehensive<br>Income, Net<br>of Tax |
|--|---|-------------------------|---|
| (Dollars in thousands)   | Securities,<br>Net of<br>Tax  | Items,<br>Net of<br>Tax | Income, Net<br>of Tax                                       |
| Beginning balance  | \$ 51,958   | \$ 94                   | \$ 52,052   |
| Other comprehensive income (loss) before<br>reclassification               | 11,664  | 41                      | 11,705  |
| Amounts reclassified from accumulated other<br>comprehensive income (loss) | (29,694)  | (62)                    | (29,756)  |
| Other comprehensive income (loss)  | (18,030)  | (21)                    | (18,051)  |
| Ending balance   | \$ 33,928   | \$ 73                   | \$ 34,001   |

| Quarter Ended June 30, 2013<br>(Dollars in thousands)                   | Unrealized Gains and Losses on Available for Sale Securities, Foreign Currency Items, Net of Tax |                   |  | Accumulated Other Comprehensive Income, Net of Tax |
|---|--|-------------------|--|--|
|   | Net of Tax   | Items, Net of Tax |  | Net of Tax   |
| Beginning balance   | \$ 60,916  | \$ (117)          |  | \$ 60,799  |
| Other comprehensive income (loss) before reclassification               | (11,336)   | (65)              |  | (11,401)   |
| Amounts reclassified from accumulated other comprehensive income (loss) | (1,955)  | 131               |  | (1,824)  |
| Other comprehensive income (loss)                                       | (13,291)   | 66                |  | (13,225)   |
| Ending balance  | \$ 47,625  | \$ (51)           |  | \$ 47,574  |

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| <b>Six Months Ended June 30, 2014</b>                                   | <b>Unrealized<br/>Gains<br/>and Losses<br/>on</b>            |   |   |
|---|--|---|---|
| <b>(Dollars in thousands)</b>   | <b>Available for Sale<br/>Securities,<br/>Net of<br/>Tax</b> | <b>Foreign Currency<br/>Items,<br/>Net of<br/>Tax</b> | <b>Accumulated Other<br/>Comprehensive<br/>Income, Net<br/>of Tax</b> |
| Beginning balance   | \$ 53,950  | \$ 78   | \$ 54,028   |
| Other comprehensive income (loss) before reclassification               | 13,691   | 70  | 13,761  |
| Amounts reclassified from accumulated other comprehensive income (loss) | (33,713)   | (75)  | (33,788)  |
| Other comprehensive income (loss)                                       | (20,022)   | (5)   | (20,027)  |
| Ending balance  | \$ 33,928  | \$ 73   | \$ 34,001   |

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

The reclassifications out of accumulated other comprehensive income for the quarters and six months ended June 30, 2014 and 2013 were as follows:

| (Dollars in thousands)   | Affected Line Item in the<br>Consolidated Statements of<br>Operations | Amounts Reclassified from<br>Accumulated<br>Other<br>Comprehensive Income<br>Quarters Ended June 30, |                   |
|--|---|--|-------------------|
|  |   | 2014   | 2013              |
| <b>Details about Accumulated Other Comprehensive<br/>Income Components</b> |   |  |                   |
| Unrealized gains and losses on available for sale securities               | Other net realized investment gains                                   | \$ (45,840)  | \$ (4,018)        |
|  | Other than temporary impairment losses on investments                 | 37   | 1,010             |
|  | <b>Total before tax</b>   | <b>(45,803)</b>  | <b>(3,008)</b>    |
|  | Income tax benefit  | 16,109   | 1,053             |
|  | <b>Net of tax</b>   | <b>\$ (29,694)</b>   | <b>\$ (1,955)</b> |
| Foreign Currency Items   | Other net realized investment gains                                   | \$ (96)  | \$ 202            |
|  | Income tax benefit  | 34   | (71)              |
|  | <b>Net of tax</b>   | <b>\$ (62)</b>   | <b>\$ 131</b>     |
| <b>Total reclassifications</b>   | <b>Net of tax</b>   | <b>\$ (29,756)</b>   | <b>\$ (1,824)</b> |

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| (Dollars in thousands)   | Affected Line<br>Item in the<br><br>Consolidated<br>Statements of<br><br>Operations | Amounts Reclassified from<br>Accumulated Other<br>Comprehensive<br>Income<br>Six Months Ended June 30, |            |
|--|---|--|------------|
|  |   | 2014   | 2013       |
| <b>Details about Accumulated Other Comprehensive<br/>Income Components</b> |   |  |            |
| Unrealized gains and losses on available for sale<br>securities            | Other net realized<br>investment gains  | \$ (51,374)  | \$ (9,906) |
|  | Other than<br>temporary<br>impairment losses<br>on investments                      | 62   | 1,053      |
|  | Total before tax  | (51,312)   | (8,853)    |
|  | Income tax<br>benefit   | 17,599   | 3,013      |
|  | Net of tax  | \$ (33,713)  | \$ (5,840) |
| Foreign Currency Items   | Other net realized<br>investment gains  | \$ (116)   | \$ 290     |
|  | Income tax<br>benefit   | 41   | (102)      |
|  | Net of tax  | \$ (75)  | \$ 188     |
| Total reclassifications  | Net of tax  | \$ (33,788)  | \$ (5,652) |

***Net Realized Investment Gains***

The components of net realized investment gains for the quarters and six months ended June 30, 2014 and 2013 were as follows:

| (Dollars in thousands)                     | Quarters Ended June 30, Six Months Ended June 30, |                 |                  |                 |
|--|---|-----------------|------------------|-----------------|
|  | 2014  | 2013            | 2014             | 2013            |
| <b>Fixed maturities:</b>                   |   |                 |                  |                 |
| Gross realized gains                       | \$ 719  | \$ 287          | \$ 2,389         | \$ 674          |
| Gross realized losses                      | (96)  | (339)           | (226)            | (396)           |
| Net realized gains (losses)                | 623   | (52)            | 2,163            | 278             |
| <b>Common stock:</b>                       |   |                 |                  |                 |
| Gross realized gains                       | 45,868  | 4,532           | 49,875           | 10,013          |
| Gross realized losses                      | (592)   | (1,674)         | (610)            | (1,728)         |
| Net realized gains                         | 45,276  | 2,858           | 49,265           | 8,285           |
| <b>Derivatives:</b>                        |   |                 |                  |                 |
| Gross realized gains                       |   |                 |                  |                 |
| Gross realized losses                      | (6,018)   |                 | (12,360)         |                 |
| Net realized gains (losses)                | (6,018)   |                 | (12,360)         |                 |
| <b>Total net realized investment gains</b> | <b>\$ 39,881</b>                                  | <b>\$ 2,806</b> | <b>\$ 39,068</b> | <b>\$ 8,563</b> |

The proceeds from sales of available-for-sale securities resulting in net realized investment gains for the six months ended June 30, 2014 and 2013 were as follows:

| (Dollars in thousands) | Six Months Ended June 30, |            |
|------------------------|---------------------------|------------|
|                        | 2014                      | 2013       |
| Fixed maturities       | \$ 219,195                | \$ 193,642 |
| Equity securities      | 35,837                    | 42,551     |

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The sources of net investment income for the quarters and six months ended June 30, 2014 and 2013 were as follows:

| (Dollars in thousands)         | Quarters Ended June 30, Six Months Ended June 30, |                 |                  |                  |
|--------------------------------|---|-----------------|------------------|------------------|
|                                | 2014  | 2013            | 2014             | 2013             |
| Fixed maturities               | \$ 6,797  | \$ 9,039        | \$ 14,052        | \$ 18,866        |
| Equity securities              | 1,941   | 1,660           | 4,081            | 2,952            |
| Cash and cash equivalents      | 10  | 31              | 28               | 81               |
| Other invested assets          | 87  | 141             | 87               | 141              |
| <b>Total investment income</b> | <b>8,835</b>                                      | <b>10,871</b>   | <b>18,248</b>    | <b>22,040</b>    |
| Investment expense             | (1,158)   | (1,106)         | (2,287)          | (2,241)          |
| <b>Net investment income</b>   | <b>\$ 7,677</b>                                   | <b>\$ 9,765</b> | <b>\$ 15,961</b> | <b>\$ 19,799</b> |

The Company's total investment return on a pre-tax basis for the quarters and six months ended June 30, 2014 and 2013 were as follows:

| (Dollars in thousands)                  | Quarters Ended June 30, |                     | Six Months Ended June 30, |                     |
|---|-------------------------|---------------------|---------------------------|---------------------|
|   | 2014                    | 2013                | 2014                      | 2013                |
| Net investment income                   | \$ 7,677                | \$ 9,765            | \$ 15,961                 | \$ 19,799           |
| Net realized investment gains           | 39,881                  | 2,806               | 39,068                    | 8,563               |
| Change in unrealized investment losses  | (29,203)                | (15,391)            | (31,774)                  | (3,180)             |
| Net investment return                   | 10,678                  | (12,585)            | 7,294                     | 5,383               |
| <b>Total investment return</b>          | <b>\$ 18,355</b>        | <b>\$ (2,820)</b>   | <b>\$ 23,255</b>          | <b>\$ 25,182</b>    |
| Total investment return % (1)           | 1.2%                    | (0.2%)              | 1.5%                      | 1.6%                |
| <b>Average investment portfolio (2)</b> | <b>\$ 1,577,630</b>     | <b>\$ 1,532,639</b> | <b>\$ 1,585,304</b>       | <b>\$ 1,529,251</b> |

- (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.

***Insurance Enhanced Municipal Bonds***

As of June 30, 2014, the Company held insurance enhanced municipal bonds of approximately \$16.3 million, which represented approximately 1.0% of the Company's total cash and invested assets, net of payable/receivable for securities purchased and sold. These securities had an average rating of AA-. Approximately \$1.8 million of these bonds are pre-refunded with U.S. treasury securities, of which \$0.1 million are backed by financial guarantors, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond. Of the remaining \$14.5 million of insurance enhanced municipal bonds, \$8.7 million would have carried a lower credit rating had they not been insured. The following table provides a breakdown of the ratings for these municipal bonds with and without insurance.

| <b>(Dollars in thousands)</b> |                                       |  |
|-------------------------------|---------------------------------------|--|
| <b>Rating</b>                 | <b>Ratings<br/>with<br/>Insurance</b> | <b>Ratings<br/>without<br/>Insurance</b> |
| AAA                           | \$ 2,558                              | \$                                       |
| AA                            |                                       | 2,558                                    |
| A                             | 6,163                                 | 6,163                                    |
| Total                         | \$ 8,721                              | \$ 8,721                                 |



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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, 2014, is as follows:

| <b>(Dollars in thousands)</b> | <b>Financial Guarantor</b>            | <b>Total</b> | <b>Pre-refunded Securities</b> | <b>Government Guaranteed Securities</b> | <b>Exposure</b>   |
|-------------------------------|---------------------------------------|--------------|--------------------------------|---|---|
|                               |                                       |              |                                |   | <b>Net of Pre-refunded &amp; Government Guaranteed Securities</b> |
|                               | Ambac Financial Group                 | \$ 1,265     | \$ 145                         | \$                                      | \$ 1,120  |
|                               | Assured Guaranty Corporation          | 6,163        |                                |   | 6,163   |
|                               | Municipal Bond Insurance Association  | 3,985        |                                |   | 3,985   |
|                               | Gov't National Housing Association    | 671          |                                | 671                                     |   |
|                               | Permanent School Fund Guaranty        | 2,559        |                                | 2,559                                   |   |
|                               | Total backed by financial guarantors  | 14,643       | 145                            | 3,230                                   | 11,268  |
|                               | Other credit enhanced municipal bonds | 1,704        | 1,704                          |   |   |
|                               | Total                                 | \$ 16,347    | \$ 1,849                       | \$ 3,230                                | \$ 11,268   |

In addition to the \$16.3 million of insurance enhanced municipal bonds, the Company also held insurance enhanced asset-backed and credit securities with a market value of approximately \$20.8 million, which represented approximately 1.3% of the Company's total invested assets net of receivable/payable for securities purchased and sold. The financial guarantors of the Company's \$20.8 million of insurance enhanced asset-backed and credit securities include Municipal Bond Insurance Association (\$11.5 million), Ambac (\$1.0 million), and Assured Guaranty Corporation (\$8.3 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, 2014.

***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, 2014 and December 31, 2013:

**Estimated Fair Value**

| (Dollars in thousands)   | June 30, 2014 | December 31, 2013 |
|--|---------------|-------------------|
| On deposit with governmental authorities                       | \$ 35,829     | \$ 36,176         |
| Intercompany trusts held for the benefit of U.S. policyholders | 499,342       | 584,683           |
| Held in trust pursuant to third party requirements             | 105,499       | 129,339           |
| Letter of credit held for third party requirements             | 5,495         |                   |
| Securities held as collateral for borrowing arrangements (1)   | 161,915       | 120,937           |
| Total  | \$ 808,080    | \$ 871,135        |

(1) Amount required to collateralize margin borrowing facility.

### 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 its interest rate swaps in accordance with accounting guidance under Financial Accounting Standards Codification ( ASC ) section 815, *Derivatives and Hedging*. The Company has designated the interest rate swaps as non-hedge instruments. Accordingly, the Company 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 statement of operations. The estimated fair value of the interest rate swaps, which is primarily derived from the forward interest rate curve, is based on the valuation received from a third party financial institution.

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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, 2014 and December 31, 2013:

| (Dollars in thousands)  | Balance Sheet Location | June 30, 2014   |            | December 31, 2013 |            |
|---|------------------------|-----------------|------------|-------------------|------------|
|   |                        | Notional Amount | Fair Value | Notional Amount   | Fair Value |
| Derivatives Not Designated as Hedging Instruments under ASC 815 |                        |                 |            |                   |            |
| Interest rate swap agreements                                   | Other liabilities      | \$ 200,000      | \$ (7,928) |                   |            |
| Interest rate swap agreements                                   | Other assets           |                 |            | \$ 200,000        | \$ 1,668   |

The following table summarizes the net losses included in the consolidated statement 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, 2014 and 2013:

| (Dollars in thousands)        | Statement of Operations Line   | Quarters Ended June 30, |      | Six Months Ended June 30, |      |
|-------------------------------|--------------------------------|-------------------------|------|---------------------------|------|
|                               |                                | 2014                    | 2013 | 2014                      | 2013 |
| Interest rate swap agreements | Net realized investment losses | \$ (6,018)              | N/A  | \$ (12,360)               | N/A  |

As of June 30, 2014, the Company is due receivables of \$4.8 million for collateral posted and \$8.7 million for margin calls made in connection with the interest rate swaps. These amounts are included in other assets on the consolidated balance sheets.

#### 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 derivatives 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.

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

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The following table presents information about the Company's invested assets and derivatives instruments measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

| <b>As of June 30, 2014</b><br><b>(Dollars in thousands)</b> | <b>Fair Value Measurements</b> |                     |                  | <b>Total</b>        |
|---|--------------------------------|---------------------|------------------|---------------------|
|   | <b>Level 1</b>                 | <b>Level 2</b>      | <b>Level 3</b>   |                     |
| <b>Assets:</b>  |                                |                     |                  |                     |
| Fixed maturities:   |                                |                     |                  |                     |
| U.S. treasury and agency obligations                        | \$ 67,745                      | \$ 10,202           | \$               | \$ 77,947           |
| Obligations of states and political subdivisions            |                                | 192,501             |                  | 192,501             |
| Mortgage-backed securities                                  |                                | 221,304             |                  | 221,304             |
| Commercial mortgage-backed securities                       |                                | 60,934              |                  | 60,934              |
| Asset-backed securities                                     |                                | 167,329             |                  | 167,329             |
| Corporate bonds and loans                                   |                                | 399,313             |                  | 399,313             |
| Foreign corporate bonds                                     |                                | 86,385              |                  | 86,385              |
| Total fixed maturities                                      | 67,745                         | 1,137,968           |                  | 1,205,713           |
| Common stock  | 125,010                        |                     |                  | 125,010             |
| Other invested assets                                       |                                |                     | 15,034           | 15,034              |
| <b>Total assets measured at fair value</b>                  | <b>\$ 192,755</b>              | <b>\$ 1,137,968</b> | <b>\$ 15,034</b> | <b>\$ 1,345,757</b> |
| <b>Liabilities:</b>   |                                |                     |                  |                     |
| Derivative instruments                                      | \$                             | \$ 7,928            | \$               | \$ 7,928            |
| <b>Total liabilities measured at fair value</b>             | <b>\$</b>                      | <b>\$ 7,928</b>     | <b>\$</b>        | <b>\$ 7,928</b>     |

| <b>As of December 31, 2013</b><br><b>(Dollars in thousands)</b> | <b>Fair Value Measurements</b> |                |                | <b>Total</b> |
|---|--------------------------------|----------------|----------------|--------------|
|   | <b>Level 1</b>                 | <b>Level 2</b> | <b>Level 3</b> |              |
| <b>Assets:</b>  |                                |                |                |              |
| Fixed maturities:   |                                |                |                |              |
| U.S. treasury and agency obligations                            | \$ 71,294                      | \$ 10,380      | \$             | \$ 81,674    |
| Obligations of states and political subdivisions                |                                | 180,936        |                | 180,936      |
| Mortgage-backed securities                                      |                                | 229,910        |                | 229,910      |
| Commercial mortgage-backed securities                           |                                | 53,975         |                | 53,975       |
| Asset-backed securities   |                                | 168,436        |                | 168,436      |
| Corporate bonds and loans                                       |                                | 435,392        |                | 435,392      |
| Foreign corporate bonds   |                                | 54,041         |                | 54,041       |

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|                                     |            |              |          |              |
|-------------------------------------|------------|--------------|----------|--------------|
| Total fixed maturities              | 71,294     | 1,133,070    |          | 1,204,364    |
| Common stock                        | 254,070    |              |          | 254,070      |
| Other invested assets               |            |              | 3,489    | 3,489        |
| Derivative instruments              |            | 1,668        |          | 1,668        |
| Total assets measured at fair value | \$ 325,364 | \$ 1,134,738 | \$ 3,489 | \$ 1,463,591 |

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. For corporate loans, price quotes from multiple dealers along with recent reported trades for identical or similar securities are used to develop prices. The estimated fair value of the interest rate swaps is obtained from a third party financial institution who utilizes observable inputs such as the forward interest rate curve.

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There were no transfers between Level 1 and Level 2 during the quarters and six months ended June 30, 2014 or 2013.

The following table presents changes in Level 3 investments measured at fair value on a recurring basis for the quarters and six months ended June 30, 2014 and 2013:

| (Dollars in thousands)                                    | Other Invested Assets   |          |                           |          |
|---|-------------------------|----------|---------------------------|----------|
|   | Quarters Ended June 30, |          | Six Months Ended June 30, |          |
|   | 2014                    | 2013     | 2014                      | 2013     |
| Beginning balance   | \$ 5,364                | \$ 3,105 | \$ 3,489                  | \$ 3,132 |
| Total gains (losses) (realized / unrealized):             |                         |          |                           |          |
| Included in accumulated other comprehensive income (loss) | (204)                   | 121      | (430)                     | 84       |
| Purchases   | 9,874                   |          | 11,975                    | 10       |
| Sales   |                         |          |                           |          |
| Ending balance  | \$ 15,034               | \$ 3,226 | \$ 15,034                 | \$ 3,226 |

The investments classified as Level 3 in the above table relate to investments in limited partnerships. The Company does not have access to daily valuations; therefore, the estimated fair values of the limited partnerships are measured utilizing net asset value as a practical expedient for the limited partnerships.

***Fair Value of Alternative Investments***

Included in Other invested assets in the fair value hierarchy at June 30, 2014 and December 31, 2013 are limited liability partnerships measured at fair value. The following table provides the fair value and future funding commitments related to these investments at June 30, 2014 and December 31, 2013.

| (Dollars in thousands)                    | June 30, 2014 |                           | December 31, 2013 |                           |
|---|---------------|---------------------------|-------------------|---------------------------|
|   | Fair Value    | Future Funding Commitment | Fair Value        | Future Funding Commitment |
| Equity Fund, LP (1)                       | \$ 3,510      | \$ 2,436                  | \$ 3,489          | \$ 2,490                  |
| Real Estate Fund, LP (2)                  |               |                           |                   |                           |
| European Non-Performing Loan Fund, LP (3) | 11,524        | 38,164                    |                   |                           |
| Total                                     | \$ 15,034     | \$ 40,600                 | \$ 3,489          | \$ 2,490                  |

- (1) This limited partnership invests in companies from various business sectors whereby the partnership has acquired control of the operating business as a lead or organizing investor. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner.
- (2) This limited partnership invests in real estate assets through a combination of direct or indirect investments in partnerships, limited liability companies, mortgage loans, and lines of credit. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company continues to hold an investment in this limited partnership and has written the fair value down to zero.
- (3) 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 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.

***Pricing***

The Company's pricing vendors provide prices for all investment categories except for investments in limited partnerships which are measured utilizing net asset values as a practical expedient. One vendor provides prices for equity securities and all fixed maturity categories.



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

Equity prices are received from all primary and secondary exchanges.

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

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

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

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

For MBSs, a matrix model correlation to TBA (a forward MBS trade) or benchmarking is utilized to value a security.

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 provide information regarding rating changes and securities placed on watch. This procedure allows the Company to understand why a particular

security's market value may have changed.

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

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, 2014 and 2013, the Company has not adjusted quotes or prices obtained from the pricing vendors.

## **5. Income Taxes**

The statutory income tax rates of the countries where the Company does business are 35.0% in the United States, 0.0% in Bermuda, 0.0% in the Cayman Islands, 0.0% in Gibraltar, 29.22% in the Duchy of Luxembourg, and 25.0% on non-trading income, 33.0% on capital gains and 12.5% on trading income in the Republic of Ireland. The statutory income tax rate of each country is applied against the expected annual taxable income of the Company in each country to estimate the annual income tax expense. Total estimated annual income tax expense is divided by

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total estimated annual pre-tax income to determine the expected annual income tax rate used to compute the income tax provision. On an interim basis, the expected annual income tax rate is applied against interim pre-tax income, excluding net realized gains and losses and discrete items such as limited partnership distributions, and then that amount is added to income taxes on net realized gains and losses and discrete items.

The Company's income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, including the results of the quota share and stop-loss agreements between Global Indemnity Reinsurance and the Insurance Operations, for the quarters and six months ended June 30, 2014 and 2013 were as follows:

**Quarter Ended June 30, 2014:**

| (Dollars in thousands)                            | Non-U.S.<br>Subsidiaries | U.S.<br>Subsidiaries | Eliminations | Total     |
|---|--------------------------|----------------------|--------------|-----------|
| <b>Revenues:</b>                                  |                          |                      |              |           |
| Gross premiums written                            | \$ 51,328                | \$ 60,555            | \$ (28,978)  | \$ 82,905 |
| Net premiums written                              | \$ 50,312                | \$ 26,060            | \$           | \$ 76,372 |
| Net premiums earned                               | \$ 40,959                | \$ 25,058            | \$           | \$ 66,017 |
| Net investment income                             | 7,583                    | 4,905                | (4,811)      | 7,677     |
| Net realized investment gains (losses)            | (225)                    | 40,106               |              | 39,881    |
| Other income (loss)                               | (5)                      | 160                  |              | 155       |
| Total revenues                                    | 48,312                   | 70,229               | (4,811)      | 113,730   |
| <b>Losses and Expenses:</b>                       |                          |                      |              |           |
| Net losses and loss adjustment expenses           | 12,921                   | 25,349               |              | 38,270    |
| Acquisition costs and other underwriting expenses | 17,081                   | 10,090               |              | 27,171    |
| Corporate and other operating expenses            | 1,511                    | 1,661                |              | 3,172     |
| Interest expense                                  | 214                      | 4,916                | (4,811)      | 319       |
| Income before income taxes                        | \$ 16,585                | \$ 28,213            | \$           | \$ 44,798 |

**Quarter Ended June 30, 2013:**

| (Dollars in thousands) | Non-U.S.<br>Subsidiaries | U.S.<br>Subsidiaries | Eliminations | Total     |
|------------------------|--------------------------|----------------------|--------------|-----------|
| <b>Revenues:</b>       |                          |                      |              |           |
| Gross premiums written | \$ 51,615                | \$ 61,879            | \$ (29,249)  | \$ 84,245 |

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

**Table of Contents****GLOBAL INDEMNITY PLC****Six Months Ended June 30, 2014:**

| (Dollars in thousands)                            | Non-U.S.<br>Subsidiaries | U.S.<br>Subsidiaries | Eliminations | Total      |
|---|--------------------------|----------------------|--------------|------------|
| <b>Revenues:</b>                                  |                          |                      |              |            |
| Gross premiums written                            | \$ 101,327               | \$ 113,547           | \$ (54,772)  | \$ 160,102 |
| Net premiums written                              | \$ 100,311               | \$ 48,922            | \$           | \$ 149,233 |
| Net premiums earned                               | \$ 83,313                | \$ 50,248            | \$           | \$ 133,561 |
| Net investment income                             | 15,234                   | 10,325               | (9,598)      | 15,961     |
| Net realized investment gains                     | 1,027                    | 38,041               |              | 39,068     |
| Other income (loss)                               | (3)                      | 326                  |              | 323        |
| Total revenues                                    | 99,571                   | 98,940               | (9,598)      | 188,913    |
| <b>Losses and Expenses:</b>                       |                          |                      |              |            |
| Net losses and loss adjustment expenses           | 32,879                   | 43,963               |              | 76,842     |
| Acquisition costs and other underwriting expenses | 34,875                   | 18,781               |              | 53,656     |
| Corporate and other operating expenses            | 2,878                    | 3,255                |              | 6,133      |
| Interest expense                                  | 454                      | 9,654                | (9,598)      | 510        |
| Income before income taxes                        | \$ 28,485                | \$ 23,287            | \$           | \$ 51,772  |

**Six Months Ended June 30, 2013:**

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

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|  |           |            |           |
|--|-----------|------------|-----------|
| Corporate and other operating expenses | 2,605     | 2,212      | 4,817     |
| Interest expense                       | 626       | 11,498     | (9,770)   |
| Income (loss) before income taxes      | \$ 23,423 | \$ (2,925) | \$ 20,498 |

The following table summarizes the components of income tax expense (benefit):

| (Dollars in thousands)                      | Quarters Ended June 30, Six Months Ended June 30, |          |          |          |
|---|---|----------|----------|----------|
|   | 2014  | 2013     | 2014     | 2013     |
| Current income tax expense:                 |   |          |          |          |
| Foreign                                     | \$ 61   | \$ 37    | \$ 125   | \$ 74    |
| U.S. Federal                                | 7,821   | 2,248    | 7,551    | 1,610    |
| Total current income tax expense            | 7,882   | 2,285    | 7,676    | 1,684    |
| Deferred income tax expense (benefit):      |   |          |          |          |
| U.S. Federal                                | 3,708   | (2,509)  | 2,065    | (2,215)  |
| Total deferred income tax expense (benefit) | 3,708   | (2,509)  | 2,065    | (2,215)  |
| Total income tax expense (benefit)          | \$ 11,590   | \$ (224) | \$ 9,741 | \$ (531) |

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.

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

| (Dollars in thousands)                          | Quarters Ended June 30, |                     |            |                     |
|---|-------------------------|---------------------|------------|---------------------|
|   | 2014                    |                     | 2013       |                     |
|   | Amount                  | % of Pre-Tax Income | Amount     | % of Pre-Tax Income |
| Expected tax provision at weighted average rate | \$ 9,925                | 22.2%               | \$ (1,297) | (15.4%)             |
| Adjustments:                                    |                         |                     |            |                     |
| Tax exempt interest                             | (155)                   | (0.3)               | (261)      | (3.1)               |
| Dividend exclusion                              | (479)                   | (1.1)               | (336)      | (4.0)               |
| Effective tax rate adjustment                   | 1,811                   | 4.0                 | 1,641      | 19.4                |
| Other   | 488                     | 1.1                 | 29         | 0.4                 |
| Income tax expense (benefit)                    | \$ 11,590               | 25.9%               | \$ (224)   | (2.7%)              |

The effective income tax expense rate for the quarter ended June 30, 2014 was 25.9%, compared to an effective income tax benefit rate of 2.7% for the quarter ended June 30, 2013. The increase in the effective tax rate is primarily due to an increase in capital gains in 2014 partially offset by a capital loss on the Company's derivative instruments. Any difference between the actual tax rate on an interim basis compared to the expected annual tax rate is reflected in the effective tax rate adjustment. The effective income tax expense rate of 25.9% and the effective income tax benefit rate of 2.7% for the quarters ended June 30, 2014 and 2013, respectively, differed from the weighted average expected income tax expense rate of 22.2% and weighted average expected income tax benefit rate of 15.4% for the quarters ended June 30, 2014 and 2013, respectively, due to the fact that the Company records income tax expense on an interim basis using the projected annual effective tax rate, net of tax-exempt interest and dividends.

| (Dollars in thousands)                          | Six Months Ended June 30, |                     |          |                     |
|---|---------------------------|---------------------|----------|---------------------|
|   | 2014                      |                     | 2013     |                     |
|   | Amount                    | % of Pre-Tax Income | Amount   | % of Pre-Tax Income |
| Expected tax provision at weighted average rate | \$ 8,263                  | 16.0%               | \$ (950) | (4.6%)              |
| Adjustments:                                    |                           |                     |          |                     |
| Tax exempt interest                             | (370)                     | (0.7)               | (556)    | (2.7)               |
| Dividend exclusion                              | (957)                     | (1.9)               | (588)    | (2.9)               |
| Effective tax rate adjustment                   | 2,312                     | 4.5                 | 1,532    | 7.5                 |
| Other   | 493                       | 0.9                 | 31       | 0.1                 |
| Income tax expense (benefit)                    | \$ 9,741                  | 18.8%               | \$ (531) | (2.6%)              |

The effective income tax expense rate for the six months ended June 30, 2014 was 18.8%, compared to an effective income tax benefit rate of 2.6% for the six months ended June 30, 2013. The increase in the effective tax rate is primarily due to an increase in capital gains in 2014 partially offset by a capital loss on the Company's derivative instruments. Any difference between the actual tax rate on an interim basis compared to the expected annual tax rate is reflected in the effective tax rate adjustment. The effective income tax expense rate of 18.8% and the effective income tax benefit rate of 2.6% for the six months ended June 30, 2014 and 2013, respectively, differed from the weighted average expected income tax expense rate of 16.0% and weighted average expected income tax benefit rate of 4.6% for the six months ended June 30, 2014 and 2013, respectively, due to the fact that the Company records income tax expense on an interim basis using the projected annual effective tax rate, net of tax-exempt interest and dividends.

The Company has an alternative minimum tax credit carry forward of \$8.3 million and \$9.9 million as of June 30, 2014 and December 31, 2013, respectively, which can be carried forward indefinitely. The company no longer has a net operating loss ( NOL ) carryforward as of June 30, 2014. The NOL carryforward was \$1.2 million at December 31, 2013.



**Table of Contents****GLOBAL INDEMNITY PLC****6. Liability for Unpaid Losses and Loss Adjustment Expenses**

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

| (Dollars in thousands)                                   | Quarters Ended   |            | Six Months Ended June 30, |            |
|--|------------------|------------|---------------------------|------------|
|  | June 30,<br>2014 | 2013       | 2014                      | 2013       |
| Balance at beginning of period                           | \$ 779,047       | \$ 864,167 | \$ 779,466                | \$ 879,114 |
| Less: Ceded reinsurance receivables                      | 195,533          | 237,960    | 192,491                   | 240,546    |
| Net balance at beginning of period                       | 583,514          | 626,207    | 586,975                   | 638,568    |
| Incurred losses and loss adjustment expenses related to: |                  |            |                           |            |
| Current year   | 42,298           | 35,629     | 82,964                    | 70,087     |
| Prior years  | (4,028)          | (705)      | (6,122)                   | (3,375)    |
| Total incurred losses and loss adjustment expenses       | 38,270           | 34,924     | 76,842                    | 66,712     |
| Paid losses and loss adjustment expenses related to:     |                  |            |                           |            |
| Current year   | 15,785           | 14,131     | 23,997                    | 19,264     |
| Prior years  | 30,402           | 31,898     | 64,223                    | 70,913     |
| Total paid losses and loss adjustment expenses           | 46,187           | 46,029     | 88,220                    | 90,177     |
| Net balance at end of period                             | 575,597          | 615,103    | 575,597                   | 615,103    |
| Plus: Ceded reinsurance receivables                      | 178,998          | 229,815    | 178,998                   | 229,815    |
| Balance at end of period                                 | \$ 754,595       | \$ 844,918 | \$ 754,595                | \$ 844,918 |

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

In the second quarter of 2014, the Company reduced its prior accident year loss reserves by \$4.0 million, which consisted of a \$3.0 million decrease related to Insurance Operations and a \$1.0 million decrease related to Reinsurance Operations.

The \$3.0 million decrease related to Insurance Operations primarily consisted of the following:

**General liability:** A \$0.8 million net increase which consisted of a \$6.0 million reduction in the ongoing General Liability book due to less frequency and severity than anticipated and a \$6.8 million increase to the Company's older environmentally exposed book.

**Asbestos:** A \$6.9 million increase primarily related to accident years prior to 1990 due to recent development on several claims.

**Professional:** A \$10.0 million reduction primarily driven by a lower than expected severity from accident years 2007 through 2010 in a discontinued line.

**Other:** A \$0.7 million decrease primarily related to the auto physical damage and marine lines of business. The \$1.0 million decrease related to Reinsurance Operations primarily consisted of the following:

**Property:** A \$1.3 million decrease primarily related to accident year 2012 due to catastrophe losses developing better than expected.

**Commercial Auto Liability:** A \$0.3 million increase in aggregate related to accident years 2009 to 2011. In the second quarter of 2013, the Company reduced its prior accident year loss reserves by \$0.7 million, which consisted of a \$0.4 million decrease related to Insurance Operations and a \$0.3 million decrease related to Reinsurance Operations.

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**GLOBAL INDEMNITY PLC**

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

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

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

**Asbestos:** A \$3.5 million increase primary related to policies written prior to 1990 due to recent development on several claims.

The \$0.3 million decrease related to Reinsurance Operations primarily consisted of better than expected development of prior year losses for general liability related to accident years 2007 through 2010 and 2012.

In the first six months of 2014, the Company reduced its prior accident year loss reserves by \$6.1 million, which consisted of a \$5.0 million decrease related to Insurance Operations and a \$1.1 million decrease related to Reinsurance Operations.

The \$5.0 million decrease related to Insurance Operations primarily consisted of the following:

**Asbestos:** A \$6.9 million increase primarily related to accident years prior to 1990 due to recent development on several claims.

**Professional:** An \$11.8 million reduction primarily driven by a lower than expected severity from accident years 2007 through 2010.

The \$1.1 million decrease related to Reinsurance Operations primarily consisted of the following:

**Property:** A \$1.3 million decrease primary related to accident year 2011 and 2012 due to catastrophe losses developing better than expected.

**Commercial Auto Liability:** A \$0.2 million increase in aggregate related to accident years 2009 to 2011.

In the first six months of 2013, the Company reduced its prior accident year loss reserves by \$3.3 million, which consisted of a \$3.2 million decrease related to Insurance Operations and a \$0.1 million decrease related to Reinsurance

Operations.

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

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

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

**Asbestos:** A \$3.5 million increase primary related to policies written prior to 1990 due to recent development on several claims.

The \$0.1 million decrease related to Reinsurance Operations primarily consisted of better than expected development of prior year losses for general liability related to accident years 2007 and 2009 through 2012.

## 7. Debt

On July 19, 2013, the Company entered into a margin borrowing facility with a borrowing rate that is currently equal to the one week LIBOR rate plus 65 basis points, which combined is less than 1% as of June 30, 2014. As of June 30, 2014 and December 31, 2013, the amount outstanding on the margin borrowing facility was \$142.6 million and 100.0 million, respectively. This facility is due on demand. The borrowing is subject to maintenance margin,

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which is a minimum account balance that must be maintained. A decline in market conditions could require an additional deposit of collateral. As of June 30, 2014, approximately \$161.9 million in securities were deposited as collateral to support the borrowing. The amount borrowed against the margin account may fluctuate as routine investment transactions, such as dividends received, investment income received, maturities and pay-downs, impact cash balances. The margin facility contains customary events of default, including, without limitation, insolvency, failure to make required payments, failure to comply with any representations or warranties, failure to adequately assure future performance, and failure of a guarantor to perform under its guarantee.

**8. Shareholders Equity*****Repurchases of the Company's A ordinary shares***

No shares were repurchased during the quarter ended June 30, 2014. The approximate dollar value of shares that may yet be purchased under the plan or program is \$16.9 million as of June 30, 2014.

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

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

(1) Based on settlement date.

(2) Approximate dollar value of shares that may yet be purchased is as of the last date of the applicable month.

(3) Surrendered by employees as payment of taxes withheld on the vesting of restricted stock.

Please see Note 14 of the notes to the consolidated financial statements in Item 8 Part II of the Company's 2013 Annual Report on Form 10-K for more information on the Company's repurchase program.

**9. Related Party Transactions**

***Fox Paine & Company***

As of June 30, 2014, Fox Paine & Company, LLC ( Fox Paine ) beneficially owned shares having approximately 93% of the Company's total outstanding voting power. Fox Paine has the right to appoint a number of the Company's Directors equal in aggregate to the pro rata percentage of the voting shares 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 Paine controls the election of all of the Company's Directors due to its controlling share ownership. The Company's Chairman is a member of Fox Paine. The Company relies on Fox Paine to provide management services and other services related to the operations of the Company.

As of June 30, 2014 and December 31, 2013, Global Indemnity Reinsurance was a limited partner in Fox Paine Capital Fund, II, which is managed by Fox Paine. This investment was originally made by United National Insurance Company in June 2000 and pre-dates the September 5, 2003 acquisition by Fox Paine. The Company's investment in this limited partnership was valued at \$3.5 million at June 30, 2014 and December 31, 2013. At June 30, 2014, the Company had an unfunded capital commitment of \$2.5 million to the partnership. There were no distributions received from the limited partnership during the second quarter of 2014 or 2013.

The Company incurred management fees of \$0.5 million and \$0.4 million during the quarters ended June 30, 2014 and 2013, respectively, and \$1.0 million and \$0.8 million during the six months ended June 30, 2014 and 2013, respectively, as part of the annual management fee that is paid to Fox Paine.

**Table of Contents****GLOBAL INDEMNITY PLC*****Cozen O Connor***

The Company incurred \$0.06 million for legal services rendered by Cozen O Connor during the quarter ended June 30, 2014. The Company did not incur any legal services rendered by Cozen O Connor during the quarter ended June 30, 2013. The Company incurred \$0.09 million and \$0.02 million for legal services rendered by Cozen O Connor during the six months ended June 30, 2014 and 2013, respectively. Stephen A. Cozen, the chairman of Cozen O Connor, is a member of the Company's Board of Directors.

***Crystal & Company***

The Company incurred brokerage fees with Crystal & Company, an insurance broker, of \$0.06 million and \$0.05 million during the quarters ended June 30, 2014 and 2013, respectively, and \$0.11 million during each of the six months ended June 30, 2014 and 2013. James W. Crystal, the chairman and chief executive officer of Crystal & Company, is a member of the Company's Board of Directors.

***Hiscox Insurance Company (Bermuda) Ltd.***

Global Indemnity Reinsurance is a participant in a reinsurance agreement with Hiscox Insurance Company (Bermuda) Ltd. (Hiscox Bermuda) effective January 1, 2013. Steve Green, the President of Global Indemnity Reinsurance, was a member of Hiscox Bermuda's Board of Directors until May, 2014. The Company estimated that the following earned premium and incurred losses related to the agreement have been assumed by Global Indemnity Reinsurance from Hiscox Bermuda:

| (Dollars in thousands)                      | Quarters Ended June 30, |        |
|---|-------------------------|--------|
|   | 2014                    | 2013   |
| Assumed earned premium                      | \$ 1,802                | \$ 654 |
| Assumed losses and loss adjustment expenses | 541                     | 289    |

| (Dollars in thousands)                      | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2014                      | 2013     |
| Assumed earned premium                      | \$ 2,816                  | \$ 1,008 |
| Assumed losses and loss adjustment expenses | 845                       | 378      |

Net balances due to Global Indemnity Reinsurance under this agreement are as follows:

| (Dollars in thousands) | June 30,<br>2014 | December 31,<br>2013 |
|------------------------|------------------|----------------------|
|------------------------|------------------|----------------------|

|                        |          |          |
|------------------------|----------|----------|
| Net receivable balance | \$ 5,202 | \$ 3,337 |
|------------------------|----------|----------|

## 10. Commitments and Contingencies

### *Legal Proceedings*

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

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



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**GLOBAL INDEMNITY PLC**

***Commitments***

The Company entered into a \$50 million commitment to purchase an alternative investment vehicle which is comprised of European non-performing loans. As of June 30, 2014, the Company has funded \$11.8 million of this commitment leaving \$38.2 million as unfunded.

**11. Share-Based Compensation Plans**

On June 11, 2014, the Company's Shareholders approved the Global Indemnity plc Share Incentive Plan (the 2014 Plan). The purpose of the 2014 Plan is to give the Company a competitive advantage in attracting and retaining officers, employees, consultants and non-employee directors by offering stock options, restricted shares and other stock-based awards. Under the 2014 Plan, the Company may issue up to 2.0 million A ordinary shares pursuant to awards granted under the Plan.

**Options**

No stock options were granted during the quarters ended June 30, 2014 and 2013.

During the six months ended June 30, 2014, the Company awarded 25,000 Time-Based Options, with a strike price of \$24.00 per share, under the 2014 Plan. The Time-Based Options vest in February, 2017. No stock options were awarded during the six months ended June 30, 2013.

**Restricted Shares**

During the quarter ended June 30, 2014, the Company issued 5,671 A ordinary shares, with a weighted average grant date value of \$26.45 per share, to a key employee under the 2014 Plan. As noted below, an additional 90,023 A ordinary shares were granted to key employees when the Company's revised Plan was approved on June 11, 2014.

During the quarter ended June 30, 2013, the Company issued 6,575 A ordinary shares as a result of a former employee exercising previously granted options with a strike price of \$20.00 per share.

During the six months ended June 30, 2014, the Company issued 95,694 A ordinary shares, with a weighted average grant date value of \$25.37 per share, to key employees under the 2014 Plan. Of the shares issued in 2014, 5,671 were issued to a key employee and vest 33 1/3% on each subsequent anniversary date of the award for a period of three years. The remaining 90,023 shares were issued to key employees prior to April 1, 2014 on the condition that the shareholders approve the Company's revised share incentive plan at the Company's 2014 annual shareholder meeting which occurred on June 11, 2014. These shares will vest as follows:

50% of granted stock vests ratably over a three year period.

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50% of granted stock vests 100% on the anniversary of the third year subject to accident year true-up of bonus year underwriting results and are subject to Board approval.

During the six months ended June 30, 2013, the Company issued 88,162 A ordinary shares at a weighted average grant date value of \$21.97 per share to key employees and a former employee of the Company under the 2003 Share Incentive Plan. Of the shares issued in 2013, 6,575 were issued as a result of a former employee exercising previously granted options with a strike price of \$20.00 per share and 81,587 will vest as follows:

50% of granted stock vests ratably over a three year period.

50% of granted stock vests 100% on the anniversary of the third year subject to accident year true-up of bonus year underwriting results and are subject to Board approval.

**Table of Contents****GLOBAL INDEMNITY PLC**

During the quarter ended June 30, 2014, the Company issued 9,250 A ordinary shares, at a weighted average grant date value of \$25.99 per share, to non-employee directors of the Company under the 2014 Plan. An additional 27,766 A ordinary shares were granted to non-employee directors on June 11, 2014. These shares were issued to non-employee directors prior to April 1, 2014 on the condition that the shareholders approve the Company's revised share incentive plan at the Company's 2014 annual shareholder meeting which occurred on June 11, 2014.

During the quarter ended June 30, 2013, the Company issued 9,965 A ordinary shares, at a weighted average grant date value of \$23.20 per share, to non-employee directors of the Company under the 2003 Share Incentive Plan.

During the six months ended June 30, 2014, the Company issued 18,178 A ordinary shares, at a weighted average grant date value of \$26.16 per share, to non-employee directors of the Company under the 2014 Plan.

During the six months ended June 30, 2013, the Company issued 21,865 A ordinary shares, at a weighted average grant date value of \$22.62 per share, to non-employee directors of the Company under the 2003 Share Incentive Plan.

All of the shares issued to non-employee directors of the Company in 2014 and 2013 were fully vested but subject to certain restrictions.

**12. Earnings Per Share**

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

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

| <b>(Dollars in thousands,<br/>except share and per share data)</b> | <b>Quarters Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|--|--------------------------------|-------------|----------------------------------|-------------|
|  | <b>2014</b>                    | <b>2013</b> | <b>2014</b>                      | <b>2013</b> |
| Net income   | \$ 33,208                      | \$ 8,664    | \$ 42,031                        | \$ 21,029   |
| <i>Basic earnings per share:</i>                                   |                                |             |                                  |             |
| Weighted average shares outstanding basic                          | 25,128,280                     | 25,049,888  | 25,121,171                       | 25,052,488  |
| Net income per share   | \$ 1.32                        | \$ 0.35     | \$ 1.67                          | \$ 0.84     |
| <i>Diluted earnings per share:</i>                                 |                                |             |                                  |             |
| Weighted average shares outstanding diluted                        | 25,312,938                     | 25,119,035  | 25,301,783                       | 25,120,897  |

|                      |    |      |    |      |    |      |    |      |
|----------------------|----|------|----|------|----|------|----|------|
| Net income per share | \$ | 1.31 | \$ | 0.34 | \$ | 1.66 | \$ | 0.84 |
|----------------------|----|------|----|------|----|------|----|------|

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

|  | Quarters Ended June 30, |            | Six Months Ended June 30, |            |
|--|-------------------------|------------|---------------------------|------------|
|  | 2014                    | 2013       | 2014                      | 2013       |
| Weighted average shares for basic earnings per share   | 25,128,280              | 25,049,888 | 25,121,171                | 25,052,488 |
| Non-vested restricted stock                            | 77,880                  | 33,178     | 77,125                    | 38,759     |
| Options  | 106,778                 | 35,969     | 103,487                   | 29,650     |
| Weighted average shares for diluted earnings per share | 25,312,938              | 25,119,035 | 25,301,783                | 25,120,897 |

The weighted average shares outstanding used to determine dilutive earnings per share for the quarters ended June 30, 2014 and 2013 do not include 37,500 and 145,450 shares, respectively, which were deemed to be anti-dilutive. The weighted average shares outstanding used to determine dilutive earnings per share for the six months ended June 30, 2014 and 2013 do not include 37,500 and 145,450 shares, respectively, which were deemed to be anti-dilutive.

**Table of Contents****GLOBAL INDEMNITY PLC****13. Segment Information**

The following are tabulations of business segment information for the quarters and six months ended June 30, 2014 and 2013.

**Quarter Ended June 30, 2014:**

| (Dollars in thousands)                            | Insurance<br>Operations (1) | Reinsurance<br>Operations (2) | Total        |
|---|-----------------------------|-------------------------------|--------------|
| <b>Revenues:</b>                                  |                             |                               |              |
| Gross premiums written                            | \$ 60,556                   | \$ 22,349                     | \$ 82,905    |
| Net premiums written                              | \$ 55,039                   | \$ 21,333                     | \$ 76,372    |
| Net premiums earned                               | \$ 53,034                   | \$ 12,983                     | \$ 66,017    |
| Other income (loss)                               | 160                         | (5)                           | 155          |
| Total revenues                                    | 53,194                      | 12,978                        | 66,172       |
| <b>Losses and Expenses:</b>                       |                             |                               |              |
| Net losses and loss adjustment expenses           | 33,875                      | 4,395                         | 38,270       |
| Acquisition costs and other underwriting expenses | 22,560 (3)                  | 4,611                         | 27,171       |
| Income (loss) from segments                       | \$ (3,241)                  | \$ 3,972                      | 731          |
| <b>Unallocated Items:</b>                         |                             |                               |              |
| Net investment income                             |                             |                               | 7,677        |
| Net realized investment gains                     |                             |                               | 39,881       |
| Corporate and other operating expenses            |                             |                               | (3,172)      |
| Interest expense                                  |                             |                               | (319)        |
| Income before income taxes                        |                             |                               | 44,798       |
| Income tax benefit                                |                             |                               | 11,590       |
| Net income  |                             |                               | \$ 33,208    |
| Total assets                                      | \$ 1,316,314                | \$ 661,373 (4)                | \$ 1,977,687 |

(1) Includes business ceded to the Company's Reinsurance Operations.

(2) External business only, excluding business assumed from affiliates.

- (3) Includes federal excise tax of \$281 relating to cessions from Insurance Operations to Reinsurance Operations.  
 (4) Comprised of Global Indemnity Reinsurance's total assets less its investment in subsidiaries.

**Quarter Ended June 30, 2013:**

| (Dollars in thousands)                            | Insurance<br>Operations (1) | Reinsurance<br>Operations (2) | Total        |
|---|-----------------------------|-------------------------------|--------------|
| <b>Revenues:</b>                                  |                             |                               |              |
| Gross premiums written                            | \$ 61,879                   | \$ 22,366                     | \$ 84,245    |
| Net premiums written                              | \$ 56,387                   | \$ 21,959                     | \$ 78,346    |
| Net premiums earned                               | \$ 46,916                   | \$ 11,755                     | \$ 58,671    |
| Other income (loss)                               | 248                         | (1)                           | 247          |
| Total revenues                                    | 47,164                      | 11,754                        | 58,918       |
| <b>Losses and Expenses:</b>                       |                             |                               |              |
| Net losses and loss adjustment expenses           | 30,608                      | 4,316                         | 34,924       |
| Acquisition costs and other underwriting expenses | 20,686 (3)                  | 3,786                         | 24,472       |
| Income (loss) from segments                       | \$ (4,130)                  | \$ 3,652                      | (478)        |
| <b>Unallocated Items:</b>                         |                             |                               |              |
| Net investment income                             |                             |                               | 9,765        |
| Net realized investment gains                     |                             |                               | 2,806        |
| Corporate and other operating expenses            |                             |                               | (2,472)      |
| Interest expense                                  |                             |                               | (1,181)      |
| Income before income taxes                        |                             |                               | 8,440        |
| Income tax benefit                                |                             |                               | (224)        |
| Net income  |                             |                               | \$ 8,664     |
| Total assets                                      | \$ 1,243,761                | \$ 671,061 (4)                | \$ 1,914,822 |

- (1) Includes business ceded to the Company's Reinsurance Operations.  
 (2) External business only, excluding business assumed from affiliates.  
 (3) Includes federal excise tax of \$246 relating to cessions from Insurance Operations to Reinsurance Operations.  
 (4) Comprised of Global Indemnity Reinsurance's total assets less its investment in subsidiaries.

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## GLOBAL INDEMNITY PLC

**Six Months Ended June 30, 2014:**

| (Dollars in thousands)                            | Insurance<br>Operations (1) | Reinsurance<br>Operations (2) | Total        |
|---|-----------------------------|-------------------------------|--------------|
| <b>Revenues:</b>                                  |                             |                               |              |
| Gross premiums written                            | \$ 113,548                  | \$ 46,554                     | \$ 160,102   |
| Net premiums written                              | \$ 103,695                  | \$ 45,538                     | \$ 149,233   |
| Net premiums earned                               | \$ 106,347                  | \$ 27,214                     | \$ 133,561   |
| Other income (loss)                               | 326                         | (3)                           | 323          |
| Total revenues                                    | 106,673                     | 27,211                        | 133,884      |
| <b>Losses and Expenses:</b>                       |                             |                               |              |
| Net losses and loss adjustment expenses           | 67,472                      | 9,370                         | 76,842       |
| Acquisition costs and other underwriting expenses | 44,278 (3)                  | 9,378                         | 53,656       |
| Income (loss) from segments                       | \$ (5,077)                  | \$ 8,463                      | 3,386        |
| <b>Unallocated Items:</b>                         |                             |                               |              |
| Net investment income                             |                             |                               | 15,961       |
| Net realized investment gains                     |                             |                               | 39,068       |
| Corporate and other operating expenses            |                             |                               | (6,133)      |
| Interest expense                                  |                             |                               | (510)        |
| Income before income taxes                        |                             |                               | 51,772       |
| Income tax benefit                                |                             |                               | 9,741        |
| Net income  |                             |                               | \$ 42,031    |
| Total assets                                      | \$ 1,316,314                | \$ 661,373 (4)                | \$ 1,977,687 |

- (1) Includes business ceded to the Company's Reinsurance Operations.  
(2) External business only, excluding business assumed from affiliates.  
(3) Includes federal excise tax of \$561 relating to cessions from Insurance Operations to Reinsurance Operations.  
(4) Comprised of Global Indemnity Reinsurance's total assets less its investment in subsidiaries.

**Six Months Ended June 30, 2013:**

| Insurance<br>Operations (1) | Reinsurance<br>Operations (2) | Total |
|-----------------------------|-------------------------------|-------|
|-----------------------------|-------------------------------|-------|

**(Dollars in thousands)****Revenues:**

|                        |            |           |            |
|------------------------|------------|-----------|------------|
| Gross premiums written | \$ 112,967 | \$ 46,217 | \$ 159,184 |
|------------------------|------------|-----------|------------|

|                      |            |           |            |
|----------------------|------------|-----------|------------|
| Net premiums written | \$ 104,015 | \$ 45,809 | \$ 149,824 |
|----------------------|------------|-----------|------------|

|                     |           |           |            |
|---------------------|-----------|-----------|------------|
| Net premiums earned | \$ 92,157 | \$ 22,510 | \$ 114,667 |
|---------------------|-----------|-----------|------------|

|                     |     |      |     |
|---------------------|-----|------|-----|
| Other income (loss) | 329 | (28) | 301 |
|---------------------|-----|------|-----|

|                |        |        |         |
|----------------|--------|--------|---------|
| Total revenues | 92,486 | 22,482 | 114,968 |
|----------------|--------|--------|---------|

**Losses and Expenses:**

|   |        |       |        |
|---|--------|-------|--------|
| Net losses and loss adjustment expenses | 59,350 | 7,362 | 66,712 |
|---|--------|-------|--------|

|   |            |       |        |
|---|------------|-------|--------|
| Acquisition costs and other underwriting expenses | 41,081 (3) | 7,868 | 48,949 |
|---|------------|-------|--------|

|                             |            |          |       |
|-----------------------------|------------|----------|-------|
| Income (loss) from segments | \$ (7,945) | \$ 7,252 | (693) |
|-----------------------------|------------|----------|-------|

**Unallocated Items:**

|                       |  |  |        |
|-----------------------|--|--|--------|
| Net investment income |  |  | 19,799 |
|-----------------------|--|--|--------|

|                               |  |  |       |
|-------------------------------|--|--|-------|
| Net realized investment gains |  |  | 8,563 |
|-------------------------------|--|--|-------|

|  |  |  |         |
|--|--|--|---------|
| Corporate and other operating expenses |  |  | (4,817) |
|--|--|--|---------|

|                  |  |  |         |
|------------------|--|--|---------|
| Interest expense |  |  | (2,354) |
|------------------|--|--|---------|

|                            |  |  |        |
|----------------------------|--|--|--------|
| Income before income taxes |  |  | 20,498 |
|----------------------------|--|--|--------|

|                    |  |  |       |
|--------------------|--|--|-------|
| Income tax benefit |  |  | (531) |
|--------------------|--|--|-------|

|            |  |  |           |
|------------|--|--|-----------|
| Net income |  |  | \$ 21,029 |
|------------|--|--|-----------|

|              |              |                |              |
|--------------|--------------|----------------|--------------|
| Total assets | \$ 1,243,761 | \$ 671,061 (4) | \$ 1,914,822 |
|--------------|--------------|----------------|--------------|

- (1) Includes business ceded to the Company's Reinsurance Operations.
- (2) External business only, excluding business assumed from affiliates.
- (3) Includes federal excise tax of \$482 relating to cessions from Insurance Operations to Reinsurance Operations.
- (4) Comprised of Global Indemnity Reinsurance's total assets less its investment in subsidiaries.

**14. Subsequent Events**

On July 1, 2014, the Company paid down the margin borrowing facility by \$102.2 million using proceeds from the sale of the Company's equity portfolio.



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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes of Global Indemnity included elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to the Company's plans and strategy, constitutes forward-looking statements that involve risks and uncertainties. Please see "Cautionary Note Regarding Forward-Looking Statements" at the end of this Item 2 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein. For more information regarding the Company's business and operations, please see the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**Recent Developments**

During the 1<sup>st</sup> quarter of 2014, the Company exited its corporate loan portfolio and made a \$50 million commitment to purchase an alternative investment vehicle which is comprised of European non-performing loans. As of June 30, 2014, the Company has funded \$11.8 million of this commitment leaving \$38.2 million as unfunded.

On June 10, 2014, Wind River Reinsurance Company, Ltd changed its name to Global Indemnity Reinsurance Company, Ltd.

On June 13, 2014, A.M. Best affirmed the financial strength rating of A (Excellent) for Global Indemnity Reinsurance and its U.S. insurance subsidiaries. Global Indemnity Reinsurance and subsidiaries have a financial size category of XI with A.M. Best, which represents an adjusted policyholder's surplus of \$750 million to \$1 billion.

On June 26, 2014, the Company sold approximately \$148.7 million of the Company's equity portfolio. \$102.2 million of these proceeds were used to pay down the margin borrowing facility on July 1, 2014.

**Overview**

The Company's Insurance Operations distribute property and casualty insurance products through a group of approximately 105 professional general agencies that have limited quoting and binding authority, as well as a number of wholesale insurance brokers who in turn sell the Company's insurance products to insureds through retail insurance brokers. The Company operates predominantly in the excess and surplus lines marketplace. To manage its operations, the Company differentiates them by product classification. These product classifications are: 1) Penn-America, which includes property and general liability products for small commercial businesses distributed through a select network of wholesale general agents with specific binding authority; 2) United National, which includes property, general liability, and professional lines products distributed through program administrators with specific binding authority; and 3) Diamond State, which includes property, casualty, and professional lines products distributed through wholesale brokers and program administrators with specific binding authority.

The Company's Reinsurance Operations segment, which consists solely of the operations of Global Indemnity Reinsurance, provides reinsurance solutions through brokers and on a direct basis. In prior years, the Company

provided reinsurance solutions through program managers and primary writers, including regional insurance companies. Global Indemnity Reinsurance is a Bermuda based treaty reinsurer for specialty property and casualty insurance and reinsurance companies. Global Indemnity Reinsurance conducts business in Bermuda and is focused on using its capital capacity to write catastrophe-oriented placements and other niche or specialty-focused treaties meeting the Company's risk tolerance and return thresholds. Given the current pricing environment, Global Indemnity Reinsurance continues to cautiously deploy and manage its capital while seeking to position itself as a niche reinsurance solution provider.

The Company derives its revenues primarily from premiums paid on insurance policies that it writes and from income generated by its investment portfolio, net of fees paid for investment management services. The amount of insurance premiums that the Company receives is a function of the amount and type of policies it writes, as well as prevailing market prices.

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The Company's expenses include losses and loss adjustment expenses, acquisition costs and other underwriting expenses, corporate and other operating expenses, interest, investment expenses, and income taxes. Losses and loss adjustment expenses are estimated by management and reflect the Company's best estimate of ultimate losses and costs arising during the reporting period and revisions of prior period estimates. The Company records losses and loss adjustment expenses based on an actuarial analysis of the estimated losses the Company expects to incur on the insurance policies it writes. The ultimate losses and loss adjustment expenses will depend on the actual costs to resolve claims. Acquisition costs consist principally of commissions and premium taxes that are typically a percentage of the premiums on the insurance policies the Company writes, net of ceding commissions earned from reinsurers. Other underwriting expenses consist primarily of personnel expenses and general operating expenses. Corporate and other operating expenses are comprised primarily of outside legal fees, other professional and accounting fees, directors' fees, management fees and salaries and benefits for company personnel whose services relate to the support of corporate activities. Interest expense is primarily comprised of amounts due on outstanding debt.

**Critical Accounting Estimates and Policies**

The Company's consolidated financial statements are prepared in conformity with GAAP, which require it to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions.

The Company believes that of the Company's significant accounting policies, the following may involve a higher degree of judgment and estimation.

***Liability for Unpaid Losses and Loss Adjustment Expenses***

Although variability is inherent in estimates, the Company believes that the liability for unpaid losses and loss adjustment expenses reflects its best estimate for future amounts needed to pay losses and related loss adjustment expenses and the impact of its reinsurance coverage with respect to insured events.

In developing loss and loss adjustment expense (loss or losses) reserve estimates for the Company's Insurance Operations, its actuaries perform detailed reserve analyses each quarter. To perform the analysis, the data is organized at a reserve category level. A reserve category can be a line of business such as commercial automobile liability, or it can be a particular type of claim such as construction defect. The reserves within a reserve category level are characterized as short-tail and long-tail. For long-tail business, it will generally be several years between the time the business is written and the time when all claims are settled. The Company's long-tail exposures include general liability, professional liability, products liability, commercial automobile liability, and excess and umbrella. Short-tail exposures include property, commercial automobile physical damage, and equine mortality. To manage its insurance operations, the Company differentiates by product classifications, which are Penn-America, United National, and Diamond State. For further discussion about the Company's product classifications, see General Business Segments Insurance Operations in Item 1 of Part I of the Company's 2013 Annual Report on Form 10-K. Each of the Company's product classifications contain both long-tail and short-tail exposures. Every reserve category is analyzed by the Company's actuaries each quarter. The analyses generally include reviews of losses gross of reinsurance and net of reinsurance.

Loss reserve estimates for the Company's Reinsurance Operations are developed by independent, external actuaries at least annually and are regularly monitored by management. Management is responsible for the final determination of loss reserve selections. The data for this analysis is organized by treaty and treaty year. As with the Company's reserves for its Insurance Operations, reserves for its Reinsurance Operations are characterized as short-tail and long-tail. Long-tail exposures include workers compensation, professional liability, and excess and umbrella liability. Short-tail exposures are primarily catastrophe exposed property accounts. Management reviews each treaty each quarter both gross and net of reinsurance.

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In addition to the Company's internal reserve analysis, independent external actuaries perform a full, detailed review of the Insurance and Reinsurance Operations' reserves annually. Management periodically requests that additional reviews by independent external actuaries be performed at other times during the year. The Company does not rely upon the review by the independent actuaries to develop its reserves; however, the data is used to corroborate the analysis performed by the in-house actuarial staff and management.

The methods used to project ultimate losses for both long-tail and short-tail exposures include, but are not limited to, the following:

Paid Development method;

Incurred Development method;

Expected Loss Ratio method;

Bornhuetter-Ferguson method using premiums and paid loss;

Bornhuetter-Ferguson method using premiums and incurred loss; and

Average Loss method.

The Paid Development method estimates ultimate losses by reviewing paid loss patterns and applying them to accident years with further expected changes in paid loss. Selection of the paid loss pattern requires analysis of several factors including the impact of inflation on claims costs, the rate at which claims professionals make claim payments and close claims, the impact of judicial decisions, the impact of underwriting changes, the impact of large claim payments and other factors. Claim cost inflation itself requires evaluation of changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors. Because this method assumes that losses are paid at a consistent rate, changes in any of these factors can impact the results. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.

For many reserve categories, paid loss data for recent periods may be too immature or erratic for accurate predictions. This situation often exists for long-tail exposures. In addition, changes in the factors described above may result in inconsistent payment patterns. Finally, estimating the paid loss pattern subsequent to the most mature point available in the data analyzed often involves considerable uncertainty for long-tail reserve categories.

The Incurred Development method is similar to the Paid Development method, but it uses case incurred losses instead of paid losses. Since this method uses more data (case reserves in addition to paid losses) than the Paid Development

method, the incurred development patterns may be less variable than paid development patterns. However, selection of the incurred loss pattern requires analysis of all of the factors listed in the description of the Paid Development method. In addition, the inclusion of case reserves can lead to distortions if changes in case reserving practices have taken place and the use of case incurred losses may not eliminate the issues associated with estimating the incurred loss pattern subsequent to the most mature point available.

The Expected Loss Ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for each accident year. This method may be useful if loss development patterns are inconsistent, losses emerge very slowly, or there is relatively little loss history from which to estimate future losses. The selection of the expected loss ratio requires analysis of loss ratios from earlier accident years or pricing studies and analysis of inflationary trends, frequency trends, rate changes, underwriting changes, and other applicable factors.

The Bornhuetter-Ferguson method using premiums and paid losses is a combination of the Paid Development method and the Expected Loss Ratio method. This method normally determines expected loss ratios similar to the method used for the Expected Loss Ratio method and requires analysis of the same factors described above. The method assumes that only future losses will develop at the expected loss ratio level. The percent of paid loss to ultimate loss implied from the Paid Development method is used to determine what percentage of ultimate loss is yet to be paid. The use of the pattern from the Paid Development method requires consideration of all factors listed in the description of the Paid Development method. The estimate of losses yet to be paid is added to current paid losses to estimate the ultimate loss for each year. This method will react very slowly if actual ultimate loss ratios are different from expectations due to changes not accounted for by the expected loss ratio calculation.

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The Bornhuetter-Ferguson method using premiums and incurred losses is similar to the Bornhuetter-Ferguson method using premiums and paid losses except that it uses case incurred losses. The use of case incurred losses instead of paid losses can result in development patterns that are less variable than paid development patterns. However, the inclusion of case reserves can lead to distortions if changes in case reserving practices have taken place. The method requires analysis of all the factors that need to be reviewed for the Expected Loss Ratio and Incurred Development methods.

The Average Loss method multiplies a projected number of ultimate claims by an estimated ultimate average loss for each accident year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss, this method can provide more reliable results for reserve categories where loss development patterns are inconsistent or too variable to be relied on exclusively. In addition, this method can more directly account for changes in coverage that impact the number and size of claims. However, this method can be difficult to apply to situations where very large claims or a substantial number of unusual claims result in volatile average claim sizes. Projecting the ultimate number of claims requires analysis of several factors including the rate at which policyholders report claims to the Company, the impact of judicial decisions, the impact of underwriting changes and other factors. Estimating the ultimate average loss requires analysis of the impact of large losses and claim cost trends based on changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors.

For many exposures, especially those that can be considered long-tail, a particular accident year may not have a sufficient volume of paid losses to produce a statistically reliable estimate of ultimate losses. In such a case, the Company's actuaries typically assign more weight to the Incurred Development method than to the Paid Development method. As claims continue to settle and the volume of paid losses increases, the actuaries may assign additional weight to the Paid Development method. For most of the Company's reserve categories, even the incurred losses for accident years that are early in the claim settlement process will not be of sufficient volume to produce a reliable estimate of ultimate losses. In these cases, the Company will not assign any weight to the Paid and Incurred Development methods and will use the Bornhuetter-Ferguson and Expected Loss Ratio methods. For short-tail exposures, the Paid and Incurred Development methods can often be relied on sooner primarily because the Company's history includes a sufficient number of years to cover the entire period over which paid and incurred losses are expected to change. However, the Company may also use the Expected Loss Ratio, Bornhuetter-Ferguson and Average Loss methods for short-tail exposures.

Generally, reserves for long-tail lines use the Expected Loss Ratio method for the most recent accident year, shift to the Bornhuetter-Ferguson methods for the next two years, and then shift to the Incurred and/or Paid Development method. Claims related to umbrella business are usually reported later than claims for other long-tail lines. For umbrella business, the Expected Loss Ratio and Bornhuetter-Ferguson methods are used for as many as six years before shifting to the Incurred Development method. Reserves for short-tail lines use the Bornhuetter-Ferguson methods for the most recent accident year and shift to the Incurred and/or Paid Development method in subsequent years.

For other more complex reserve categories where the above methods may not produce reliable indications, the Company uses additional methods tailored to the characteristics of the specific situation. Such reserve categories include losses from construction defects and asbestos and environmental ( A&E ).

For construction defect losses, the Company's actuaries organize losses by the year in which they were reported. To estimate losses from claims that have not been reported, various extrapolation techniques are applied to the pattern of claims that have been reported to estimate the number of claims yet to be reported. This process requires analysis of several factors including the rate at which policyholders report claims to the Company, the impact of judicial decisions, the impact of underwriting changes and other factors. An average claim size is determined from past experience and applied to the number of unreported claims to estimate reserves for these claims.

Establishing reserves for A&E and other mass tort claims involves considerably more judgment than other types of claims due to, among other things, inconsistent court decisions, an increase in bankruptcy filings as a result of asbestos-related liabilities, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage. The insurance industry continues to receive a substantial number of asbestos-related bodily injury claims, with an increasing focus being directed toward other parties, including installers of products containing



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asbestos rather than against asbestos manufacturers. This shift has resulted in significant insurance coverage litigation implicating applicable coverage defenses or determinations, if any, including but not limited to, determinations as to whether or not an asbestos-related bodily injury claim is subject to aggregate limits of liability found in most comprehensive general liability policies. In response to these continuing developments, management increased gross and net A&E reserves to reflect its best estimate of A&E exposures.

In 2009, one of the Company's insurance companies entered into a settlement agreement to resolve asbestos related coverage litigation related to approximately 3,900 existing asbestos-related bodily injury claims and future claims. The settlement is conditioned upon certain legal events occurring which may trigger financial obligations by the insurance company. One such event is the confirmation of a Plan involving an asbestos trust established under the bankruptcy code and funded in part by settlement proceeds. On February 24, 2014, the United States Bankruptcy Court for the Northern District of California issued a Memorandum Re Confirmation of a Revised Plan following a remand from the Ninth Circuit Court of Appeals. The Plan is before the United States District Court Northern California for confirmation. The confirmation of the Revised Plan includes an injunction under 11 U.S.C. Section 524(g) (U.S. Bankruptcy Code) related to the suit above. The injunction, also called a channeling injunction, precludes, among other things, non-settling insurers from asserting claims against the Company and direct action asbestos related claims by third parties that are related to the named insured. The most recent ruling may be subject to an appeal by the non-settling insurer group. Management will continue to monitor the developments of the litigation to determine if any additional financial exposure is present.

In addition, the Company has exposure to other asbestos related matters. In 2013, three claims were reported on an excess policy that was written in 1985. These claims were settled in April, 2014. Management will continue to monitor the developments of the litigation noted above as well as the new claims that have been reported to determine if any additional financial exposure is present.

Reserve analyses performed by the Company's internal and external actuaries result in actuarial point estimates. The results of the detailed reserve reviews were summarized and discussed with the Company's senior management to determine the best estimate of reserves. This group considered many factors in making this decision. The factors included, but were not limited to, the historical pattern and volatility of the actuarial indications, the sensitivity of the actuarial indications to changes in paid and incurred loss patterns, the consistency of claims handling processes, the consistency of case reserving practices, changes in the Company's pricing and underwriting, and overall pricing and underwriting trends in the insurance market.

Management's best estimate at June 30, 2014 was recorded as the loss reserve. Management's best estimate is as of a particular point in time and is based upon known facts, the Company's actuarial analyses, current law, and the Company's judgment. This resulted in carried gross and net reserves of \$754.6 million and \$575.6 million, respectively, as of June 30, 2014. A breakout of the Company's gross and net reserves, excluding the effects of the intercompany pooling arrangements and intercompany stop loss and quota share reinsurance agreements, as of June 30, 2014 is as follows:

| (Dollars in thousands) | Case | Gross Reserves |       |
|------------------------|------|----------------|-------|
|                        |      | IBNR (1)       | Total |

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|                        |                   |                   |                   |
|------------------------|-------------------|-------------------|-------------------|
| Insurance Operations   | \$ 184,732        | \$ 471,462        | \$ 656,194        |
| Reinsurance Operations | 36,484            | 61,917            | 98,401            |
| <b>Total</b>           | <b>\$ 221,216</b> | <b>\$ 533,379</b> | <b>\$ 754,595</b> |

| <b>(Dollars in thousands)</b> | <b>Net Reserves (2)</b> |                   |                   |
|-------------------------------|-------------------------|-------------------|-------------------|
|                               | <b>Case</b>             | <b>IBNR (1)</b>   | <b>Total</b>      |
| Insurance Operations          | \$ 135,478              | \$ 342,292        | \$ 477,770        |
| Reinsurance Operations        | 36,484                  | 61,343            | 97,827            |
| <b>Total</b>                  | <b>\$ 171,962</b>       | <b>\$ 403,635</b> | <b>\$ 575,597</b> |

- (1) Losses incurred but not reported, including the expected future emergence of case reserves.  
(2) Does not include reinsurance receivable on paid losses.

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The Company continually reviews these estimates and, based on new developments and information, includes adjustments of the estimated ultimate liability in the operating results for the periods in which the adjustments are made. The establishment of loss and loss adjustment expense reserves makes no provision for the possible broadening of coverage by legislative action or judicial interpretation, or the emergence of new types of losses not sufficiently represented in the Company's historical experience or that cannot yet be quantified or estimated. The Company regularly analyzes its reserves and reviews pricing and reserving methodologies so that future adjustments to prior year reserves can be minimized. However, given the complexity of this process, reserves require continual updates and the ultimate liability may be higher or lower than previously indicated. Changes in estimates for loss and loss adjustment expense reserves are recorded in the period that the change in these estimates is made. See Note 6 of the notes to the consolidated financial statements in Item 1 of Part I of this report for details concerning the changes in the estimate for incurred loss and loss adjustment expenses related to prior accident years.

The detailed reserve analyses that the Company's internal and external actuaries complete use a variety of generally accepted actuarial methods and techniques to produce a number of estimates of ultimate loss. The Company determines its best estimate of ultimate loss by reviewing the various estimates and assigning weight to each estimate given the characteristics of the reserve category being reviewed. The reserve estimate is the difference between the estimated ultimate loss and the losses paid to date. The difference between the estimated ultimate loss and the case incurred loss (paid loss plus case reserve) is considered to be losses incurred but not reported (IBNR). IBNR calculated as such includes a provision for development on known cases (supplemental development) as well as a provision for claims that have occurred but have not yet been reported (pure IBNR).

In light of the many uncertainties associated with establishing the estimates and making the assumptions necessary to establish reserve levels, the Company reviews its reserve estimates on a regular basis and makes adjustments in the period that the need for such adjustments is determined. The anticipated future loss emergence continues to be reflective of historical patterns, and the selected development patterns have not changed significantly from those underlying the Company's most recent analyses.

The key assumptions fundamental to the reserving process are often different for various reserve categories and accident years. Some of these assumptions are explicit assumptions that are required of a particular method, but most of the assumptions are implicit and cannot be precisely quantified. An example of an explicit assumption is the pattern employed in the Paid Development method. However, the assumed pattern is itself based on several implicit assumptions such as the impact of inflation on medical costs and the rate at which claim professionals close claims. Loss frequency is a measure of the number of claims per unit of insured exposure, and loss severity is a measure of the average size of claims. Each reserve segment has an implicit frequency and severity for each accident year as a result of the various assumptions made.

Previous reserve analyses have resulted in the Company's identification of information and trends that have caused it to increase or decrease frequency and severity assumptions in prior periods and could lead to the identification of a need for additional material changes in loss and loss adjustment expense reserves, which could materially affect results of operations, equity, business and insurer financial strength and debt ratings. Factors affecting loss frequency include, among other things, the effectiveness of loss controls and safety programs and changes in economic activity or weather patterns. Factors affecting loss severity include, among other things, changes in policy limits and deductibles, rate of inflation and judicial interpretations. Another factor affecting estimates of loss frequency and severity is the loss reporting lag, which is the period of time between the occurrence of a loss and the date the loss is

reported to the Company. The length of the loss reporting lag affects the Company's ability to accurately predict loss frequency (loss frequencies are more predictable for short-tail lines) as well as the amount of reserves needed for IBNR.

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If the actual levels of loss frequency and severity are higher or lower than expected, the ultimate losses will be different than management's best estimate. For most of its reserving classes, the Company believes that frequency can be predicted with greater accuracy than severity. Therefore, the Company believes management's best estimate is more sensitive to changes in severity than frequency. The following table, which the Company believes reflects a reasonable range of variability around its best estimate based on historical loss experience and management's judgment, reflects the impact of changes (which could be favorable or unfavorable) in frequency and severity on the Company's current accident year net loss estimate of \$83.0 million for claims occurring during the six months ended June 30, 2014:

| (Dollars in thousands)  | Severity Change |             |            |            |          |          |
|-------------------------|-----------------|-------------|------------|------------|----------|----------|
|                         |                 | -10%        | -5%        | 0%         | 5%       | 10%      |
| <b>Frequency Change</b> | <b>-5%</b>      | \$ (12,035) | \$ (8,093) | \$ (4,150) | \$ (208) | \$ 3,735 |
|                         | <b>-3%</b>      | (10,541)    | (6,516)    | (2,490)    | 1,536    | 5,561    |
|                         | <b>-2%</b>      | (9,794)     | (5,727)    | (1,660)    | 2,407    | 6,474    |
|                         | <b>-1%</b>      | (9,047)     | (4,939)    | (830)      | 3,279    | 7,387    |
|                         | <b>0%</b>       | (8,300)     | (4,150)    |            | 4,150    | 8,300    |
|                         | <b>1%</b>       | (7,553)     | (3,362)    | 830        | 5,022    | 9,213    |
|                         | <b>2%</b>       | (6,806)     | (2,573)    | 1,660      | 5,893    | 10,126   |
|                         | <b>3%</b>       | (6,059)     | (1,785)    | 2,490      | 6,765    | 11,039   |
|                         | <b>5%</b>       | (4,565)     | (208)      | 4,150      | 8,508    | 12,865   |

The Company's net reserves for losses and loss expenses of \$575.6 million as of June 30, 2014 relate to multiple accident years. Therefore, the impact of changes in frequency and severity for more than one accident year could be higher or lower than the amounts reflected above.

***Recoverability of Reinsurance Receivables***

The Company regularly reviews the collectability of its reinsurance receivables and includes adjustments resulting from this review in earnings in the period in which the adjustment arises. A.M. Best ratings, financial history, available collateral and payment history with the reinsurers are several of the factors that the Company considers when judging collectability. Changes in loss reserves can also affect the valuation of reinsurance receivables if the change is related to loss reserves that are ceded to reinsurers. Certain amounts may be uncollectible if the Company's reinsurers dispute a loss or if the reinsurer is unable to pay. If its reinsurers do not pay, the Company is still legally obligated to pay the loss.

***Investments***

The carrying amount of the Company's investments approximates their fair value. The Company regularly performs various analytical valuation procedures with respect to investments, including reviewing each fixed maturity security in an unrealized loss position to determine the amount of unrealized loss related to credit loss and the amount related to all other factors, such as changes in interest rates. The credit loss represents the portion of the amortized book value in excess of the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The credit loss component of the other than temporary impairment is recorded

through earnings, whereas the amount relating to factors other than credit losses are recorded in other comprehensive income, net of taxes. During its review, 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 to estimate the credit loss to be recognized in earnings, if any. See Note 2 of the notes to consolidated financial statements in Item 1 of Part I of this report for the specific methodologies and significant assumptions used by asset class. 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 an analysis of the Company's securities with gross unrealized losses as of June 30, 2014 and December 31, 2013, and for other than temporary impairment losses that the Company recorded for the quarters ended June 30, 2014 and 2013, please see Note 2 of the notes to the consolidated financial statements in Item 1 of Part I of this report.

### ***Fair Value Measurements***

The Company categorizes its invested assets and derivative instruments into a fair value hierarchy. The fair value hierarchy is directly related to the amount of subjectivity associated with the inputs utilized to determine the fair value of these assets.

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See Note 4 of the notes to the consolidated financial statements in Item 1 of Part I of this report for further information about the fair value hierarchy and the Company's assets that are accounted for at fair value.

***Goodwill and Intangible Assets***

The Company tests for impairment of goodwill at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of goodwill for impairment using both qualitative and quantitative factors. Impairment of goodwill is recognized only if the carrying amount of the business unit, including goodwill, exceeds the fair value of the reporting unit. The amount of the impairment loss would be equal to the excess carrying value of the goodwill over the implied fair value of the reporting unit goodwill.

Impairment of intangible assets with indefinite useful lives is tested at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of intangible assets for impairment using both qualitative and quantitative factors. Impairment of indefinite lived intangible assets is recognized only if the carrying amount of the intangible assets exceeds the fair value of said assets. The amount of the impairment loss would be equal to the excess carrying value of the assets over the fair value of said assets.

Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. The carrying amounts of definite lived intangible assets are regularly reviewed for indicators of impairment in accordance with applicable accounting guidance. Impairment is recognized only if the carrying amount of the intangible asset is in excess of its undiscounted projected cash flows. The impairment is measured as the difference between the carrying amount and the estimated fair value of the asset.

***Deferred Acquisition Costs***

The costs of acquiring new and renewal insurance and reinsurance contracts include commissions, premium taxes and certain other costs that vary with and are directly related to the successful acquisition of new and renewal insurance and reinsurance contracts. The excess of the Company's costs of acquiring new and renewal insurance and reinsurance contracts over the related ceding commissions earned from reinsurers is capitalized as deferred acquisition costs and amortized over the period in which the related premiums are earned.

In accordance with accounting guidance for insurance enterprises, the method followed in computing such amounts limits them to their estimated realizable value that gives effect to the premium to be earned, related investment income, losses and loss adjustment expenses, and certain other costs expected to be incurred as the premium is earned. A premium deficiency charge is recognized if the sum of expected loss and loss adjustment expenses and unamortized acquisition costs exceeds related unearned premium. This evaluation is done at a product line level in Insurance Operations and at a treaty level in Reinsurance Operations. Any future expected loss on the related unearned premium is recorded first by impairing the unamortized acquisition costs on the related unearned premium followed by an increase to loss and loss adjustment expense reserves on additional expected loss in excess of unamortized acquisition costs. The Company calculates deferred acquisition costs for Insurance Operations separately by product lines and for its Reinsurance Operations separately for each treaty.

***Taxation***

The Company provides for income taxes in accordance with applicable accounting guidance. The Company's deferred tax assets and liabilities primarily result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Company's assets and liabilities.

At each balance sheet date, management assesses the need to establish a valuation allowance that reduces deferred tax assets when it is more likely than not that all, or some portion, of the deferred tax assets will not be realized. A valuation allowance would be based on all available information including the Company's assessment of uncertain tax positions and projections of future taxable income from each tax-paying component in each jurisdiction, principally derived from business plans and available tax planning strategies. There are no valuation allowances as



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**GLOBAL INDEMNITY PLC**

of June 30, 2014 or December 31, 2013. The deferred tax asset balance is analyzed regularly by management. Based on these analyses, the Company has determined that its deferred tax asset is recoverable. Projections of future taxable income incorporate several assumptions of future business and operations that are apt to differ from actual experience. If, in the future, the Company's assumptions and estimates that resulted in the forecast of future taxable income for each tax-paying component prove to be incorrect, a valuation allowance may be required. This could have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

On an interim basis, the Company records its tax provision using the expected full year effective tax rate. Forecasts which compute taxable income and taxes expected to be incurred in the jurisdictions where the Company does business are prepared several times per year. The effective tax rate is computed by dividing forecasted income tax expense not including tax on net realized investment gains (losses) and discrete items by forecasted pre-tax income not including net realized investment gains (losses) and discrete items. Changes in pre-tax and taxable income in the jurisdictions where the Company does business can change the effective tax rate. To compute the Company's income tax expense on an interim basis, the Company applies its expected full year effective tax rate against its pre-tax income excluding net realized investment gains (losses) and discrete items and then adds actual tax on net realized investment gains (losses) and discrete items to that result.

The Company applies a more likely than not recognition threshold for all tax uncertainties, only allowing the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities.

**Business Segments**

The Company manages its business through two business segments: Insurance Operations and Reinsurance Operations.

The Company evaluates the performance of its Insurance Operations and Reinsurance Operations segments based on gross and net premiums written, revenues in the form of net premiums earned and expenses in the form of net losses and loss adjustment expenses, acquisition costs, and other underwriting expenses.

For a description of the Company's segments, see "Business Segments" in Item 1 of Part I in the Company's 2013 Annual Report on Form 10-K.

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The following table sets forth an analysis of financial data for the Company's segments during the periods indicated:

| <b>(Dollars in thousands)</b>                   | <b>Quarters Ended June 30, Six Months Ended June 30,</b> |             |             |             |
|---|--|-------------|-------------|-------------|
|   | <b>2014</b>  | <b>2013</b> | <b>2014</b> | <b>2013</b> |
| <b>Insurance Operations premiums written:</b>   |  |             |             |             |
| Gross premiums written                          | \$ 60,556  | \$ 61,879   | \$ 113,548  | \$ 112,967  |
| Ceded premiums written                          | 5,517  | 5,492       | 9,853       | 8,952       |
| Net premiums written                            | \$ 55,039  | \$ 56,387   | \$ 103,695  | \$ 104,015  |
| <b>Reinsurance Operations premiums written:</b> |  |             |             |             |
| Gross premiums written                          | \$ 22,349  | \$ 22,366   | \$ 46,554   | \$ 46,217   |
| Ceded premiums written                          | 1,016  | 407         | 1,016       | 408         |
| Net premiums written                            | \$ 21,333  | \$ 21,959   | \$ 45,538   | \$ 45,809   |
| <b>Revenues: (1)</b>                            |  |             |             |             |
| Insurance Operations                            | \$ 53,194  | \$ 47,164   | \$ 106,673  | \$ 92,486   |
| Reinsurance Operations                          | 12,978   | 11,754      | 27,211      | 22,482      |
| Total revenues                                  | \$ 66,172  | \$ 58,918   | \$ 133,884  | \$ 114,968  |
| <b>Expenses: (2)</b>                            |  |             |             |             |
| Insurance Operations (3)                        | \$ 56,435  | \$ 51,294   | \$ 111,750  | \$ 100,431  |
| Reinsurance Operations                          | 9,006  | 8,102       | 18,748      | 15,230      |
| Total expenses                                  | \$ 65,441  | \$ 59,396   | \$ 130,498  | \$ 115,661  |
| <b>Income (loss) from segments:</b>             |  |             |             |             |
| Insurance Operations                            | \$ (3,241)   | \$ (4,130)  | \$ (5,077)  | \$ (7,945)  |
| Reinsurance Operations                          | 3,972  | 3,652       | 8,463       | 7,252       |
| Total income (loss) from segments               | \$ 731   | \$ (478)    | \$ 3,386    | \$ (693)    |
| <b>Insurance combined ratio analysis: (4)</b>   |  |             |             |             |
| <b>Insurance Operations</b>                     |  |             |             |             |
| Loss ratio                                      | 63.9   | 65.3        | 63.5        | 64.4        |
| Expense ratio                                   | 42.5   | 44.1        | 41.6        | 44.6        |

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|                        |       |       |       |       |
|------------------------|-------|-------|-------|-------|
| Combined ratio         | 106.4 | 109.4 | 105.1 | 109.0 |
| Reinsurance Operations |       |       |       |       |
| Loss ratio             | 33.9  | 36.8  | 34.5  | 32.8  |
| Expense ratio          | 35.5  | 32.2  | 34.5  | 35.0  |
| Combined ratio         | 69.4  | 69.0  | 69.0  | 67.8  |
| Consolidated           |       |       |       |       |
| Loss ratio             | 58.0  | 59.5  | 57.5  | 58.2  |
| Expense ratio          | 41.2  | 41.7  | 40.2  | 42.7  |
| Combined ratio         | 99.2  | 101.2 | 97.7  | 100.9 |

- (1) Excludes net investment income and net realized investment gains, which are not allocated to the Company's segments.
- (2) Excludes corporate and other operating expenses and interest expense, which are not allocated to the Company's segments.
- (3) Includes excise tax of \$281 and \$246 for the quarters ended June 30, 2014 and 2013, respectively, and excise tax of \$561 and \$482 for the six months ended June 30, 2014 and 2013, respectively, related to cessions from the Company's Insurance Operations to the Company's Reinsurance Operations.
- (4) The Company's insurance combined ratios are GAAP financial measures that are generally viewed in the insurance industry as indicators of underwriting profitability. The loss ratio is the ratio of net losses and loss adjustment expenses to net premiums earned. The expense ratio is the ratio of acquisition costs and other underwriting expenses to net premiums earned. The combined ratio is the sum of the loss and expense ratios.

**Table of Contents****GLOBAL INDEMNITY PLC****Results of Operations**

All percentage and dollar changes included in the text below have been calculated using the corresponding amounts from the applicable tables.

**Quarter Ended June 30, 2014 Compared with the Quarter Ended June 30, 2013****Insurance Operations**

The components of income from the Company's Insurance Operations segment and corresponding underwriting ratios are as follows:

| (Dollars in thousands)                                | Quarters Ended June 30 |            | Increase / (Decrease) |         |
|---|------------------------|------------|-----------------------|---------|
|   | 2014                   | 2013       | \$                    | %       |
| Gross premiums written                                | \$ 60,556              | \$ 61,879  | \$ (1,323)            | (2.1%)  |
| Net premiums written                                  | \$ 55,039              | \$ 56,387  | \$ (1,348)            | (2.4%)  |
| Net premiums earned                                   | \$ 53,034              | \$ 46,916  | \$ 6,118              | 13.0%   |
| Other income  | 160                    | 248        | (88)                  | (35.5%) |
| Total revenues  | 53,194                 | 47,164     | 6,030                 | 12.8%   |
| Losses and expenses:                                  |                        |            |                       |         |
| Net losses and loss adjustment expenses               | 33,875                 | 30,608     | 3,267                 | 10.7%   |
| Acquisition costs and other underwriting expenses (1) | 22,560                 | 20,686     | 1,874                 | 9.1%    |
| Loss from segment                                     | \$ (3,241)             | \$ (4,130) | \$ 889                | 21.5%   |
| Underwriting Ratios:                                  |                        |            |                       |         |
| Loss ratio:   |                        |            |                       |         |
| Current accident year                                 | 69.5                   | 66.2       | 3.3                   |         |
| Prior accident year                                   | (5.6)                  | (0.9)      | (4.7)                 |         |
| Calendar year loss ratio                              | 63.9                   | 65.3       | (1.4)                 |         |
| Expense ratio   | 42.5                   | 44.1       | (1.6)                 |         |
| Combined ratio  | 106.4                  | 109.4      | (3.0)                 |         |

**Reconciliation of Non-GAAP Measures**

|  |           |           |
|--|-----------|-----------|
| Combined ratio excluding the effect of prior accident year <b>(2) (7)</b>                      | 112.0     | 110.3     |
| Effect of prior accident year  | (5.6)     | (0.9)     |
| Combined ratio   | 106.4     | 109.4     |
| Loss ratio excluding the effect of prior accident year <b>(3) (7)</b>                          | 69.5      | 66.2      |
| Effect of prior accident year  | (5.6)     | (0.9)     |
| Loss ratio   | 63.9      | 65.3      |
| Property loss ratio excluding the effect of prior accident year <b>(4) (7)</b>                 | 66.7      | 58.1      |
| Effect of prior accident year  | (0.2)     | (7.9)     |
| Property loss ratio  | 66.5      | 50.2      |
| Casualty loss ratio excluding the effect of prior accident year <b>(5) (7)</b>                 | 73.5      | 77.1      |
| Effect of prior accident year  | (13.5)    | 8.7       |
| Casualty loss ratio  | 60.0      | 85.8      |
| Non catastrophe property loss ratio excluding the effect of prior accident year <b>(8) (7)</b> | 35.6      | 40.5      |
| Effect of prior accident year  | (0.6)     | (2.6)     |
| Non catastrophe property loss ratio  | 35.0      | 37.9      |
| Catastrophe property loss ratio excluding the effect of prior accident year <b>(9) (7)</b>     | 31.1      | 17.6      |
| Effect of prior accident year  | 0.4       | (5.3)     |
| Catastrophe property loss ratio  | 31.5      | 12.3      |
| Non catastrophe property losses excluding the effect of prior accident year <b>(10) (7)</b>    | \$ 11,231 | \$ 10,966 |
| Effect of prior accident year  | (185)     | (711)     |
| Non catastrophe property losses  | \$ 11,046 | \$ 10,255 |
| Catastrophe property losses excluding the effect of prior accident year <b>(11) (7)</b>        | \$ 9,820  | \$ 4,781  |
| Effect of prior accident year  | 118       | (1,438)   |
| Catastrophe property losses  | \$ 9,938  | \$ 3,343  |

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|   |           |           |
|---|-----------|-----------|
| Net losses and loss adjustment expenses excluding the effects of prior accident year <b>(6) (7)</b> | \$ 36,850 | \$ 31,038 |
| Effect of prior accident year   | (2,975)   | (430)     |
| Net losses and loss adjustment expenses   | \$ 33,875 | \$ 30,608 |

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- (1) Includes excise tax of \$281 and \$246 related to cessions from the Company's Insurance Operations to its Reinsurance Operations for the quarters ended June 30, 2014 and 2013, respectively.
- (2) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the combined ratio.
- (3) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the loss ratio.
- (4) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the property loss ratio.
- (5) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the casualty loss ratio.
- (6) This is a non-GAAP measure that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the net losses and loss adjustment expenses.
- (7) The Company believes that this non-GAAP ratio or measure is useful to investors when evaluating the Company's underwriting performance as trends in the Company's U.S. insurance operations may be obscured by prior accident year adjustments. This non-GAAP ratio should not be considered as a substitute for its most directly comparable GAAP measure and does not reflect the overall underwriting profitability of the Company.
- (8) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the non catastrophe property loss ratio.
- (9) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the catastrophe property loss ratio.
- (10) This is a non-GAAP measure that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the non catastrophe property losses.
- (11) This is a non-GAAP measure that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the catastrophe property losses.

**Premiums**

The Company's Insurance Operations' gross written, net written, and net earned premiums by product line are as follows:

| (Dollars in thousands)           | Quarter Ended June 30, 2014 |                  |                  | Quarter Ended June 30, 2013 |                  |                  |
|----------------------------------|-----------------------------|------------------|------------------|-----------------------------|------------------|------------------|
|                                  | Gross Written               | Net Written      | Net Earned       | Gross Written               | Net Written      | Net Earned       |
| Small Business Binding Authority | \$ 29,252                   | \$ 27,531        | \$ 26,654        | \$ 28,055                   | \$ 26,204        | \$ 22,720        |
| Property Brokerage               | 13,374                      | 11,017           | 8,158            | 12,931                      | 10,751           | 7,006            |
| Programs                         | 16,569                      | 15,255           | 14,337           | 15,351                      | 14,179           | 12,981           |
| Other                            | 1,361                       | 1,236            | 3,885            | 5,542                       | 5,253            | 4,209            |
| <b>Total</b>                     | <b>\$ 60,556</b>            | <b>\$ 55,039</b> | <b>\$ 53,034</b> | <b>\$ 61,879</b>            | <b>\$ 56,387</b> | <b>\$ 46,916</b> |

Gross premiums written, which represent the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions, were \$60.6 million for the quarter ended June 30, 2014, compared with \$61.9 million for the quarter ended June 30, 2013, a decrease of \$1.3 million or 2.1%. The decrease in other was

primarily due to the culling of unprofitable business. Excluding commercial automobile, which is included in the other category in the table above, gross written premiums increased by \$2.8 million or 5.0% due to growth in small business, property brokerage, and programs.

Net premiums written, which equal gross premiums written less ceded premiums written, were \$55.0 million for the quarter ended June 30, 2014, compared with \$56.4 million for the quarter ended June 30, 2013, a decrease of \$1.3 million or 2.4%. The decrease was primarily due to the reduction in gross premiums written noted above. The ratio of net premiums written to gross premiums written was 90.9% for the quarter ended June 30, 2014 and 91.1% for the quarter ended June 30, 2013, a decrease of 0.2%.



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Net premiums earned were \$53.0 million for the quarter ended June 30, 2014, compared with \$46.9 million for the quarter ended June 30, 2013, an increase of \$6.1 million or 13.0%. The growth in net premiums earned was primarily due to increases in net premiums written within the previous year as well as increased retention on the Company's catastrophe treaties. Property net premiums earned for the quarters ended June 30, 2014 and 2013 were \$31.6 million and \$27.1 million, respectively. Casualty net premiums earned for the quarters ended June 30, 2014 and 2013 were \$21.5 million and \$19.8 million, respectively.

***Other Income***

Other income was \$0.2 million for each of the quarters ended June 30, 2014 and 2013. Other income is primarily comprised of fee income.

***Net Losses and Loss Adjustment Expenses***

The loss ratio for the Company's Insurance Operations was 63.9% for the quarter ended June 30, 2014 compared with 65.3% for the quarter ended June 30, 2013. The loss ratio is a GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

The current accident year loss ratio for the quarter ended June 30, 2014 was 69.5%, an increase of 3.3 points from 66.2%, for the quarter ended June 30, 2013:

The current accident year property loss ratio increased 8.6 points from 58.1% in the quarter ended June 30, 2013 to 66.7% in the quarter ended June 30, 2014.

The non-catastrophe loss ratio decreased 4.9 points from 40.5% in the quarter ended June 30, 2013 to 35.6% in the quarter ended June 30, 2014. Non-catastrophe losses were \$11.2 million and \$11.0 million for the quarters ended June 30, 2014 and 2013, respectively.

The catastrophe loss ratio increased 13.5 points from 17.6% in the quarter ended June 30, 2013 to 31.1% in the quarter ended June 30, 2014. Catastrophe losses were \$9.8 million and \$4.8 million for the quarters ended June 30, 2014 and 2013, respectively.

The current accident year casualty loss ratio decreased 3.6 points from 77.1% in the quarter ended June 30, 2013 to 73.5% in the quarter ended June 30, 2014.

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

In the second quarter of 2014, the Company reduced its prior accident year loss reserves by \$3.0 million, which primarily consisted of the following:

**General liability:** A \$0.8 million net increase which consisted of a \$6.0 million reduction in the ongoing General Liability book due to less frequency and severity than anticipated and a \$6.8 million increase to the Company's older environmentally exposed book.

**Asbestos:** A \$6.9 million increase primarily related to accident years prior to 1990 due to recent development on several claims.

**Professional:** A \$10.0 million reduction primarily driven by a lower than expected severity from accident years 2007 through 2010 in a discontinued line.

**Other:** A \$0.7 million decrease primarily related to the auto physical damage and marine lines of business.

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In the second quarter of 2013, the Company reduced its prior accident year loss reserves by \$0.4 million, which primarily consisted of the following:

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

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

**Asbestos:** A \$3.5 million increase primary related to policies written prior to 1990 due to recent development on several claims.

Net losses and loss adjustment expenses were \$33.9 million for the quarter ended June 30, 2014, compared with \$30.6 million for the quarter ended June 30, 2013, an increase of \$3.3 million or 10.7%. Excluding the impact of prior year adjustments, the current accident year net losses and loss adjustment expenses were \$36.9 million and \$31.0 million for the quarters ended June 30, 2014 and 2013, respectively, an increase of \$5.8 million or 18.7%. This increase is primarily attributable to a growth in earned premium volume, as noted above, as well as an increase in catastrophe losses in 2014.

***Acquisition Costs and Other Underwriting Expenses***

Acquisition costs and other underwriting expenses were \$22.6 million for the quarter ended June 30, 2014, compared with \$20.7 million for the quarter ended June 30, 2013, an increase of \$1.9 million or 9.1%. The increase is primarily due to increased commissions as a result of growth in net earned premiums.

***Expense and Combined Ratios***

The expense ratio for the Company's Insurance Operations was 42.5% for the quarter ended June 30, 2014, compared with 44.1% for the quarter ended June 30, 2013. The expense ratio is a GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The decrease in the expense ratio is primarily due to the growth in earned premium volume.

The combined ratio for the Company's Insurance Operations was 106.4% for the quarter ended June 30, 2014, compared with 109.4% for the quarter ended June 30, 2013. The combined ratio is a GAAP financial measure and is the sum of the Company's loss and expense ratios. Excluding the impact of prior year adjustments, the current accident year combined ratio increased from 110.3% for the quarter ended June 30, 2013 to 112.0% for the quarter ended June 30, 2014. See discussion of loss ratio included in "Net Losses and Loss Adjustment Expenses" above and discussion of expense ratio in preceding paragraph for an explanation of the increase.

***Loss from Segment***

The factors described above resulted in a loss from the Company's Insurance Operations of \$3.2 million for the quarter ended June 30, 2014, compared to a loss of \$4.1 million for the quarter ended June 30, 2013.

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Reinsurance Operations

The components of income from the Company's Reinsurance Operations segment and corresponding underwriting ratios are as follows:

| (Dollars in thousands)                            | Quarters Ended June 30, |           | Increase / (Decrease) |          |
|---|-------------------------|-----------|-----------------------|----------|
|   | 2014                    | 2013      | \$                    | %        |
| Gross premiums written                            | \$ 22,349               | \$ 22,366 | \$ (17)               | (0.1%)   |
| Net premiums written                              | \$ 21,333               | \$ 21,959 | \$ (626)              | (2.9%)   |
| Net premiums earned                               | \$ 12,983               | \$ 11,755 | \$ 1,228              | 10.4%    |
| Other loss  | (5)                     | (1)       | (4)                   | (400.0%) |
| Total revenues                                    | 12,978                  | 11,754    | 1,224                 | 10.4%    |
| Losses and expenses:                              |                         |           |                       |          |
| Net losses and loss adjustment expenses           | 4,395                   | 4,316     | 79                    | 1.8%     |
| Acquisition costs and other underwriting expenses | 4,611                   | 3,786     | 825                   | 21.8%    |
| Income from segment                               | \$ 3,972                | \$ 3,652  | \$ 320                | 8.8%     |
| Underwriting Ratios:                              |                         |           |                       |          |
| Loss ratio:                                       |                         |           |                       |          |
| Current accident year                             | 42.0                    | 39.1      | 2.9                   |          |
| Prior accident year                               | (8.1)                   | (2.3)     | (5.8)                 |          |
| Calendar year loss ratio                          | 33.9                    | 36.8      | (2.9)                 |          |
| Expense ratio                                     | 35.5                    | 32.2      | 3.3                   |          |
| Combined ratio                                    | 69.4                    | 69.0      | 0.4                   |          |

**Reconciliation of Non-GAAP Measures**

|  |       |       |
|--|-------|-------|
| Combined ratio excluding the effect of prior accident year (1) |       |       |
| (4)  | 77.5  | 71.3  |
| Effect of prior accident year                                  | (8.1) | (2.3) |
| Combined ratio   | 69.4  | 69.0  |

|   |          |          |
|---|----------|----------|
| Loss ratio excluding the effect of prior accident year <b>(2) (4)</b>                               | 42.0     | 39.1     |
| Effect of prior accident year   | (8.1)    | (2.3)    |
| Loss ratio  | 33.9     | 36.8     |
| Property loss ratio excluding the effect of prior accident year <b>(5) (4)</b>                      | 38.7     | 35.9     |
| Effect of prior accident year   | (10.1)   | (0.6)    |
| Property loss ratio   | 28.6     | 35.3     |
| Net losses and loss adjustment expenses excluding the effects of prior accident year <b>(3) (4)</b> | \$ 5,448 | \$ 4,592 |
| Effect of prior accident year   | (1,053)  | (276)    |
| Net losses and loss adjustment expenses   | \$ 4,395 | \$ 4,316 |

- (1)** This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the combined ratio.
- (2)** This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the loss ratio.
- (3)** This is a non-GAAP measure that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the net losses and loss adjustment expenses.
- (4)** The Company believes that this non-GAAP ratio or measure is useful to investors when evaluating the Company's underwriting performance as trends in the Company's U.S. insurance operations may be obscured by prior accident year adjustments. This non-GAAP ratio should not be considered as a substitute for its most directly comparable GAAP measure and does not reflect the overall underwriting profitability of the Company.
- (5)** This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the property loss ratio.

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***Premiums***

Gross premiums written, which represent the amount received or to be received for reinsurance agreements written without reduction for reinsurance costs or other deductions, were \$22.3 million for the quarter ended June 30, 2014, compared with \$22.4 million for the quarter ended June 30, 2013, a decrease of \$0.02 million or 0.1%.

Net premiums written, which equal gross premiums written less ceded premiums written, were \$21.3 million for the quarter ended June 30, 2014, compared with \$22.0 million for the quarter ended June 30, 2013, a decrease of \$0.6 million or 2.9%.

Net premiums earned were \$13.0 million for the quarter ended June 30, 2014, compared with \$11.8 million for the quarter ended June 30, 2013, an increase of \$1.2 million or 10.4%. The increase was primarily due to premiums resulting from new treaties written during 2013 and 2014. Property net premiums earned for the quarters ended June 30, 2014 and 2013 were \$12.8 million and \$10.9 million, respectively. Casualty net premiums earned for the quarters ended June 30, 2014 and 2013 were \$0.1 million and \$0.8 million, respectively.

***Other Income (Loss)***

Other income was comprised of loss of \$0.005 million and \$0.001 million for the quarters ended June 30, 2014 and 2013, respectively. Other income represents foreign exchange gains and losses.

***Net Losses and Loss Adjustment Expenses***

The loss ratio for the Company's Reinsurance Operations was 33.9% for the quarter ended June 30, 2014 compared with 36.8% for the quarter ended June 30, 2013.

The current accident year loss ratio increased 2.9 points from 39.1% for the quarter ended June 30, 2013 to 42.0% for the quarter ended June 30, 2014 primarily due to an increase in losses for property lines. The property lines current accident year loss ratio increased to 38.7% for the quarter ended June 30, 2014 from 35.9% for the quarter ended June 30, 2013.

There was a decrease in net losses and loss adjustment expenses for prior accident years of \$1.0 million in the quarter ended June 30, 2014, which decreased the loss ratio by 8.1 points, compared to a decrease in net losses and loss adjustment expenses for prior accident years of \$0.3 million for the quarter ended June 30, 2013 which decreased the loss ratio by 2.3 points.

The \$1.0 million reduction in prior accident loss reserves primarily consisted of the following:

**Property:** A \$1.3 million decrease primarily related to accident year 2012 due to catastrophe losses developing better than expected.

**Commercial Auto Liability:** A \$0.3 million increase in aggregate related to accident years 2009 to 2011. In the second quarter of 2013, the Company reduced its prior accident year loss reserves by \$0.3 million primarily due to better than expected development of prior year losses for general liability related to accident years 2007 through 2010 and 2012.

Net losses and loss adjustment expenses were \$4.4 million for the quarter ended June 30, 2014, compared with \$4.3 million for the quarter ended June 30, 2013, an increase of \$0.08 million or 1.8%. Excluding the impact of prior year adjustments, the current accident year net losses and loss adjustment expenses increased from \$4.6 million for the quarter ended June 30, 2013 to \$5.4 million for the quarter ended June 30, 2014

***Acquisition Costs and Other Underwriting Expenses***

Acquisition costs and other underwriting expenses were \$4.6 million for the quarter ended June 30, 2014, compared with \$3.8 million for the quarter ended June 30, 2013, an increase of \$0.8 million or 21.8%. The increase is primarily due to higher profit commission on the property catastrophe treaties due to lower losses in the second quarter of 2014 than 2013.



**Table of Contents****GLOBAL INDEMNITY PLC*****Expense and Combined Ratios***

The expense ratio for the Company's Reinsurance Operations was 35.5% for the quarter ended June 30, 2014, compared with 32.2% for the quarter ended June 30, 2013.

The combined ratio for the Company's Reinsurance Operations was 69.4% for the quarter ended June 30, 2014, compared with 69.0% for the quarter ended June 30, 2013. Excluding the impact of prior accident year adjustments, the current accident year combined ratio increased from 71.3% for the quarter ended June 30, 2013 to 77.5% for the quarter ended June 30, 2014. See discussion of loss ratio included in "Net Losses and Loss Adjustment Expenses" above and discussion of expense ratio in preceding paragraph for an explanation of the increase.

***Income from Segment***

The factors described above resulted in income from the Company's Reinsurance Operations of \$4.0 million for the quarter ended June 30, 2014 compared to income of \$3.7 million for the quarter ended June 30, 2013, an increase of \$0.3 million.

**Unallocated Corporate Items**

The following items are not allocated to the Company's Insurance Operations or Reinsurance Operations segments:

| (Dollars in thousands)                 | Quarters Ended June 30, |          | Increase /   |         |
|--|-------------------------|----------|--------------|---------|
|  | 2014                    | 2013     | \$(Decrease) | %       |
| Net investment income                  | \$ 7,677                | \$ 9,765 | \$ (2,088)   | (21.4%) |
| Net realized investment gains          | 39,881                  | 2,806    | 37,075       | 1321.3% |
| Corporate and other operating expenses | (3,172)                 | (2,472)  | 700          | 28.3%   |
| Interest expense                       | (319)                   | (1,181)  | (862)        | (73.0%) |
| Income tax (expense) benefit           | (11,590)                | 224      | 11,814       | 5274.1% |

***Net Investment Income***

Net investment income, which is gross investment income less investment expenses, was \$7.7 million for the quarter ended June 30, 2014, compared with \$9.8 million for the quarter ended June 30, 2013, a decrease of \$2.1 million or 21.4%.

Gross investment income, which excludes realized gains and losses, was \$8.8 million for the quarter ended June 30, 2014, compared with \$10.9 million for the quarter ended June 30, 2013, a decrease of \$2.0 million

or 18.7%. The decrease was primarily due to the redemption of the Company's corporate loans portfolio and lower reinvestment yields partially offset by an increase in dividend income from the equity portfolio.

Investment expenses were \$1.2 million for the quarter ended June 30, 2014, compared with \$1.1 million for the quarter ended June 2013, an increase of \$0.1 million or 4.7%.

At June 30, 2014, the Company held agency mortgage-backed securities with a book value of \$148.5 million. Excluding the agency mortgage-backed securities, the average duration of the Company's fixed maturities portfolio was 2.1 years as of June 30, 2014, compared with 2.2 years as of June 30, 2013. Including cash and short-term investments, the average duration of the Company's fixed maturities portfolio, excluding agency mortgage-backed securities, was 1.9 years as of June 30, 2014, compared with 2.0 years as of June 30, 2013. Changes in interest rates can cause principal payments on certain investments to extend or shorten which can impact duration. At June 30, 2014, the Company's embedded book yield on its fixed maturities, not including cash, was 2.2% compared with 2.8% at June 30, 2013. The embedded book yield on the \$192.5 million of municipal bonds in the Company's portfolio was 2.8% at June 30, 2014, compared to an embedded book yield of 2.9% on the Company's municipal bond portfolio of \$195.0 million at June 30, 2013.

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**GLOBAL INDEMNITY PLC**

***Net Realized Investment Gains***

Net realized investment gains were \$39.9 million for the quarter ended June 30, 2014, compared with \$2.8 million for the quarter ended June 30, 2013. The net realized investment gains for 2014 consist primarily of net gains of \$0.6 million relative to the Company's fixed maturities, \$45.3 million relative to its equity securities, offset by losses of \$6.0 million related to its interest rate swaps. The net realized investment gains for 2013 consist primarily of net gains of \$3.8 million relative to its equity securities offset by other than temporary impairment losses of \$1.0 million.

See Note 2 of the notes to the consolidated financial statements in Item 1 of Part I of this report for an analysis of total investment return on a pre-tax basis for the quarters ended June 30, 2014 and 2013.

***Corporate and Other Operating Expenses***

Corporate and other operating expenses consist of outside legal fees, other professional fees, directors' fees, management fees, salaries and benefits for holding company personnel, development costs for new products, and taxes incurred which are not directly related to operations. Corporate and other operating expenses were \$3.2 million for the quarter ended June 30, 2014, compared with \$2.5 million for the quarter ended June 30, 2013, an increase of \$0.7 million or 28.3%. The increase is primarily due to an increase in professional fees and travel cost offset by a reduction in salary expense.

***Interest Expense***

Interest expense was \$0.3 million and \$1.2 million for the quarters ended June 30, 2014 and 2013, respectively, a decrease of \$0.9 million or 73%. This reduction was primarily due to the repayment of the Company's senior notes payable and junior subordinated debentures in 2013. See Note 13 of the notes to the consolidated financial statements in Item 8 of Part II of the Company's 2013 Annual Report on Form 10-K for details on the Company's debt.

***Income Tax Expense (Benefit)***

The income tax expense was \$11.6 million for the quarter ended June 30, 2014 compared to an income tax benefit of \$0.2 million for the quarter ended June 30, 2013. See Note 5 of the notes to the consolidated financial statements in Item 1 of Part I of this report for a comparison of income tax benefit between periods.

***Net Income***

The factors described above resulted in net income of \$33.2 million and \$8.7 million for the quarters ended June 30, 2014 and 2013, respectively, an increase of \$24.5 million or 283.3%.

**Table of Contents****GLOBAL INDEMNITY PLC****Six Months Ended June 30, 2014 Compared with the Six Months Ended June 30, 2013****Insurance Operations**

The components of income from the Company's Insurance Operations segment and corresponding underwriting ratios are as follows:

| (Dollars in thousands)                                   | Six Months Ended June 30, |            | Increase / (Decrease) |        |
|--|---------------------------|------------|-----------------------|--------|
|  | 2014                      | 2013       | \$                    | %      |
| Gross premiums written                                   | \$ 113,548                | \$ 112,967 | \$ 581                | 0.5%   |
| Net premiums written                                     | \$ 103,695                | \$ 104,015 | \$ (320)              | (0.3%) |
| Net premiums earned                                      | \$ 106,347                | \$ 92,157  | \$ 14,190             | 15.4%  |
| Other income   | 326                       | 329        | (3)                   | (0.9%) |
| Total revenues   | 106,673                   | 92,486     | 14,187                | 15.3%  |
| Losses and expenses:                                     |                           |            |                       |        |
| Net losses and loss adjustment expenses                  | 67,472                    | 59,350     | 8,122                 | 13.7%  |
| Acquisition costs and other underwriting expenses<br>(1) | 44,278                    | 41,081     | 3,197                 | 7.8%   |
| Loss from segment  | \$ (5,077)                | \$ (7,945) | \$ 2,868              | 36.1%  |
| Underwriting Ratios:                                     |                           |            |                       |        |
| Loss ratio:  |                           |            |                       |        |
| Current accident year                                    | 68.2                      | 67.9       | 0.3                   |        |
| Prior accident year                                      | (4.7)                     | (3.5)      | (1.2)                 |        |
| Calendar year loss ratio                                 | 63.5                      | 64.4       | (0.9)                 |        |
| Expense ratio  | 41.6                      | 44.6       | (3.0)                 |        |
| Combined ratio   | 105.1                     | 109.0      | (3.9)                 |        |

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## GLOBAL INDEMNITY PLC

**Reconciliation of Non-GAAP Measures**

|  |           |           |
|--|-----------|-----------|
| Combined ratio excluding the effect of prior accident year <b>(2)</b><br><b>(7)</b>                      | 109.8     | 112.5     |
| Effect of prior accident year  | (4.7)     | (3.5)     |
| Combined ratio   | 105.1     | 109.0     |
| Loss ratio excluding the effect of prior accident year <b>(3)</b> <b>(7)</b>                             | 68.2      | 67.9      |
| Effect of prior accident year  | (4.7)     | (3.5)     |
| Loss ratio   | 63.5      | 64.4      |
| Property loss ratio excluding the effect of prior accident year<br><b>(4)</b> <b>(7)</b>                 | 64.8      | 62.8      |
| Effect of prior accident year  | 0.2       | (9.3)     |
| Property loss ratio  | 65.0      | 53.5      |
| Casualty loss ratio excluding the effect of prior accident year<br><b>(5)</b> <b>(7)</b>                 | 73.1      | 74.8      |
| Effect of prior accident year  | (11.9)    | 4.4       |
| Casualty loss ratio  | 61.2      | 79.2      |
| Non catastrophe property loss ratio excluding the effect of<br>prior accident year <b>(8)</b> <b>(7)</b> | 44.0      | 50.1      |
| Effect of prior accident year  | (0.1)     | (5.1)     |
| Non catastrophe property loss ratio  | 43.9      | 45.0      |
| Catastrophe property loss ratio excluding the effect of prior<br>accident year <b>(9)</b> <b>(7)</b>     | 20.8      | 12.7      |
| Effect of prior accident year  | 0.3       | (4.2)     |
| Catastrophe property loss ratio  | 21.1      | 8.5       |
| Non catastrophe property losses excluding the effect of prior<br>accident year <b>(10)</b> <b>(7)</b>    | \$ 27,759 | \$ 26,612 |
| Effect of prior accident year  | (65)      | (2,712)   |

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|   |           |           |
|---|-----------|-----------|
| Non catastrophe property losses   | \$ 27,694 | \$ 23,900 |
| Catastrophe property losses excluding the effect of prior accident year <b>(11) (7)</b>             | \$ 13,160 | \$ 6,723  |
| Effect of prior accident year   | 188       | (2,245)   |
| Catastrophe property losses   | \$ 13,348 | \$ 4,478  |
| Net losses and loss adjustment expenses excluding the effects of prior accident year <b>(6) (7)</b> | \$ 72,492 | \$ 62,579 |
| Effect of prior accident year   | (5,020)   | (3,229)   |
| Net losses and loss adjustment expenses   | \$ 67,472 | \$ 59,350 |

- (1) Includes excise tax of \$561 and \$482 related to cessions from the Company's Insurance Operations to the Company's Reinsurance Operations for the six months ended June 30, 2014 and 2013, respectively.
- (2) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the combined ratio.
- (3) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the loss ratio.
- (4) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the property loss ratio.
- (5) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the casualty loss ratio.
- (6) This is a non-GAAP measure that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the net losses and loss adjustment expenses.
- (7) The Company believes that this non-GAAP ratio or measure is useful to investors when evaluating the Company's underwriting performance as trends in the Company's U.S. insurance operations may be obscured by prior accident year adjustments. This non-GAAP ratio should not be considered as a substitute for its most directly comparable GAAP measure and does not reflect the overall underwriting profitability of the Company.
- (8) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the non catastrophe property loss ratio.
- (9) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the catastrophe property loss ratio.
- (10) This is a non-GAAP measure that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the non catastrophe property losses.
- (11) This is a non-GAAP measure that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the catastrophe property losses.

**Table of Contents****GLOBAL INDEMNITY PLC****Premiums**

The Company's Insurance Operations' gross written, net written, and net earned premiums by product line are as follows:

| (Dollars in thousands)           | Six Months Ended June 30, 2014 |                   |                   | Six Months Ended June 30, 2013 |                   |                  |
|----------------------------------|--------------------------------|-------------------|-------------------|--------------------------------|-------------------|------------------|
|                                  | Gross Written                  | Net Written       | Net Earned        | Gross Written                  | Net Written       | Net Earned       |
| Small Business Binding Authority | \$ 56,141                      | \$ 52,963         | \$ 52,855         | \$ 51,132                      | \$ 47,837         | \$ 44,273        |
| Property Brokerage Programs      | 22,237                         | 18,538            | 16,515            | 22,367                         | 19,776            | 13,891           |
| Other                            | 3,115                          | 2,831             | 8,683             | 9,572                          | 8,990             | 8,268            |
| <b>Total</b>                     | <b>\$ 113,548</b>              | <b>\$ 103,695</b> | <b>\$ 106,347</b> | <b>\$ 112,967</b>              | <b>\$ 104,015</b> | <b>\$ 92,157</b> |

Gross premiums written, which represent the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions, were \$113.5 million for the six months ended June 30, 2014, compared with \$113.0 million for the six months ended June 30, 2013, an increase of \$0.6 million or 0.5%. The increase was primarily due to growth in small business driven by both higher retention rates and rate increases as well as growth in programs. This increase was partially offset by a reduction in the other category resulting from the culling of unprofitable business. Excluding commercial automobile, which is included in the other category in the table above, gross written premiums increased by \$6.9 million or 6.6%.

Net premiums written, which equal gross premiums written less ceded premiums written, were \$103.7 million for the six months ended June 30, 2014, compared with \$104.0 million for the six months ended June 30, 2013, a decrease of \$0.3 million or 0.3%. The decrease was primarily due to an increase in ceded premiums written partially offset by an increase in gross premiums written as noted above. The ratio of net premiums written to gross premiums written was 91.3% for the six month ended June 30, 2014 and 92.1% for the six months ended June 30, 2013, a decrease of 0.8%.

Net premiums earned were \$106.3 million for the six months ended June 30, 2014, compared with \$92.2 million for the six months ended June 30, 2013, an increase of \$14.2 million or 15.4%. The growth in net premiums earned was primarily due to increases in net premiums written within the previous year as well as increased retention on the Company's catastrophe treaties. Property net premiums earned for the six months ended June 30, 2014 and 2013 were \$63.2 million and \$53.1 million, respectively. Casualty net premiums earned for the six months ended June 30, 2014 and 2013 were \$43.2 million and \$39.1 million, respectively.

**Other Income**

Other income was \$0.3 million for each of the six months ended June 30, 2014 and 2013. Other income is primarily comprised of fee income.

*Net Losses and Loss Adjustment Expenses*

The loss ratio for the Company's Insurance Operations was 63.5% for the six months ended June 30, 2014 compared with 64.4% for the six months ended June 30, 2013.

The current accident year loss ratio for the six months ended June 30, 2014 was 68.2%, an increase of 0.3 points from 67.9%, for the six months ended June 30, 2013:

The current accident year property loss ratio increased 2.0 points from 62.8% in the six months ended June 30, 2013 to 64.8% in the six months ended June 30, 2014.

The non-catastrophe loss ratio decreased 6.1 points from 50.1% in the six months ended June 30, 2013 to 44.0% in the six months ended June 30, 2014. Non-catastrophe losses were \$27.8 million and \$26.6 million for the six months ended June 30, 2014 and 2013, respectively.



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**GLOBAL INDEMNITY PLC**

The catastrophe loss ratio increased 8.1 points from 12.7% in the six months ended June 30, 2013 to 20.8% in the six months ended June 30, 2014. Catastrophe losses were \$13.2 million and \$6.7 million for the six months ended June 30, 2014 and 2013, respectively.

The current accident year casualty loss ratio decreased 1.7 points from 74.8% in the six months ended June 30, 2013 to 73.1% in the six months ended June 30, 2014. During the last several years, rates were increased and unprofitable business was not renewed contributing to this decrease.

In the first six months of 2014, the Company reduced its prior accident year loss reserves by \$5.0 million, which primarily consisted of the following:

**Asbestos:** A \$6.9 million increase primarily related to accident years prior to 1990 due to recent development on several claims.

**Professional:** An \$11.8 million reduction primarily driven by a lower than expected severity from accident years 2007 through 2010.

In the first six months of 2013, the Company reduced its prior accident year loss reserves by \$3.2 million, which primarily consisted of the following:

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

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

**Asbestos:** A \$3.5 million increase primary related to policies written prior to 1990 due to recent development on several claims.

Net losses and loss adjustment expenses were \$67.5 million for the six months ended June 30, 2014, compared with \$59.4 million for the six months ended June 30, 2013, an increase of \$8.1 million or 13.7%. Excluding the impact of prior year adjustments, the current accident year net losses and loss adjustment expenses were \$72.5 million and \$62.6 million for the six months ended June 30, 2014 and 2013, respectively. This increase is primarily attributable to growth in earned premium volume, as noted above, as well as an increase in catastrophe losses in 2014.

***Acquisition Costs and Other Underwriting Expenses***

Acquisition costs and other underwriting expenses were \$44.3 million for the six months ended June 30, 2014, compared with \$41.1 million for the quarter ended June 30, 2013, an increase of \$3.2 million or 7.8%. The increase is primarily due to increased commissions as a result of growth in net premiums earned.

***Expense and Combined Ratios***

The expense ratio for the Company's Insurance Operations was 41.6% for the six months ended June 30, 2014, compared with 44.6% for the six months ended June 30, 2013. The decrease in the expense ratio is primarily due to the growth in earned premium volume.

The combined ratio for the Company's Insurance Operations was 105.1% for the six months ended June 30, 2014, compared with 109.0% for the six months ended June 30, 2013. Excluding the impact of prior year adjustments, the current accident year combined ratio decreased from 112.5% for the six months ended June 30, 2013 to 109.8% for the six months ended June 30, 2014. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph for an explanation of the decrease.

***Loss from Segment***

The factors described above resulted in a loss from the Company's Insurance Operations of \$5.1 million for the six months ended June 30, 2014, compared to a loss of \$7.9 million for the six months ended June 30, 2013.

**Table of Contents****GLOBAL INDEMNITY PLC****Reinsurance Operations**

The components of income from the Company's Reinsurance Operations segment and corresponding underwriting ratios are as follows:

| (Dollars in thousands)                            | Six Months Ended June 30, Increase / (Decrease) |           |          |        |
|---|---|-----------|----------|--------|
|   | 2014  | 2013      | \$       | %      |
| Gross premiums written                            | \$ 46,554                                       | \$ 46,217 | \$ 337   | 0.7%   |
| Net premiums written                              | \$ 45,538                                       | \$ 45,809 | \$ (271) | (0.6%) |
| Net premiums earned                               | \$ 27,214                                       | \$ 22,510 | \$ 4,704 | 20.9%  |
| Other loss  | (3)   | (28)      | 25       | 89.3%  |
| Total revenues                                    | 27,211  | 22,482    | 4,729    | 21.0%  |
| Losses and expenses:                              |   |           |          |        |
| Net losses and loss adjustment expenses           | 9,370   | 7,362     | 2,008    | 27.3%  |
| Acquisition costs and other underwriting expenses | 9,378   | 7,868     | 1,510    | 19.2%  |
| Income from segment                               | \$ 8,463  | \$ 7,252  | \$ 1,211 | 16.7%  |
| Underwriting Ratios:                              |   |           |          |        |
| Loss ratio:                                       |   |           |          |        |
| Current accident year                             | 38.5  | 33.4      | 5.1      |        |
| Prior accident year                               | (4.0)   | (0.6)     | (3.4)    |        |
| Calendar year loss ratio                          | 34.5  | 32.8      | 1.7      |        |
| Expense ratio                                     | 34.5  | 35.0      | (0.5)    |        |
| Combined ratio                                    | 69.0  | 67.8      | 1.2      |        |

**Reconciliation of Non-GAAP Measures**

|  |       |       |
|--|-------|-------|
| Combined ratio excluding the effect of prior accident year (1) |       |       |
| (4)  | 73.0  | 68.4  |
| Effect of prior accident year                                  | (4.0) | (0.6) |

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|   |           |          |
|---|-----------|----------|
| Combined ratio  | 69.0      | 67.8     |
| Loss ratio excluding the effect of prior accident year <b>(2) (4)</b>                               | 38.5      | 33.4     |
| Effect of prior accident year   | (4.0)     | (0.6)    |
| Loss ratio  | 34.5      | 32.8     |
| Property loss ratio excluding the effect of prior accident year <b>(5) (4)</b>                      | 36.7      | 31.5     |
| Effect of prior accident year   | (5.2)     | (0.4)    |
| Property loss ratio   | 31.5      | 31.1     |
| Net losses and loss adjustment expenses excluding the effects of prior accident year <b>(3) (4)</b> | \$ 10,472 | \$ 7,508 |
| Effect of prior accident year   | (1,102)   | (146)    |
| Net losses and loss adjustment expenses   | \$ 9,370  | \$ 7,362 |

- (1) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the combined ratio.
- (2) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the loss ratio.
- (3) This is a non-GAAP measure that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the net losses and loss adjustment expenses.
- (4) The Company believes that this non-GAAP ratio or measure is useful to investors when evaluating the Company's underwriting performance as trends in the Company's U.S. insurance operations may be obscured by prior accident year adjustments. This non-GAAP ratio should not be considered as a substitute for its most directly comparable GAAP measure and does not reflect the overall underwriting profitability of the Company.
- (5) This is a non-GAAP ratio that excludes the impact of prior accident year adjustments. The most directly comparable GAAP measure is the property loss ratio.

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**GLOBAL INDEMNITY PLC**

***Premiums***

Gross premiums written, which represent the amount received or to be received for reinsurance agreements written without reduction for reinsurance costs or other deductions, were \$46.6 million for the six months ended June 30, 2014, compared with \$46.2 million for the six months ended June 30, 2013, an increase of \$0.3 million or 0.7%.

Net premiums written, which equal gross premiums written less ceded premiums written, were \$45.5 million for the six months ended June 30, 2014, compared with \$45.8 million for the six months ended June 30, 2013, a decrease of \$0.3 million or 0.6%.

Net premiums earned were \$27.2 million for the six months ended June 30, 2014, compared with \$22.5 million for the six months ended June 30, 2013, an increase of \$4.7 million or 20.9%. The increase is due to premiums resulting from new treaties written during 2013 and 2014. Property net premiums earned for the six months ended June 30, 2014 and 2013 were \$26.1 million and \$21.4 million, respectively. Casualty net premiums earned for each of the six months ended June 30, 2014 and 2013 were \$1.1 million.

***Other Loss***

The Company recognized losses of \$0.003 million and \$0.03 million for the six months ended June 30, 2014 and 2013, respectively. Other income is comprised of foreign exchange gains and losses.

***Net Losses and Loss Adjustment Expenses***

The loss ratio for the Company's Reinsurance Operations was 34.5% for the six months ended June 30, 2014 compared with 32.8% for the six months ended June 30, 2013. The increase is primarily due to an increase in the property lines losses for the current accident year.

The current accident year loss ratio increased 5.1 points from 33.4% for the six months ended June 30, 2013 to 38.5% for the six months ended June 30, 2014 primarily due to an increase in losses for property lines. The property lines current accident year loss ratio increased to 36.7% for the six months ended June 30, 2014 from 31.5% for the six months ended June 30, 2013.

There was a decrease in net losses and loss adjustment expenses for prior accident years of \$1.1 million in the six months ended June 30, 2014 which decreased the loss ratio by 4.0 points compared to a decrease in net losses and loss adjustment expenses for prior accident years of \$0.1 million for the six months ended June 30, 2013 which decreased the loss ratio 0.6 points.

The \$1.1 million reduction in prior accident year loss reserves primarily consisted of the following:

**Property:** A \$1.3 million decrease primary related to accident year 2011 and 2012 due to catastrophe losses developing better than expected.

**Commercial Auto Liability:** A \$0.2 million increase in aggregate related to accident years 2009 to 2011. In the first six months of 2013, the Company reduced its prior accident year loss reserves by \$0.1 million primarily due to better than expected development of prior year losses for general liability related to accident years 2007 and 2009 through 2012.

Net losses and loss adjustment expenses were \$9.4 million for the six months ended June 30, 2014, compared with \$7.4 million for the six months ended June 30, 2013, an increase of \$2.0 million or 27.3%. Excluding the impact of prior year adjustments, the current accident year net losses and loss adjustment expenses increased from \$7.5 million for the six months ended June 30, 2013 to \$10.5 million for the six months ended June 30, 2014. This increase is primarily attributable to an increase in net premiums earned and an increase in property line losses as noted above.

**Table of Contents****GLOBAL INDEMNITY PLC*****Acquisition Costs and Other Underwriting Expenses***

Acquisition costs and other underwriting expenses were \$9.4 million for the six months ended June 30, 2014 compared with \$7.9 million for the six months ended June 30, 2013, an increase of \$1.5 million or 19.2%. The increase is primarily due to higher commission expense as a result of higher premiums earned in 2014.

***Expense and Combined Ratios***

The expense ratio for the Company's Reinsurance Operations was 34.5% for the six months ended June 30, 2014, compared with 35.0% for the six months ended June 30, 2013. The decrease is primarily attributable to the growth in the earned premium volume.

The combined ratio for the Company's Reinsurance Operations was 69.0% for the six months ended June 30, 2014, compared with 67.8% for the six months ended June 30, 2013. Excluding the impact of prior accident year adjustments, the current accident year combined ratio increased from 68.4% for the six months ended June 30, 2013 to 73.0% for the six months ended June 30, 2014. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph for discussion of the increase.

***Income from Segment***

The factors described above resulted in income from the Company's Reinsurance Operations of \$8.5 million for the six months ended June 30, 2014 compared to income of \$7.3 million for the six months ended June 30, 2013, an increase of \$1.2 million.

**Unallocated Corporate Items**

The following items are not allocated to the Company's Insurance Operations or Reinsurance Operations segments:

| (Dollars in thousands)                 | Six Months Ended June 30, |           | Increase /<br>(Decrease) |         |
|--|---------------------------|-----------|--------------------------|---------|
|  | 2014                      | 2013      | \$                       | %       |
| Net investment income                  | \$ 15,961                 | \$ 19,799 | \$ (3,838)               | (19.4%) |
| Net realized investment gains          | 39,068                    | 8,563     | 30,505                   | 356.2%  |
| Corporate and other operating expenses | (6,133)                   | (4,817)   | 1,316                    | 27.3%   |
| Interest expense                       | (510)                     | (2,354)   | (1,844)                  | (78.3%) |
| Income tax (expense) benefit           | (9,741)                   | 531       | 10,272                   | 1934.5% |

***Net Investment Income***

Net investment income, which is gross investment income less investment expenses, was \$16.0 million for the six

months ended June 30, 2014, compared with \$19.8 million for the six months ended June 30, 2013, a decrease of \$3.8 million or 19.4%.

Gross investment income, which excludes realized gains and losses, was \$18.2 million for the six months ended June 30, 2014, compared with \$22.0 million for the six months ended June 30, 2013, a decrease of \$3.8 million or 17.2%. The decrease was primarily due to the redemption of the Company's corporate loans portfolio and lower reinvestment yields partially offset by an increase in dividend income from the equity portfolio.

Investment expenses were \$2.3 million for the six months ended June 30, 2014, compared with \$2.2 million for the six months ended June 2013, an increase of \$0.1 million or 2.1%.

Please see the discussion of Net Investment Income in the quarter to quarter comparison above for a discussion of average duration and embedded book yield.



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***Net Realized Investment Gains***

Net realized investment gains were \$39.1 million for the six months ended June 30, 2014, compared with \$8.6 million for the six months ended June 30, 2013. The net realized investment gains for 2014 consist primarily of net gains of \$2.2 million relative to the Company's fixed maturities, \$49.3 million relative to its equity securities, offset by losses of \$12.4 million related to its interest rate swaps. The net realized investment gains for 2013 consist primarily of net gains of \$0.4 million relative to the Company's fixed maturities and \$9.3 million relative to its equity securities offset by other than temporary impairment losses of \$1.1 million.

See Note 2 of the notes to the consolidated financial statements in Item 1 of Part I of this report for an analysis of total investment return on a pre-tax basis for the six months ended June 30, 2014 and 2013.

***Corporate and Other Operating Expenses***

Corporate and other operating expenses consist of outside legal fees, other professional fees, directors' fees, management fees, salaries and benefits for holding company personnel, development costs for new products, and taxes incurred which are not directly related to operations. Corporate and other operating expenses were \$6.1 million for the six months ended June 30, 2014, compared with \$4.8 million for the six months ended June 30, 2013, an increase of \$1.3 million or 27.3%. The increase is primarily due to an increase in professional fees and travel cost offset by a reduction in salary expense.

***Interest Expense***

Interest expense was \$0.5 million and \$2.4 million for the six months ended June 30, 2014 and 2013, respectively, a decrease of \$1.8 million or 78.3%. This reduction was primarily due to the repayment of the Company's senior notes payable and junior subordinated debentures in 2013. See Note 13 of the notes to the consolidated financial statements in Item 8 of Part II of the Company's 2013 Annual Report on Form 10-K for details on the Company's debt.

***Income Tax Expense (Benefit)***

The income tax expense was \$9.7 million for the six months ended June 30, 2014 compared to an income tax benefit of \$0.5 million for the six months ended June 30, 2013. See Note 5 of the notes to the consolidated financial statements in Item 1 of Part I of this report for a comparison of income tax expense between periods.

***Net Income***

The factors described above resulted in net income of \$42.0 million and \$21.0 million for the six months ended June 30, 2014 and 2013, respectively, an increase of \$21.0 million or 99.9%.

**Liquidity and Capital Resources**

***Sources and Uses of Funds***

Global Indemnity is a holding company. Its principal asset is its ownership of the shares of its direct and indirect subsidiaries, including those of its U.S. insurance companies: United National Insurance Company, Diamond State Insurance Company, United National Specialty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company, and Penn-Patriot Insurance Company; and its Reinsurance Operations: Global Indemnity Reinsurance.

The principal source of cash that Global Indemnity requires to meet its short term and long term liquidity needs, including the payment of corporate expenses and share repurchases, includes dividends, other permitted disbursements from its direct and indirect subsidiaries, reimbursement for equity awards granted to employees and intercompany borrowings. The principal sources of funds at these direct and indirect subsidiaries include underwriting operations, investment income, and proceeds from sales and redemptions of investments. Funds are used principally by these operating subsidiaries to pay claims and operating expenses, to make debt payments, fund

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margin requirements on interest rate swap agreements, to purchase investments, and to make dividend payments. The future liquidity of Global Indemnity is dependent on the ability of its subsidiaries to pay dividends. Global Indemnity has no commitments that could have a material impact on its short-term or long-term liquidity needs.

Global Indemnity's U.S. insurance companies are restricted by statute as to the amount of dividends that they may pay without the prior approval of regulatory authorities. The dividend limitations imposed by state laws are based on the statutory financial results of each insurance company within the Insurance Operations that are determined by using statutory accounting practices that differ in various respects from accounting principles used in financial statements prepared in conformity with GAAP. See Regulation Statutory Accounting Principles in Item 1 of Part I of the Company's 2013 Annual Report on Form 10-K. Key differences relate to, among other items, deferred acquisition costs, limitations on deferred income taxes, reserve calculation assumptions and surplus notes. On January 23, 2014, the U.S. insurance companies paid an extraordinary dividend to Global Indemnity Group, Inc. that aggregated to \$200 million. The U.S. insurance companies are restricted from paying a dividend until after January 23, 2015 without regulatory approval. See Note 20 of the notes to the consolidated financial statements in Item 8 of Part II of the Company's 2013 Annual Report on Form 10-K for further information on dividend limitations.

For 2014, the Company believes that Global Indemnity Reinsurance, including distributions it could receive from its subsidiaries, should have sufficient liquidity and solvency to pay dividends. Global Indemnity Reinsurance is prohibited, without the approval of the Bermuda Monetary Authority (BMA), from reducing by 15% or more its total statutory capital as set out in its previous year's statutory financial statements, and any application for such approval must include such information as the BMA may require. See Regulation Bermuda Insurance Regulation in Item 1 of Part I of the Company's 2013 Annual Report on Form 10-K. Global Indemnity Reinsurance did not declare or pay any dividends during the quarter or six months ended June 30, 2014.

***Cash Flows***

Sources of operating funds consist primarily of net premiums written and investment income. Funds are used primarily to pay claims and operating expenses and to purchase investments.

The Company's reconciliation of net income to cash provided from operations is generally influenced by the following:

the fact that the Company collects premiums, net of commissions, in advance of losses paid;

the timing of the Company's settlements with its reinsurers; and

the timing of the Company's loss payments.

Net cash used for operating activities was \$13.5 million and \$6.7 million for the six months ended June 30, 2014 and 2013, respectively. The decrease in operating cash flows of approximately \$6.8 million from the prior year was primarily a net result of the following items:

| <b>(Dollars in thousands)</b>                 | <b>Six Months Ended June 30,</b> |                   |                   |
|---|----------------------------------|-------------------|-------------------|
|   | <b>2014</b>                      | <b>2013</b>       | <b>Change</b>     |
| Net premiums collected                        | \$ 122,638                       | \$ 122,852        | \$ (214)          |
| Net losses paid                               | (85,868)                         | (91,728)          | 5,860             |
| Underwriting and corporate expenses           | (67,275)                         | (62,551)          | (4,724)           |
| Net investment income                         | 20,168                           | 23,303            | (3,135)           |
| Net federal income taxes recovered (paid)     | (2,663)                          | 3,767             | (6,430)           |
| Interest paid                                 | (464)                            | (2,336)           | 1,872             |
| <b>Net cash used for operating activities</b> | <b>\$ (13,464)</b>               | <b>\$ (6,693)</b> | <b>\$ (6,771)</b> |

See the consolidated statement of cash flows in the consolidated financial statements in Item 1 of Part I of this report for details concerning the Company's investing and financing activities.

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***Liquidity***

On June 26, 2014, the Company sold approximately \$148.7 million of the Company's equity portfolio. \$102.2 million of these proceeds were used to pay down the margin borrowing facility on July 1, 2014.

Other than the item discussed in the preceding paragraph, there have been no material changes to the Company's liquidity during the six months ended June 30, 2014. Please see Item 7 of Part II in the Company's 2013 Annual Report on Form 10-K for information regarding the Company's liquidity.

***Capital Resources***

In May, 2014, Global Indemnity Group, Inc. entered into an agreement to loan \$200 million to Global Indemnity (Cayman) Limited.

Other than the item discussed in the preceding paragraph, there have been no material changes to the Company's capital resources during the six months ended June 30, 2014. Please see Item 7 of Part II in the Company's 2013 Annual Report on Form 10-K for information regarding the Company's capital resources.

***Contractual Obligations***

The Company entered into a \$50 million commitment to purchase an alternative investment vehicle which is comprised of European non-performing loans. As of June 30, 2014, the Company has funded \$11.8 million of this commitment leaving \$38.2 million as unfunded.

Other than the item discussed in the preceding paragraph, there have been no material changes to the Company's contractual obligations during the six months ended June 30, 2014. Please see Item 7 of Part II in the Company's 2013 Annual Report on Form 10-K for information regarding the Company's contractual obligations.

**Off Balance Sheet Arrangements**

The Company has no off balance sheet arrangements.

**Cautionary Note Regarding Forward-Looking Statements**

Some of the statements under Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report may include forward-looking statements that reflect the Company's current views with respect to future events and financial performance that are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as believe, expect, may, will, should, project, plan, seek, intend, or anticipate or comparable terminology, and include discussions of strategy, financial projections and estimates and their underlying assumptions, statements regarding plans, objectives, expectations or consequences of identified transactions or natural disasters, and statements about the future performance, operations, products and services of the companies.

The Company's business and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: (1) the ineffectiveness of the Company's business strategy due to changes in current or future market conditions; (2) the effects of competitors' pricing policies, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products; (3) greater frequency or severity of claims and loss activity than the Company's underwriting, reserving or investment practices have anticipated; (4) decreased level of demand for the Company's insurance products or increased competition due to an increase in capacity of property and casualty insurers; (5) risks inherent in establishing loss and loss adjustment expense reserves; (6) uncertainties relating to the financial ratings of the Company's insurance subsidiaries; (7) uncertainties arising from the cyclical nature of the Company's business; (8)

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changes in the Company's relationships with, and the capacity of, its general agents, brokers, insurance companies and reinsurance companies from which the Company derives its business; (9) the risk that the Company's reinsurers may not be able to fulfill obligations; (10) investment performance and credit risk; (11) new tax legislation or interpretations that could lead to an increase in the Company's tax burden; (12) uncertainties relating to governmental and regulatory policies, both domestically and internationally; (13) foreign currency fluctuations; (14) the impact of catastrophic events; (15) the Company's subsidiaries' ability to pay dividends; and (16) deterioration of debt and equity markets; (17) interest rate changes; and (18) uncertainties relating to ongoing or future litigation matters.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are set forth in Risk Factors in Item 1A and elsewhere in the Company's 2013 Annual Report on Form 10-K. The Company's forward-looking statements speak only as of the date of this report or as of the date they were made. The Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Persistent geopolitical risks raised questions about the global growth rate and kept a lid on risk appetites overall. Meanwhile, divergence in central bank monetary policy continued to grow. The European Central Bank ( ECB ) unveiled a set of unconventional monetary policy measures to fight disinflationary forces and rekindle growth in the Eurozone. The ECB cut its benchmark interest rate, reduced its deposit rate to below zero, and announced a four-year targeted long-term refinancing operation. The People's Bank of China ( PBOC ) also announced a set of mini-stimulus measures, including targeted cuts in the reserve ratio requirement for banks that meet lending targets for rural, small, and medium enterprises, and for select real economy sectors. The Bank of Japan maintained its easy monetary policy framework, while the Bank of England ( BOE ) signaled a possible increase in rates before the end of the year and the Federal Reserve System hinted that rate hikes might start next year but have a lower end point.

U.S. economic data released during the quarter pointed to a reacceleration of growth following the winter slowdown. First-quarter gross economic product ( GDP ) contracted by 2.9%. This is the economy's worst performance in five years. However, subsequent data releases implied a more encouraging GDP number in the second quarter. Inflation across other advanced economies remained subdued, with the UK consumer price index ( CPI ) hitting a four-year low in May. Pass-through effects of a strong British pound contributed to the drop in CPI, which has continued to fall below the BOE's target. Eurozone unemployment improved slightly, but the downward trend in inflation persisted, with the latest reading at 0.5% which is significantly below the ECB's target. China's GDP slipped to 7.4%, year over year, as exports and investment eased on the back of the PBOC's measures to slow loan growth. Japan's GDP expanded more than expected in the first quarter, at a 6.7% annualized rate, and unemployment edged down to 3.5%.

The Company's investment grade fixed income portfolio continues to maintain high quality with an AA- average rating and a low duration of 2.0 years. Portfolio purchases during the quarter were focused within U.S. Corporate bonds and Taxable Municipal bonds. These purchases were funded primarily through maturities and paydowns. During the second quarter of 2014, the portfolio's allocation to credit increased, while the ABS allocation shifted toward more fixed and fewer floating rate issues. The investment grade fixed income portfolio maintained a slightly short duration posture during the quarter.

There have been no other material changes to the Company's market risk since December 31, 2013. Please see Item 7A of Part II in the Company's 2013 Annual Report on Form 10-K for information regarding the Company's market risk.

**Item 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that



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information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2014. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2014, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

**Changes in Internal Controls**

During the quarter ended June 30, 2014 there have been no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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**PART II-OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

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

**Item 1A. Risk Factors**

The Company's results of operations and financial condition are subject to numerous risks and uncertainties described in Item 1A of Part I in the Company's 2013 Annual Report on Form 10-K, filed with the SEC on March 14, 2014. The risk factors identified therein have not materially changed.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The Company's Share Incentive Plan allows employees to surrender the Company's A ordinary shares as payment for the tax liability incurred upon the vesting of restricted stock that was issued under either the 2003 or 2014 Plan. There were no shares purchased from the Company's employees during the quarter ended June 30, 2014. All A ordinary shares purchased from employees by the Company are held as treasury stock and recorded at cost.

See Note 8 to the consolidated financial statements in Item 1 of Part I of this report for tabular disclosure of the Company's share repurchases by month.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 10.1 Global Indemnity plc Share Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K dated June 12, 2014 (File No. 001-34809)).
- 31.1+ Certification of Chief Executive Officer pursuant to Rule 13a-14 (a) / 15d-14 (a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2+ Certification of Chief Financial Officer pursuant to Rule 13a-14 (a) / 15d-14 (a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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- 32.1+ Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2+ Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.1+ The following financial information from Global Indemnity plc's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013; (ii) Consolidated Statements of Operations for the quarters and six months ended June 30, 2014 and 2013; (iii) Consolidated Statements of Comprehensive Income for the quarters and six months ended June 30, 2014 and 2013; (iv) Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2014 and the year ended December 31, 2013; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013; and (vi) Notes to Consolidated Financial Statements.

+ Filed or furnished herewith, as applicable.

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**GLOBAL INDEMNITY PLC**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GLOBAL INDEMNITY PLC

Registrant

August 8, 2014  
Date: August 8, 2014

By: /s/ Thomas M. McGeehan  
Thomas M. McGeehan  
Chief Financial Officer  
(Authorized Signatory and Principal Financial and  
Accounting Officer)

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