

Global Indemnity plc
Form 10-Q
November 09, 2011
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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 September 30, 2011

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)

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

ARTHUR COX BUILDING

EARLSFORT TERRACE

DUBLIN 2

IRELAND

(Address of principal executive office, including zip code)

353 (0) 1 618 0517

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 November 4, 2011, the registrant had outstanding 18,381,059 Class A Ordinary Shares and 12,061,370 Class B Ordinary Shares.

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As used in this quarterly report, unless the context requires otherwise:

- 1) Global Indemnity refers to Global Indemnity plc, an exempted company incorporated with limited liability under the laws of Ireland, and its U.S. and Non-U.S. Subsidiaries;
- 2) we, us, our, and the Company refer to Global Indemnity and its subsidiaries or, prior to July 2, 2010, to United America Indemnity;
- 3) ordinary shares refers to Global Indemnity Class A and Class B ordinary shares, or, prior to July 2, 2010, to United America Indemnity Class A and Class B common shares;
- 4) United America Indemnity refers to United America Indemnity, Ltd., a Cayman Islands exempted company that, on July 2, 2010, became a direct, wholly-owned subsidiary of Global Indemnity plc, and its subsidiaries;
- 5) our U.S. Subsidiaries refers to Global Indemnity Group, Global Indemnity Group Services, LLC, AIS, Penn-America Group, Inc., and our Insurance Operations;

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- 6) our United States Based Insurance Operations and Insurance Operations refer to the insurance and related operations conducted by the U.S. Insurance Companies, American Insurance Adjustment Agency, Inc., Collectibles Insurance Services, LLC, United America Insurance Services, LLC, and J.H. Ferguson & Associates, LLC;
- 7) our U.S. Insurance Companies refers to the insurance and related operations conducted by United National Insurance

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- Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company and Penn-Patriot Insurance Company;
- 8) our Non-U.S. Subsidiaries refers to Global Indemnity Services Ltd., Global Indemnity (Gibraltar) Ltd., Global Indemnity (Cayman) Ltd., Global Indemnity (Luxembourg) Ltd., Wind River Reinsurance, the Luxembourg Companies, and U.A.I. (Ireland) Ltd.;
- 9) Wind River Reinsurance refers to Wind River Reinsurance Company, Ltd.;
- 10) the Luxembourg Companies refers to U.A.I. (Luxembourg) I S.à r.l., U.A.I. (Luxembourg) II S.à r.l., U.A.I. (Luxembourg) III S.à r.l., U.A.I. (Luxembourg) IV S.à r.l., U.A.I. (Luxembourg) Investment S.à r.l., and Wind River (Luxembourg) S.à r.l.;
- 11) AIS refers to American Insurance Service, Inc.;
- 12) our Predecessor Insurance Operations refers to Wind River Investment Corporation, which was dissolved on May 31, 2006, AIS, American Insurance Adjustment Agency, Inc., Emerald Insurance Company, which was dissolved on March 24, 2008, United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, and J.H. Ferguson & Associates, LLC;
- 13) our International Reinsurance Operations and Reinsurance Operations refer to the reinsurance and related operations of Wind River Reinsurance;
- 14) Global Indemnity Group refers to Global Indemnity Group, Inc., (formerly known as United America Indemnity Group, Inc.);
- 15) Penn-America refers to our product classification that includes property and general liability products for small commercial businesses distributed through a select network of wholesale general agents with specific binding authority;
- 16) United National refers to our product classification that includes property, casualty, and professional liability lines products distributed through program administrators with specific binding authority;
- 17) Diamond State refers to our product classification that includes property, casualty, and professional liability lines products distributed through wholesale brokers and program administrators with specific binding authority;
- 18) the Statutory Trusts refers to United National Group Capital Trust I, United National Group Capital Statutory Trust II, Penn-America Statutory Trust I, whose registration was cancelled effective January 15, 2008, and Penn-America Statutory Trust II, whose registration was cancelled effective February 2, 2009;
- 19) Fox Paine & Company refers to Fox Paine & Company, LLC and affiliated investment funds;
- 20) GAAP refers to accounting principles generally accepted in the United States of America; and

21) \$ or dollars refers to U.S. dollars.

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

(In thousands, except share amounts)

	(Unaudited) September 30, 2011	December 31, 2010
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: \$1,370,288 and \$1,393,655)	\$ 1,406,342	\$ 1,444,392
Equity securities:		
Available for sale, at fair value (cost: \$154,110 and \$121,604)	146,067	147,526
Other invested assets		
Available for sale, at fair value (cost: \$14,150 and \$4,255)	16,169	4,268
Securities classified as trading, at fair value (cost: \$0 and \$1,112)		1,112
Total investments	1,568,578	1,597,298
Cash and cash equivalents	93,281	119,888
Premiums receivable, net	60,268	56,657
Reinsurance receivables	303,950	422,844
Deferred federal income taxes	20,173	6,926
Deferred acquisition costs	28,753	35,344
Intangible assets	18,798	19,082
Goodwill	4,820	4,820
Prepaid reinsurance premiums	7,762	11,104
Receivable for securities sold	4,388	
Other assets	22,118	20,720
Total assets	\$ 2,132,889	\$ 2,294,683
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 971,222	\$ 1,052,743
Unearned premiums	135,866	135,872
Ceded balances payable	8,539	12,376
Contingent commissions	5,693	9,260
Payable for securities purchased		4,768
Federal income taxes payable	1,993	55
Notes and debentures payable	103,071	121,285
Other liabilities	29,018	29,655
Total liabilities	1,255,402	1,366,014

Commitments and contingencies (Note 11)

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Shareholders equity:

Ordinary shares, \$0.0001 par value, 900,000,000 ordinary shares authorized; Class A ordinary shares issued: 21,414,007 and 21,340,821, respectively; Class A ordinary shares outstanding: 18,365,802 and 18,300,544, respectively; Class B ordinary shares issued and outstanding: 12,061,370 and 12,061,370, respectively		
	3	3
Additional paid-in capital	621,442	622,725
Accumulated other comprehensive income, net of taxes	23,500	57,211
Retained earnings	333,621	349,642
Class A ordinary shares in treasury, at cost: 3,048,205 and 3,040,277 shares, respectively	(101,079)	(100,912)
Total shareholders equity	877,487	928,669
Total liabilities and shareholders equity	\$ 2,132,889	\$ 2,294,683

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) Quarters Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Gross premiums written	\$ 73,092	\$ 86,235	\$ 255,720	\$ 271,138
Net premiums written	\$ 64,934	\$ 73,206	\$ 234,449	\$ 234,210
Net premiums earned	\$ 77,090	\$ 70,089	\$ 231,114	\$ 215,579
Net investment income	12,880	14,089	41,224	42,609
Net realized investment gains:				
Other-than-temporary impairment losses on investments	(1,824)	(15)	(3,730)	(467)
Other-than-temporary impairment losses on investments recognized in other comprehensive income				43
Other net realized investment gains	3,112	1,833	25,401	22,043
Total net realized investment gains	1,288	1,818	21,671	21,619
Other income	167	173	11,999	515
Total revenues	91,425	86,169	306,008	280,322
Losses and Expenses:				
Net losses and loss adjustment expenses	86,234	29,789	206,329	104,253
Acquisition costs and other underwriting expenses	34,597	28,541	94,646	87,697
Corporate and other operating expenses	2,862	5,106	10,329	15,065
Interest expense	1,525	1,825	5,020	5,397
Income (loss) before income taxes	(33,793)	20,908	(10,316)	67,910
Income tax expense	454	1,146	5,758	4,706
Income (loss) before equity in net income (loss) of partnerships	(34,247)	19,762	(16,074)	63,204
Equity in net income (loss) of partnerships, net of taxes			53	(29)
Net income (loss)	\$ (34,247)	\$ 19,762	\$ (16,021)	\$ 63,175
Per share data ⁽¹⁾:				
Net income (loss)				
Basic	\$ (1.13)	\$ 0.65	\$ (0.53)	\$ 2.09
Diluted	\$ (1.13)	\$ 0.65	\$ (0.53)	\$ 2.09
Weighted-average number of shares outstanding				

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Basic	30,338,010	30,273,757	30,320,538	30,222,074
Diluted	30,352,850	30,308,489	30,341,713	30,245,890

- (1) Shares outstanding and per share amounts for 2010 have been retrospectively restated to reflect the 1-for-2 stock exchange effective July 2, 2010 when the Company completed its re-domestication to Ireland.

See accompanying notes to consolidated financial statements.

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

(In thousands)

	(Unaudited) Quarters Ended September 30, 2011 2010		(Unaudited) Nine Months Ended September 30, 2011 2010	
Net income (loss)	\$ (34,247)	\$ 19,762	\$ (16,021)	\$ 63,175
Other comprehensive income (loss), net of taxes:				
Unrealized holding gains (losses) arising during period	(28,475)	19,607	(18,072)	29,728
Portion of other-than-temporary impairment losses (gains) recognized in other comprehensive income (loss), net of taxes	(16)	23	(26)	135
Recognition of previously unrealized holding gains	(594)	(1,272)	(15,559)	(16,066)
Unrealized foreign currency translation gains (losses)	(54)	175	(54)	(43)
Other comprehensive income (loss), net of taxes	(29,139)	18,533	(33,711)	13,754
Comprehensive income (loss), net of taxes	\$ (63,386)	\$ 38,295	\$ (49,732)	\$ 76,929

See accompanying notes to consolidated financial statements.

Table of Contents**GLOBAL INDEMNITY PLC****Consolidated Statements of Changes in Shareholders' Equity**

(In thousands, except share amounts)

	(Unaudited) Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Number of Class A ordinary shares issued:		
Number at beginning of period	21,340,821	21,243,345
Ordinary shares issued under share incentive plans	33,511	20,828
Ordinary shares issued to directors	39,675	76,648
Number at end of period	21,414,007	21,340,821
Number of Class B ordinary shares issued:		
Number at beginning and end of period	12,061,370	12,061,370
Par value of Class A ordinary shares:		
Balance at beginning and end of period	\$ 2	\$ 2
Par value of Class B ordinary shares:		
Balance at beginning and end of period	\$ 1	\$ 1
Additional paid-in capital:		
Balance at beginning of period	\$ 622,725	\$ 619,473
Share compensation plans	(1,283)	3,252
Balance at end of period	\$ 621,442	\$ 622,725
Accumulated other comprehensive income, net of deferred income tax:		
Balance at beginning of period	\$ 57,211	\$ 48,481
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period	(33,633)	8,703
Change in other-than-temporary impairment losses (gains) recognized in other comprehensive income (loss), net of taxes	(24)	70
Unrealized foreign currency translation losses	(54)	(43)
Other comprehensive income (loss)	(33,711)	8,730
Balance at end of period	\$ 23,500	\$ 57,211
Retained earnings:		
Balance at beginning of period	\$ 349,642	\$ 264,739
Net income (loss)	(16,021)	84,903
Balance at end of period	\$ 333,621	\$ 349,642

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Number of Treasury Shares:

Number at beginning of period	3,040,277	3,028,106
Class A ordinary shares purchased	7,928	12,171
Number at end of period	3,048,205	3,040,277

Treasury Shares, at cost:

Balance at beginning of period	\$ (100,912)	\$ (100,720)
Class A ordinary shares purchased, at cost	(167)	(192)
Balance at end of period	\$ (101,079)	\$ (100,912)

Total shareholders' equity	\$ 877,487	\$ 928,669
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Share amounts for 2010 have been retrospectively restated to reflect the 1-for-2 stock exchange effective July 2, 2010 when the Company completed its re-domestication to Ireland.

See accompanying notes to consolidated financial statements.

Table of Contents**GLOBAL INDEMNITY PLC****Consolidated Statements of Cash Flows**

(In thousands)

	(Unaudited)	
	Nine Months	
	Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ (16,021)	\$ 63,175
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Amortization of trust preferred securities issuance costs	59	62
Amortization and depreciation	1,556	1,825
Restricted stock expense	(1,177)	2,713
Deferred federal income taxes	(341)	3,560
Amortization of bond premium and discount, net	4,234	2,579
Net realized investment gains	(21,671)	(21,619)
Equity in net (income) loss of partnerships	(53)	29
Changes in:		
Premiums receivable, net	(3,611)	1,111
Reinsurance receivables	118,894	80,240
Unpaid losses and loss adjustment expenses	(81,521)	(137,278)
Unearned premiums	(6)	14,151
Ceded balances payable	(3,837)	(10,834)
Other assets and liabilities, net	(3,370)	(8,464)
Contingent commissions	(3,567)	(4,449)
Federal income taxes payable	1,939	(4,264)
Deferred acquisition costs	6,591	(2,911)
Prepaid reinsurance premiums	3,342	4,482
Net cash provided by (used for) operating activities	1,440	(15,892)
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	604,606	560,306
Proceeds from sale of stocks	78,491	30,442
Proceeds from maturity of fixed maturities	37,900	36,245
Proceeds from sale of other invested assets	1,348	68
Purchases of fixed maturities	(621,350)	(595,832)
Purchases of stocks	(100,505)	(91,417)
Purchases of other invested assets	(10,050)	
Acquisition of business, net of cash acquired		(14,970)
Net cash used for investing activities	(9,560)	(75,158)
Cash flows from financing activities:		
Tax expense associated with share-based compensation plans	(106)	(221)
Purchases of Class A ordinary shares	(167)	(163)
Principal payments of term debt	(18,214)	(213)
Net cash used for financing activities	(18,487)	(597)

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Effect of exchange rates on cash and cash equivalents		(43)
Net change in cash and cash equivalents	(26,607)	(91,690)
Cash and cash equivalents at beginning of period	119,888	186,087
Cash and cash equivalents at end of period	\$ 93,281	\$ 94,397

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Principles of Consolidation and Basis of Presentation

Global Indemnity plc (Global Indemnity or the Company) was incorporated on March 9, 2010 and is domiciled in Ireland. Global Indemnity replaced the Company's predecessor, United America Indemnity, Ltd., as the ultimate parent company as a result of a re-domestication transaction. See Note 3 below for details regarding the re-domestication. United America Indemnity, Ltd. was incorporated on August 26, 2003, and is domiciled in the Cayman Islands. United America Indemnity, Ltd. is now a subsidiary of the Company and an Irish tax resident. The Company's Class A ordinary shares are publicly traded on the NASDAQ Global Select Market. On July 6, 2010, the Company changed its trading symbol on the NASDAQ Global Select Market from INDM to GBLI.

The interim consolidated financial statements are unaudited, but have been prepared in conformity with 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 nine months ended September 30, 2011 and 2010 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 2010 Annual Report on Form 10-K.

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

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

2. Premium Deficiency

The Company recognizes a premium deficiency if the sum of expected loss and loss adjustment expenses and unamortized acquisition costs exceeds related unearned premium after consideration of investment income. 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.

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

During the quarter and nine months ended September 30, 2011, the Company incurred a pre-tax premium deficiency charge of \$10.5 million, or \$0.35 per diluted share, and \$11.0 million, or \$0.36 per diluted share, respectively. There were no premium deficiency charges incurred during the quarter or nine months ended September 30, 2010.

The charge of \$10.5 million incurred during the quarter ended September 30, 2011 consisted of \$7.6 million charged to our U.S. Insurance Operations and \$2.9 million charged to our Reinsurance Operations. The \$7.6 million charge to our U.S. Insurance Operations consisted of \$3.7 million recorded to acquisition costs and other underwriting expenses and \$3.9 million recorded to loss and loss adjustment expenses. The \$2.9 million charge to our Reinsurance Operations was recorded to acquisition costs and other underwriting expenses.

The charge of \$11.0 million incurred during the nine months ended September 30, 2011 consisted of \$7.6 million charged to our U.S. Insurance Operations and \$3.3 million charged to our Reinsurance Operations. The \$7.6 million charge to our U.S. Insurance Operations consisted of \$3.7 million recorded to acquisition costs and other underwriting expenses and \$3.9 million recorded to loss and loss adjustment expenses. The \$3.3 million charge to our Reinsurance Operations was recorded to acquisition costs and other underwriting expenses.

As a result of these charges, the Company reduced deferred acquisition costs during the quarter and nine months ended September 30, 2011 by \$6.6 million and \$7.0 million, respectively. Additionally, the Company accrued a premium deficiency reserve of \$3.9 million included in loss and loss adjustment expense reserves during the quarter and nine months ended September 30, 2011.

3. Redomestication

In February 2010, the Company's Board of Directors approved a plan for the Company to re-domesticate from the Cayman Islands to Ireland. At a special shareholders meeting held on May 27, 2010, the Company's shareholders voted in favor of completing the re-domestication proposal pursuant to which all United America Indemnity, Ltd. ordinary shares would be cancelled and all holders of such shares would receive ordinary shares of Global Indemnity plc, a newly formed Irish company that was incorporated on March 9, 2010, on a one-for-two basis (two United America Indemnity, Ltd. shares exchanged for one Global Indemnity plc share). The re-domestication transaction was completed on July 2, 2010, following approval from the Grand Court of the Cayman Islands, at which time Global Indemnity plc replaced United America Indemnity, Ltd. as the ultimate parent company, and United America Indemnity, Ltd. became a wholly-owned subsidiary of Global Indemnity plc. Shares of United America Indemnity, Ltd. previously traded on the NASDAQ Global Select Market under the symbol INDM. Shares of the Irish company, Global Indemnity plc, began trading on the NASDAQ Global Select Market on July 6, 2010 under the symbol GBLI.

4. Profit Enhancement Initiative

On November 2, 2010, we committed to a Profit Enhancement Initiative with respect to our U.S. Insurance Operations. The plan was initiated on November 4, 2010, and is part of our efforts to streamline our operations in response to the continuing impact of the domestic recession as well as the competitive landscape within the excess and surplus lines market. This initiative is intended to enhance profitability and earnings by aligning corporate overhead costs with changes in our business. In the fourth quarter of 2010, the Company reduced its U.S. based census by approximately 25%, closed underperforming U.S. facilities, and supplemented staffing in Bermuda and in Ireland. All action items relating to this initiative were implemented by December 31, 2010.

The total cost of implementing this initiative was recorded in our consolidated statements of operations within our Insurance Operations segment in the fourth quarter of 2010. Components of the initiative included: (1) employee termination and severance charges of \$1.71 million; (2) expenses of \$1.53 million relating to discontinuing use of leased office space, net of expected sub-lease income; (3) restructuring expenses of \$0.63 million for related asset and leasehold improvement impairments; and (4) expenses of \$2.91 million relating to the curtailment of our workers' compensation product initiative, consisting of a minimum ceded premium charge of \$1.48 million on our workers' compensation reinsurance treaty and \$1.43 million in asset impairments.

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The following table summarizes charges incurred in 2010 by expense type and the remaining liability as of December 31, 2010 and September 30, 2011:

(Dollars in thousands)	Employee Termination	Operating Leases	Asset Impairments	Workers Compensation	Total
Charges incurred in 2010	\$ 1,711	\$ 1,532	\$ 631	\$ 2,907	\$ 6,781
Cash payments for 2010 actions	(758)			(985)	(1,743)
Non-cash adjustments	176		(631)	(1,430)	(1,885)
Liability at December 31, 2010	\$ 1,129	\$ 1,532	\$	\$ 492	\$ 3,153
Cash payments in 2011 for 2010 actions	(1,022)	(597)		(492)	(2,111)
Non-cash adjustments		(64)			(64)
Liability at September 30, 2011	\$ 107	\$ 871	\$	\$	\$ 978

There were charges incurred related to the Profit Enhancement Initiative in our statement of operations for the nine months ending September 30, 2011 of (\$0.064) million which was included in the Corporate and other operating expenses line item. There were no charges incurred related to the Profit Enhancement Initiative in our statement of operations for the quarter ended September 30, 2011, or the quarter or nine months ending September 30, 2010.

5. Investments

The Company's investments in fixed maturities, preferred stock, and common stock are classified as available for sale and are carried at their fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the Company's available for sale portfolio, excluding the limited partnership interest, are determined on the basis of quoted market prices where available. If quoted market prices are not available, the Company uses third party pricing services to assist in determining fair value. In many instances, these services examine the pricing of similar instruments to estimate fair value. The Company purchases bonds with the expectation of holding them to their maturity; however, changes to the portfolio are sometimes required to assure it is appropriately matched to liabilities. In addition, changes in financial market conditions and tax considerations may cause the Company to sell an investment before it matures. Corporate loans have stated maturities; however, they generally do not reach their final maturity due to borrowers refinancing. The difference between amortized cost and fair value of the Company's available for sale investments, excluding the Company's convertible bond and convertible preferred stock portfolios, net of the effect of deferred income taxes, is reflected in accumulated other comprehensive income in shareholders' equity and, accordingly, has no effect on net income other than for the credit loss component of impairments deemed to be other than temporary. The difference between amortized cost and fair value of the convertible bonds and convertible preferred stocks is included in income.

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The Company's investments in other invested assets are comprised of limited liability partnership interests and a mutual fund. Partnership interests where we owned more than 3% at any time are carried at their fair value. The change in the difference between amortized cost and fair value of partnership interests of 3% ownership or greater, net of the effect of deferred income taxes, is reflected in income. The mutual fund and partnership interests of less than 3% ownership are carried at their fair value. The change in the difference between amortized cost and the fair value of the mutual fund and partnership interests of less than 3% ownership, net of the effect of deferred income taxes, is reflected in accumulated other comprehensive income in shareholders' equity and, accordingly, has no effect on net income other than for impairments deemed to be other than temporary.

The amortized cost and estimated fair value of investments were as follows as of September 30, 2011 and December 31, 2010:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI ⁽¹⁾
As of September 30, 2011					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 123,210	\$ 8,261	\$ (3)	\$ 131,468	\$
Obligations of states and political subdivisions	210,532	8,158	(75)	218,615	
Mortgage-backed securities	288,698	9,851	(337)	298,212	(15)
Asset-backed securities	100,368	2,426	(39)	102,755	(33)
Commercial mortgage-backed securities	34,677	38	(144)	34,571	
Corporate bonds and loans	559,339	14,537	(7,937)	565,939	(134)
Foreign corporate bonds	53,464	1,450	(132)	54,782	
Total fixed maturities	1,370,288	44,721	(8,667)	1,406,342	(182)
Common stock	154,110	7,739	(15,782)	146,067	
Other invested assets	14,150	3,071	(1,052)	16,169	
Total	\$ 1,538,548	\$ 55,531	\$ (25,501)	\$ 1,568,578	\$ (182)

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI ⁽¹⁾
As of December 31, 2010					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 192,746	\$ 9,948	\$ (4)	\$ 202,690	\$
Obligations of states and political subdivisions	239,872	5,756	(616)	245,012	

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Mortgage-backed securities	239,265	9,864	(49)	249,080	(19)
Asset-backed securities	112,626	2,548	(75)	115,099	(41)
Commercial mortgage-backed securities	38,963	9	(239)	38,733	
Corporate bonds and loans	511,754	21,594	(564)	532,784	(134)
Foreign corporate bonds	58,429	2,570	(5)	60,994	
Total fixed maturities	1,393,655	52,289	(1,552)	1,444,392	(194)
Common stock	120,674	25,300	(700)	145,274	
Preferred stock	930	1,322		2,252	
Other invested assets	5,367	13		5,380	
Total	\$ 1,520,626	\$ 78,924	\$ (2,252)	\$ 1,597,298	\$ (194)

(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).

The Company held a mortgage-backed security (MBS) issued by Government National Mortgage Association (GNMA) which represented approximately 3% and 8% of shareholders' equity as of September 30, 2011 and December 31, 2010, respectively. Excluding U.S. treasuries, agency bonds, and the MBS issued by GNMA, the Company did not hold any debt or equity investments in a single issuer that was in excess of 4% and 2% of shareholders' equity at September 30, 2011 and December 31, 2010, respectively.

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The amortized cost and estimated fair value of the Company's fixed maturities portfolio classified as available for sale at September 30, 2011, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 70,950	\$ 71,837
Due after one year through five years	650,117	671,162
Due after five years through ten years	182,007	182,367
Due after ten years through fifteen years	10,221	11,641
Due after fifteen years	33,250	33,797
Mortgaged-backed securities	288,698	298,212
Asset-backed securities	100,368	102,755
Commercial mortgage-backed securities	34,677	34,571
	\$ 1,370,288	\$ 1,406,342

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 September 30, 2011:

(Dollars in thousands)	Less than 12 months Gross Unrealized		12 months or longer ⁽¹⁾ Gross Unrealized		Total Gross Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Fixed maturities:						
U.S. treasury and agency obligations	\$ 2,244	\$ (3)	\$	\$	\$ 2,244	\$ (3)
Obligations of states and political subdivisions	1,792	(9)	6,845	(66)	8,637	(75)
Mortgage-backed securities	27,856	(319)	521	(18)	28,377	(337)
Asset-backed securities	2,009	(6)	707	(33)	2,716	(39)
Commercial mortgage-backed securities	20,731	(69)	10,071	(75)	30,802	(144)
Corporate bonds and loans	221,625	(7,919)	830	(18)	222,455	(7,937)
Foreign corporate bonds	7,488	(132)			7,488	(132)
Total fixed maturities	283,745	(8,457)	18,974	(210)	302,719	(8,667)
Common stock	125,505	(15,423)	932	(359)	126,437	(15,782)
Other invested assets	8,948	(1,052)			8,948	(1,052)
Total	\$ 418,198	\$ (24,932)	\$ 19,906	\$ (569)	\$ 438,104	\$ (25,501)

(1)

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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 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, 2010:

(Dollars in thousands)	Less than 12 months		12 months or longer <small>(1)</small>		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	\$ 1,015	\$ (4)	\$	\$	\$ 1,015	\$ (4)
Obligations of states and political subdivisions	38,601	(553)	1,651	(63)	40,252	(616)
Mortgage-backed securities	2,298	(29)	561	(20)	2,859	(49)
Asset-backed securities	7,021	(17)	880	(58)	7,901	(75)
Commercial mortgage-backed securities	32,889	(239)			32,889	(239)
Corporate bonds and loans	35,063	(559)	1,014	(5)	36,077	(564)
Foreign corporate bonds	1,990	(5)			1,990	(5)
Total fixed maturities	118,877	(1,406)	4,106	(146)	122,983	(1,552)
Common stock	12,580	(700)			12,580	(700)
Total	\$ 131,457	\$ (2,106)	\$ 4,106	\$ (146)	\$ 135,563	\$ (2,252)

(1) Fixed maturities in a gross unrealized loss position for twelve months or longer are primarily comprised of non-credit losses on investment grade

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(Unaudited)

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 impaired.

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

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

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

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

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income, net of taxes.

For equity securities, management carefully reviews all securities with unrealized losses and further focuses on securities that have either:

- (1) persisted 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 to determine if the security should be impaired.

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:

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U.S. treasury and agency obligations As of September 30, 2011, gross unrealized losses related to U.S. treasury and agency obligations were \$0.003 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All of these securities are rated AA+. The Company's investment manager's analysis for this sector includes on-site visits and meetings with officials in addition to the standard rigorous analysis that determines the financial condition of the issuer.

Obligations of states and political subdivisions As of September 30, 2011, gross unrealized losses related to obligations of states and political subdivisions were \$0.075 million. Of this amount, \$0.066 million has been in an unrealized loss position for twelve months or greater. These securities are rated A- or higher. The Company's investment manager's analysis for this sector includes on-site visits and meetings with officials in addition to the standard rigorous analysis that determines the financial condition of the issuer.

Mortgage-backed securities As of September 30, 2011, gross unrealized losses related to mortgage-backed securities were \$0.337 million. Of this amount, \$0.018 million has been in an unrealized loss position for twelve months or greater. All of the securities in an unrealized loss position for twelve months or greater are rated AA+. The Company's investment manager models each mortgage-backed security to project principal losses under downside, base, and upside scenarios for the economy and home prices. The primary assumption that drives the security and loan level modeling is the Home Price Index (HPI) projection. The Company's investment manager first projects HPI at the national level, then at the Metropolitan Statistical Area (MSA) level based on the historical relationship between the individual MSA HPI and the national HPI, using inputs from its macroeconomic team, mortgage portfolio management team, and structured analyst team. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and current loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs.

Asset-backed securities (ABS) As of September 30, 2011, gross unrealized losses related to asset-backed securities were \$0.039 million. Of this amount, \$0.033 million has been in an unrealized loss position for twelve months or greater. These securities are rated A- or higher. The weighted average credit enhancement for the Company's asset-backed portfolio is 34.9. The Company's investment manager analyzes every ABS transaction on a stand-alone basis. This analysis involves a thorough review of the collateral, prepayment, and structural risk in each transaction. Additionally, their analysis includes an in-depth credit analysis of the originator and servicer of the collateral. The Company's investment manager projects an expected loss for a deal given a set of assumptions specific to the asset type. These assumptions are used to calculate at what level of losses that the deal will incur a dollar of loss. The major assumptions used to calculate this ratio are loss severities, recovery lags, and no advances on principal and interest.

Commercial mortgage-backed securities (CMBS) As of September 30, 2011, gross unrealized losses related to CMBS were \$0.144 million. Of this amount, \$0.075 million has been in an unrealized loss position for twelve months or greater. All of the securities in an unrealized loss position for twelve months or greater are rated AAA. The weighted average credit enhancement for the Company's CMBS portfolio is 27.2. This represents the percentage of pool losses that can occur before a mortgage-backed security will incur its first dollar of principle losses. For the Company's CMBS portfolio, a loan level analysis is utilized where every underlying CMBS loan is re-underwritten based on the Company's investment manager's internally generated set of assumptions that reflect their expectation for the future path of the economy. In the analysis, the focus is centered on stressing the significant variables that influence commercial loan defaults and collateral losses in CMBS deals. These variables include: (1) occupancies are projected to drop; (2) capitalization rates vary by property type and are forecasted to return to more normalized levels as the capital markets repair and capital begins to flow again; and (3) property value was stressed by using projected property performance and projected capitalization rates. Term risk is triggered if projected debt service coverage rate falls below 1x. Balloon risk is triggered if a property's projected performance does not satisfy new, tighter mortgage standards.

Corporate bonds and loans As of September 30, 2011, gross unrealized losses related to corporate bonds and loans were \$7.937 million. Of this amount, \$0.018 million has been in an unrealized loss position for twelve months

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or greater. All of the securities in an unrealized loss position for twelve months or greater are rated below investment grade. The Company's investment manager's analysis for this sector includes maintaining detailed financial models that include a projection of each issuer's future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, issuer's current competitive position, vulnerability to changes in the competitive environment, regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

Foreign bonds As of September 30, 2011, gross unrealized losses related to foreign bonds were \$0.132 million. All unrealized losses have been in an unrealized loss position for less than twelve months. These securities are rated A- or higher. The Company's investment manager maintains financial models for the Company's bond issuers. These models include a projection of each issuer's future financial performance including prospective debt servicing capabilities and capital structure composition. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, issuer's current competitive position, vulnerability to changes in the competitive environment, regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection.

Common stocks As of September 30, 2011, gross unrealized losses related to common stock were \$15.782 million. Of this amount, \$0.359 million has been in an unrealized loss position for twelve months or greater. To determine if an other than temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

Other Investments As of September 30, 2011, gross unrealized losses related to other investments were \$1.052 million. All unrealized losses 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 nine months ended September 30, 2011 and 2010:

(Dollars in thousands)	Quarters Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Fixed maturities:				
OTTI losses, gross	\$ 1,002	\$ 15	\$ 1,002	\$ 121
Portion of loss recognized in other comprehensive income (pre-tax)				(43)
Net impairment losses on fixed maturities recognized in earnings	1,002	15	1,002	78
Common stock	822		2,728	346
Total	\$ 1,824	\$ 15	\$ 3,730	\$ 424

The following table is an analysis of the credit losses recognized in earnings on debt securities held by the Company for the quarters and nine months ended September 30, 2011 and 2010 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	Quarters Ended	Nine Months Ended
	September 30,	September 30,

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	2011	2010	2011	2010
Balance at beginning of period	\$ 86	\$ 113	\$ 115	\$ 50
Additions where no OTTI was previously recorded				47
Additions where an OTTI was previously recorded		15		31
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			(29)	
Balance at end of period	\$ 86	\$ 128	\$ 86	\$ 128

Accumulated Other Comprehensive Income

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Accumulated other comprehensive income as of September 30, 2011 and December 31, 2010 was as follows:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Net unrealized gains (losses) from:		
Fixed maturities	\$ 36,054	\$ 50,737
Preferred stock		1,322
Common stock	(8,043)	24,600
Mutual Fund	(1,052)	
Partnerships < 3% owned	3,071	13
Deferred federal income taxes	(6,530)	(19,461)
Accumulated other comprehensive income	\$ 23,500	\$ 57,211

Net Realized Investment Gains

The components of net realized investment gains for the quarters and nine months ended September 30, 2011 and 2010 were as follows:

(Dollars in thousands)	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Fixed maturities	\$ 562	\$ 846	\$ 11,178	\$ 16,225
Convertibles				3
Common stock	726	972	8,947	5,391
Preferred stock			1,546	
Total	\$ 1,288	\$ 1,818	\$ 21,671	\$ 21,619

The proceeds from sales of available-for-sale securities resulting in net realized investment gains for the nine months ended September 30, 2011 and 2010 were as follows:

(Dollars in thousands)	Nine Months Ended September 30,	
	2011	2010
Fixed maturities	\$ 604,606	\$ 560,306
Equity securities	78,491	30,442

Net Investment Income

The sources of net investment income for the quarters and nine months ended September 30, 2011 and 2010 were as follows:

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(Dollars in thousands)	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Fixed maturities	\$ 13,153	\$ 14,885	\$ 42,031	\$ 45,597
Preferred and common stocks	914	613	2,645	1,419
Cash and cash equivalents	10	32	56	141
Other invested assets				4
Total investment income	14,077	15,530	44,732	47,161
Investment expense	(1,197)	(1,441)	(3,508)	(4,552)
Net investment income	\$ 12,880	\$ 14,089	\$ 41,224	\$ 42,609

The Company's total investment return on an after-tax basis for the quarters and nine months ended September 30, 2011 and 2010 were as follows:

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(Dollars in thousands)	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net investment income	\$ 11,106	\$ 12,039	\$ 35,749	\$ 36,109
Net realized investment gains	594	1,272	15,559	16,066
Net equity in net income (loss) of partnership			53	(29)
Net unrealized investment gains (losses)	(29,139)	18,358	(33,711)	13,797
Net investment gains (losses)	(28,545)	19,630	(18,099)	29,834
Total investment return	\$ (17,439)	\$ 31,669	\$ 17,650	\$ 65,943
Total investment return % ⁽¹⁾	(1.0%)	1.9%	1.0%	3.9%
Average investment portfolio ⁽²⁾	\$ 1,698,039	\$ 1,686,638	\$ 1,689,333	\$ 1,696,376

(1) Not annualized.**(2)** Average of total cash and invested assets, net of receivable/payable for securities, as of the beginning and ending of the period.**Insurance Enhanced Municipal Bonds**

As of September 30, 2011, the Company held insurance enhanced municipal bonds of approximately \$89.3 million, which represented approximately 5.4% of the Company's total cash and invested assets. These securities had an average rating of AA. Approximately \$36.3 million of these bonds are pre-refunded with U.S. treasury securities, of which \$25.1 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 \$53.0 million of insurance enhanced municipal bonds, \$21.2 million would have carried a lower credit rating had they not been insured. The following table provides a breakdown of the ratings for these municipal bonds with and without insurance.

(Dollars in thousands)	Ratings	
	with Insurance	without Insurance
Rating		
AA	\$ 11,075	\$ 812
A	10,115	19,353
BBB		1,025
Total	\$ 21,190	\$ 21,190

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 September 30, 2011, is as follows:

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(Dollars in thousands)				Exposure Net of Pre-refunded & Government Guaranteed Securities
Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	
Ambac Financial Group	\$ 7,017	\$ 3,015	\$	\$ 4,002
Financial Guaranty Insurance Company	1,231	1,231		
Assured Guaranty Insurance Group	34,354	11,958		22,396
Municipal Bond Insurance Association	30,983	8,315		22,668
Federal Housing Association	513		513	
Government National Housing Association	2,962	620	2,342	
Permanent School Fund Guaranty	1,151		1,151	
Total backed by financial guarantors	78,211	25,139	4,006	49,066
Other credit enhanced municipal bonds	11,111	11,111		
Total	\$ 89,322	\$ 36,250	\$ 4,006	\$ 49,066

In addition to the \$89.3 million of insurance enhanced municipal bonds, the Company also held insurance enhanced asset-backed and credit securities with a market value of approximately \$31.0 million, which represented approximately 1.9% of the Company's total cash and invested assets. The financial guarantors of the Company's \$31.0 million of insurance enhanced asset-backed and credit securities include Financial Guaranty Insurance Company (\$0.7 million), Municipal Bond Insurance Association (\$12.5 million), Ambac (\$2.5 million), Assured Guaranty Insurance Group (\$10.1 million), and Other (\$5.2 million).

The Company had no direct investments in the entities that have provided financial guarantees or other credit support to any security held by the Company at September 30, 2011.

Bonds Held on Deposit

Certain cash balances, cash equivalents, and bonds available for sale were deposited with various governmental authorities in accordance with statutory requirements or were held in trust pursuant to intercompany reinsurance agreements. The estimated fair values of cash, cash equivalents, and bonds available for sale and on deposit or held in trust were as follows as of September 30, 2011 and December 31, 2010:

(Dollars in thousands)	Estimated Fair Value	
	September 30, 2011	December 31, 2010
On deposit with governmental authorities	\$ 44,164	\$ 43,656
Intercompany trusts held for the benefit of U.S. policyholders	541,668	609,242
Held in trust pursuant to third party requirements	98,122	68,900
Held in trust pursuant to U.S. regulatory requirements for the benefit of U.S. policyholders	6,055	5,871
Total	\$ 690,009	\$ 727,669

6. Fair Value Measurements

The Company elected to apply the fair value option within its limited partnership investment portfolio to an investment where the Company previously owned more than a 3% interest. The fair value of this investment was \$1.1 million as of December 31, 2010. In February, 2011, the Company liquidated its remaining interest in this limited partnership.

During the quarters and nine months ended September 30, 2011 and 2010, the Company recognized the following gains (losses), net of taxes, due to changes in the value of these investments.

(Dollars in thousands)	Quarter Ended		Nine Months	
	September 30, 2011	2010	Ended September 30, 2011	2010
Limited partnership > 3% ownership	\$	\$	\$ 53	\$ (29)

These gains (losses) are reflected on the consolidated statement of operations as equity in net income (loss) of partnerships, net of taxes.

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The fair value option was not elected for the Company's investments in limited partnerships with less than a 3% ownership interest.

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

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

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

Level 2 - inputs utilize other than quoted prices included in Level 1 that are observable for the 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.

The following tables present information about the Company's invested assets measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of September 30, 2011 (Dollars in thousands)	\$0,000,000	\$0,000,000	\$0,000,000	\$0,000,000
	Level 1	Level 2	Level 3	Total
Fixed maturities:				
U.S. treasury and agency obligations	\$ 90,579	\$ 40,889	\$	\$ 131,468
Obligations of states and political subdivisions		218,615		218,615
Mortgage-backed securities		298,212		298,212
Commercial mortgage-backed securities		34,571		34,571
Asset-backed securities		102,755		102,755
Corporate bonds and loans		565,939		565,939

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Foreign corporate bonds		54,782		54,782
Total fixed maturities	90,579	1,315,763		1,406,342
Common shares	146,067			146,067
Other invested assets			16,169	16,169
Total invested assets	\$ 236,646	\$ 1,315,763	\$ 16,169	\$ 1,568,578

As of December 31, 2010 (Dollars in thousands)	\$0,000,000 Level 1	\$0,000,000 Fair Value Measurements Level 2	\$0,000,000 Level 3	\$0,000,000 Total
Fixed maturities:				
U.S. treasury and agency obligations	\$ 89,187	\$ 113,503	\$	\$ 202,690
Obligations of states and political subdivisions		245,012		245,012

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	\$0,000,000	\$0,000,000	\$0,000,000	\$0,000,000
Mortgage-backed securities		249,080		249,080
Commercial mortgage-backed securities		38,733		38,733
Asset-backed securities		115,099		115,099
Corporate bonds and loans		532,784		532,784
Foreign corporate bonds		60,994		60,994
Total fixed maturities	89,187	1,355,205		1,444,392
Preferred shares		2,252		2,252
Common shares	145,274			145,274
Other invested assets			5,380	5,380
Total invested assets	\$ 234,461	\$ 1,357,457	\$ 5,380	\$ 1,597,298

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

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

There were no significant transfers between Level 1 and Level 2 during the quarters or nine months ended September 30, 2011 or 2010.

The following tables present changes in Level 3 investments measured at fair value on a recurring basis for the quarter and nine months ended September 30, 2011:

Quarter Ended September 30, 2011	Other Invested Assets
(Dollars in thousands)	
Beginning balance at July 1, 2011	\$ 17,579
Total losses (realized / unrealized):	
Included in accumulated other comprehensive income	(1,434)
Purchases	24
Ending balance at September 30, 2011	\$ 16,169
Net unrealized losses included in net income for the period related to assets still held at September 30, 2011	\$

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Nine Months Ended September 30, 2011

(Dollars in thousands)	Other Invested Assets
Beginning balance at January 1, 2011	\$ 5,380
Total losses (realized / unrealized):	
Included in equity in net income of partnership	81
Included in accumulated other comprehensive income	2,006
Purchases	10,049
Sales	(1,347)
Ending balance at September 30, 2011	\$ 16,169
Net unrealized losses included in net income for the period related to assets still held at September 30, 2011	\$

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The \$16.2 million is comprised of \$7.2 million related to investments in limited partnerships and \$9.0 million related to an investment in a mutual fund. The \$7.2 million related to investments in limited partnerships was comprised of securities for which the Company does not have the ability to see the underlying valuations. The estimated fair value of these limited partnerships is measured utilizing the Company's net asset value as a practical expedient for each limited partnership. Material assumptions and factors utilized in pricing these securities include future cash flows, constant default rates, recovery rates, and any market clearing activity that may have occurred since the prior month-end pricing period. The Company's investment in a mutual fund of \$9.0 million is measured utilizing the fund's net asset value. The net asset value of the fund is based on the actual market price of the assets of the portfolio, including accrued income less liabilities and provisions for accrued expenses. The fund is comprised primarily of foreign equities. However, since the Company does not have the ability to see the invested asset composition of the mutual fund on a daily basis, this investment has been classified within the Level 3 category.

The following tables present changes in Level 3 investments measured at fair value on a recurring basis for the quarter and nine months ended September 30, 2010:

Quarter Ended September 30, 2010	Other Invested Assets
(Dollars in thousands)	
Beginning balance at July 1, 2010	\$ 6,490
Total losses (realized / unrealized):	
Included in accumulated other comprehensive income	(1,275)
Ending balance at September 30, 2010	\$