Global Indemnity plc
Form 10-K
March 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 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	**98-0664891**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

ARTHUR COX BUILDING

EARLSFORT TERRACE

DUBLIN 2

IRELAND

(Address of principal executive office including zip code)

Registrant s telephone number, including area code: 353 (0) 1 618 0517

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	**Name of Exchange on Which Registered**
Common A Ordinary shares, $0.0001 Par Value	The Nasdaq Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer þ
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the common equity held by non-affiliates of the registrant, computed by reference to the price of the registrant s Class A Ordinary shares as of the last business day of the registrant s most recently completed second fiscal quarter (based on the last reported sale price on the Nasdaq Global Select Market as of such date), was $364,838,132. Class A ordinary shares held by each executive officer and director and by each person who is known by the registrant to beneficially own 5% or more of the registrant s outstanding Class A ordinary shares have been excluded in that such persons may be deemed affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 9, 2012, the registrant had outstanding 16,474,915 Class A Ordinary shares and 12,061,370 Class B Ordinary shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement relating to the 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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As used in this annual 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. (formerly Vigilant International, 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;

6) our 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 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, general liability, 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.

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PART I

Item 1. BUSINESS

Some of the information contained in this Item 1 or set forth elsewhere in this report, including information with respect to our plans and strategy, constitutes forward-looking statements that involve risks and uncertainties. Please see Cautionary Note Regarding Forward-Looking Statements at the end of Item 7 of Part II and Risk Factors in Item 1A of Part I 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.

Our History

Global Indemnity is a holding company formed on March 9, 2010 under the laws of Ireland. On July 2, 2010, Global Indemnity became our ultimate parent company pursuant to a scheme of arrangement whereby all United America Indemnity, Ltd. ordinary shares were cancelled and all holders of such shares received ordinary shares of Global Indemnity plc on a one-for-two basis. United America Indemnity, Ltd. was a holding company formed on August 26, 2003 under the laws of the Cayman Islands to acquire our Predecessor Insurance Operations.

General

Global Indemnity, one of the leading specialty property and casualty insurers in the industry, provides its insurance products across a full distribution network binding authority, program, brokerage, and reinsurance. We manage the distribution of these products in two segments: (a) Insurance Operations and (b) Reinsurance Operations.

Business Segments

Our Insurance Operations

Our United States based Insurance Operations distribute property and casualty insurance products and operate predominantly in the excess and surplus lines marketplace. Our insurance products target specific, defined groups of insureds with customized coverage to meet their needs. To manage our operations, we differentiate them by product classification. These product classifications are:

- Penn-America distributes property and general liability products for small commercial businesses through a select network of wholesale general agents with specific binding authority;

- United National distributes property, general liability, and professional lines products through program administrators with specific binding authority; and

- Diamond State distributes property, casualty, and professional lines products through wholesale brokers that are underwritten by our personnel and selected brokers with specific binding authority.

See Marketing and Distribution below for a discussion on how our insurance products are underwritten.

These product classifications comprise our Insurance Operations business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage. Our Insurance Operations provide property, casualty, and professional liability products utilizing customized guidelines, rates, and forms tailored to our risk and underwriting philosophy. Our Insurance Operations are licensed to write on a surplus lines (non-admitted) basis and an admitted basis in all 50 U.S. States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, which provides us with flexibility in designing products and programs, and in determining rates to meet emerging risks and discontinuities in the marketplace. In 2011, gross premiums written were $229.1 million compared to $245.5 million for 2010.

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We distribute our insurance products through a group of approximately 100 professional wholesale general agencies that have specific quoting and binding authority, as well as a number of wholesale insurance brokers who in turn sell our insurance products to insureds through retail insurance brokers.

Our Insurance Operations are rated A (Excellent) by A.M. Best, which assigns credit ratings to insurance companies transacting business in the United States. A (Excellent) is the third highest rating of sixteen rating categories. These ratings are based upon factors of concern to policyholders, such as capital adequacy, loss reserve adequacy, and overall operating performance, and are not directed to the protection of investors.

Our Reinsurance Operations

Our Reinsurance Operations segment provides reinsurance solutions through brokers, primary writers, including regional insurance companies, and program managers and consists solely of the operations of Wind River Reinsurance. Wind River Reinsurance is a Bermuda based treaty reinsurer of excess and surplus lines carriers, specialty property and casualty insurance companies and U.S. regional insurance writers. Wind River also participates as a retrocessionaire on business assumed by other reinsurers. Wind River Reinsurance also provides quota share and stop-loss reinsurance to our Insurance Operations. In 2011, gross premiums written from third parties were $78.8 million compared to $100.3 million for 2010. Wind River Reinsurance is listed with the International Insurers Department (IID) of the National Association of Insurance Commissioners (NAIC). Although Wind River Reinsurance does not currently offer direct third party excess and surplus lines insurance products, it is eligible to write on a surplus lines basis in 31 U.S. States and the District of Columbia.

Wind River 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 our risk tolerance and return thresholds. Given the current pricing environment, Wind River Reinsurance continues to cautiously deploy and manage its capital while seeking to position itself as a niche reinsurance solution provider. We believe the current market dictates that growth will be very measured.

As part of the aforementioned reinsurance that Wind River Reinsurance provides to our Insurance Operations, our Insurance Operations cede 50% of their net unearned premiums, plus 50% of the net retained insurance liability of all new and renewal business to Wind River Reinsurance under a quota share reinsurance agreement. Wind River Reinsurance also provides stop-loss protection for our Insurance Operations in a 70% through 90% loss ratio corridor.

Wind River Reinsurance is rated A (Excellent) by A.M. Best.

Available Information

We maintain a website at www.globalindemnity.ie. We will make available, free of charge on our website, our most recent annual report on Form 10-K and subsequently filed quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we file such material with, or furnish it to, the United States Securities and Exchange Commission.

Recent Trends in Our Industry

The property and casualty insurance industry has historically been a cyclical industry. During periods of reduced underwriting capacity, which is characterized by a shortage of capital and reduced competition, underwriting results are generally more favorable for insurers due to more favorable policy terms and conditions and higher rate levels. During periods of excess underwriting capacity, which is characterized by an abundance of capital and increased competition, underwriting results are generally less favorable for insurers due to an expansion of policy terms and conditions and lower rate levels. Historically, several factors have affected the level of underwriting capacity, including industry losses, catastrophes, changes in legal and regulatory guidelines,

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investment results, and the ratings and financial strength of competitors. As underwriting capacity increases, the standard insurance markets begin to expand their risk selection criteria to include risks that have typically been placed in the non-standard excess and surplus lines market. This tends to shrink the demand for insurance coverage from insurers that are focused on writing in the excess and surplus line marketplace, such as Global Indemnity.

Currently we believe we are in a period of excess underwriting capacity, and we continued to see rate decreases throughout 2011. Insurers and reinsurers 2011 growth, if any, became very selective as new and renewal business pricing remained competitive. Reinsurers and carriers alike clearly observed that competition and excess capital has contributed to the adequacy in underlying prices, terms, and conditions to be eroded over the past several years calling for a flight to improved pricing, terms, and conditions adequacy, especially in light of the current low interest rate environment. However, rate decreases began to flatten towards the end of 2011, potentially signaling a turnaround in the soft market.

For property and casualty reinsurance and insurance companies to generate an acceptable return on capital in the current interest rate environment, companies are focusing on generating acceptable underwriting returns. The industry is making increased use of risk management tools to adequately compensate for the risks being written. We believe the industry continues to focus on investment yields and the credit-worthiness of investment portfolios.

The Federal Funds rate remained at extremely low levels during 2011 causing investment yields on short-term and overnight investments to be low. Given low interest rates for Federal Funds and current yields on investment grade fixed income securities, we seek to position our investment portfolio to protect against a rising interest rate environment by including fixed maturity investments with low durations and continuing re-investment in our floating rate corporate loans portfolio. Our fixed income portfolio continues to be biased toward high quality assets with an average rating of AA-. Our corporate loans portfolio is primarily made up of corporate loans which are typically below investment grade; however they provide a higher return and shorter duration.

Excess and Surplus Lines Market

Our Insurance Operations operate in the excess and surplus lines market. The excess and surplus lines market differs significantly from the standard property and casualty insurance market. In the standard property and casualty insurance market, insurance rates and forms are highly regulated; products and coverage are largely uniform and have relatively predictable exposures. In the standard market, policies must be written by insurance companies that are admitted to transact business in the state in which the policy is issued. As a result, in the standard property and casualty insurance market, insurance companies tend to compete for customers primarily on the basis of price, coverage, value-added service, and financial strength. In contrast, the excess and surplus lines market provides coverage for businesses that often do not fit the underwriting criteria of an insurance company operating in the standard markets due to their relatively greater unpredictable loss patterns and unique niches of exposure requiring rate and policy form flexibility. Without the excess and surplus lines market, certain businesses would have to self insure their exposures, or seek coverage outside the U.S. market.

Competition in the excess and surplus lines market tends to focus less on price and more on availability, service, and other considerations. While excess and surplus lines market exposures may have higher perceived insurance risk than their standard market counterparts, excess and surplus lines market underwriters historically have been able to generate underwriting profitability superior to standard market underwriters.

The excess underwriting capacity in the standard property and casualty insurance industry is impacting the excess and surplus lines market as standard insurers continue to search for acceptable risks in the excess marketplace. The excess and surplus market is also being impacted by companies who choose to self-insure their risks rather than purchase third-party insurance. This has resulted in lower demand and increased competition for premium in the markets in which we operate.

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Within the excess and surplus lines market, we write business on both a specialty admitted and surplus lines basis. Surplus lines business accounts for approximately 67.9% of the business that our Insurance Operations writes, while specialty admitted business accounts for the remaining 32.1%.

When writing on a specialty admitted basis, our focus is on writing insurance for insureds that engage in similar but often highly specialized types of activities. The specialty admitted market is subject to greater state regulation than the surplus lines market, particularly with regard to rate and form filing requirements and the ability to enter and exit lines of business. Insureds purchasing coverage from specialty admitted insurance companies do so because the insurance product is not otherwise available from standard market insurers. Yet, for regulatory or marketing reasons, these insureds require products that are written by an admitted insurance company.

Products and Product Development

Our Insurance Operations distribute property and casualty insurance products and operate predominantly in the excess and surplus lines marketplace. To manage our operations, we seek to differentiate our products by product classification. See Our Insurance Operations above for a description of these product classifications. We believe we have significant flexibility in designing products, programs, and in determining rates to meet the needs of the marketplace.

Our Reinsurance Operations offer third party treaty reinsurance for excess and surplus lines carriers, specialty property and casualty insurance companies and U.S. regional insurance writers. Our Reinsurance Operations also provide reinsurance to our Insurance Operations in the form of quota share and stop-loss arrangements.

See Note 20 of the notes to consolidated financial statements in Item 8 of Part II of this report for gross and net premiums written, income and total assets of each operating segment for the years ended December 31, 2011, 2010 and 2009. For a discussion of the variances between years, see Results of Operations in Item 7 of Part II of this report.

Geographic Concentration

The following table sets forth the geographic distribution of gross premiums written for our Insurance Operations for the periods indicated:

	For the Years Ended December 31,					
	2011		2010		2009	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent
California	$ 30,708	10.0%	$ 31,215	9.0%	$ 28,264	8.3%
Florida	26,815	8.7	28,072	8.1	34,061	10.0
Texas	22,680	7.4	22,133	6.4	24,292	7.1
New York	14,711	4.8	16,009	4.6	17,224	5.1
Louisiana	12,658	4.1	10,981	3.2	12,339	3.6
Massachusetts	7,751	2.5	9,181	2.7	11,948	3.5
Illinois	7,440	2.4	8,687	2.5	8,630	2.5
Pennsylvania	7,408	2.4	9,903	2.9	9,506	2.8
New Jersey	7,359	2.3	8,582	2.5	8,918	2.6
Michigan	5,734	1.9	6,540	1.9	6,927	2.0
Subtotal	143,264	46.5	151,303	43.8	162,109	47.5
All other states	85,884	27.9	94,178	27.2	105,884	31.1
Reinsurance Operations	78,755	25.6	100,282	29.0	73,006	21.4
Total	$ 307,903	100.0%	$ 345,763	100.0%	$ 340,999	100.0%

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Marketing and Distribution

We provide our insurance products across a full distribution network binding authority, program, brokerage, and reinsurance. For our binding authority and program product classifications, we distribute our insurance products through a group of approximately 100 wholesale general agents and program administrators that have specific quoting and binding authority. For our brokerage business, we distribute our insurance products through wholesale insurance brokers who in turn sell our insurance products to insureds through retail insurance brokers. For our reinsurance business, we distribute our products through reinsurance brokers.

Of our non-affiliated professional wholesale general agents and program administrators, the top five accounted for 23.1% of our Insurance Operations gross premiums written for the year ended December 31, 2011. No one agency accounted for more than 9.6% of our Insurance Operations gross premiums written.

Our distribution strategy is to seek to maintain strong relationships with a limited number of high-quality wholesale professional general agents and wholesale insurance brokers. We carefully select our distribution sources based on their expertise, experience and reputation. We believe that our distribution strategy enables us to effectively access numerous markets at a relatively low cost structure through the marketing, underwriting, and administrative support of our professional general agencies and wholesale insurance brokers. We believe these wholesale general agents and wholesale insurance brokers have local market knowledge and expertise that we believe enables us to access business in these markets more effectively.

Underwriting

Our insurance products are underwritten in two ways: (1) specific binding authority in which we grant underwriting authority to our wholesale general agents and program administrators, and (2) brokerage in which our internal personnel underwrites business submitted by our wholesale insurance brokers.

Specific Binding Authority Our wholesale general agents and program administrators have specific quoting and binding authority with respect to a single insurance product and some have limited quoting and binding authority with respect to multiple products.

We provide our wholesale general agents and program administrators with a comprehensive, regularly updated underwriting manual that specifically outlines risk eligibility which is developed based on the type of insured, nature of exposure and overall expected profitability. This manual also outlines (a) premium pricing, (b) underwriting guidelines, including but not limited to policy forms, terms and conditions, and (c) policy issuance instructions.

Our wholesale general agents and program administrators are appointed to underwrite submissions received from their retail agents in accordance with our underwriting manual. Risks that are not within the specific binding authority must be submitted to our underwriting personnel directly for underwriting review and approval or denial of the application of the insured. Our wholesale general agents provide all policy issuance services in accordance with our underwriting manuals.

We regularly monitor the underwriting quality of our wholesale general agents and program administrators through a disciplined system of controls, which includes the following:

- automated system criteria edits and exception reports;
- individual policy reviews to measure adherence to our underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;
- periodic on-site comprehensive audits to evaluate processes, controls, profitability and adherence to all aspects of our underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;

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- internal quarterly actuarial analysis of loss ratios produced by business underwritten by our wholesale general agents and program administrators; and
- internal quarterly analysis of financial results, including premium growth and overall profitability of business produced by our wholesale general agents and program administrators.

We provide incentives to certain of our wholesale general agents and program administrators to produce profitable business through contingent profit commission structures that are tied directly to the achievement of profitability targets.

Brokerage Our wholesale insurance brokers do not have specific binding authority, therefore, these risks are submitted to our underwriting personnel for review and processing.

We provide our underwriters with a comprehensive, regularly updated underwriting manual that specifically outlines risk eligibility, which is developed based on the type of insured, nature of exposure and overall expected profitability. This manual also outlines (a) premium pricing, (b) underwriting guidelines, including but not limited to policy forms, terms and conditions, and (c) policy issuance instructions.

Our underwriting personnel review submissions, issue all quotes and perform all policy issuance functions. We regularly monitor the underwriting quality of our underwriters through a disciplined system of controls, which includes the following:

- individual policy reviews to measure our underwriters adherence to our underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;
- periodic underwriting review to evaluate adherence to all aspects of our underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;
- internal quarterly actuarial analysis of loss ratios produced by business underwritten by our underwriters; and
- internal quarterly analysis of financial results, including premium growth and overall profitability of business produced by our underwriters.

Contingent Commissions

Certain professional general agencies of the Insurance Operations are paid special incentives, referred to as contingent commissions, when results of business produced by these agencies are more favorable than predetermined thresholds. Similarly, in some circumstances, insurance companies that cede business to our Reinsurance Operations are paid ceding or profit commissions based on the profitability of the ceded portfolio. These commissions are charged to other underwriting expenses when incurred. The liability for the unpaid portion of these commissions is stated separately on the face of the consolidated balance sheet as contingent commissions.

Pricing

We use our pricing actuaries to establish pricing tailored to each specific product we underwrite, taking into account historical loss experience and individual risk and coverage characteristics. We generally use the actuarial loss costs promulgated by the Insurance Services Office as a benchmark in the development of pricing for most of our products. We will seek to only write business if we believe we can achieve an adequate rate of return.

Since 2005 industry prices have been steadily declining. Casualty rates have declined faster than property rates. We believe our market is facing competition from standard line companies who are writing risks that they had not insured previously, Bermuda companies who are establishing relationships with wholesale brokers, and excess and surplus competitors. We believe competition is driving much of the price decline. Although market

prices have dropped, we have sought to maintain our underwriting discipline, and have therefore exited many programs. Renewal pricing on our book decreased approximately 2.3% in 2009, approximately 3.0% in 2010, and approximately 1.5% in 2011, on average.

Reinsurance of Underwriting Risk

Our philosophy is to purchase reinsurance from third parties to limit our liability on individual risks and to protect against property catastrophe and casualty clash losses. Reinsurance assists us in controlling exposure to severe losses, and protecting capital resources. We purchase reinsurance on both an excess of loss and proportional basis. The type, cost and limits of reinsurance we purchase can vary from year to year based upon our desired retention levels and the availability of quality reinsurance at an acceptable price. Although reinsurance does not legally discharge an insurer from its primary liability for the full amount of limits on the policies it has written, it does make the assuming reinsurer liable to the insurer to the extent of the insurance ceded. Our reinsurance contracts renew throughout the year, and all of our reinsurance is purchased following guidelines established by our management. We primarily utilize treaty reinsurance products, including proportional reinsurance, excess of loss reinsurance, casualty clash reinsurance, and property catastrophe excess of loss reinsurance. Additionally, we may purchase facultative reinsurance protection on single risks when deemed necessary.

We purchase specific types and structures of reinsurance depending upon the specific characteristics of the lines of business and specialty products we underwrite. We will typically seek to place proportional reinsurance for our umbrella and excess products, some of our specific specialty products, or in the development stages of a new product. We believe that this approach allows us to control our net exposure in these product areas more cost effectively.

We purchase reinsurance on an excess of loss basis to cover individual risk severity. These structures are utilized to protect our primary positions on property, casualty, and professional liability products. The excess of loss structures allow us to maximize our underwriting profits over time by retaining a greater portion of the risk in these products, while helping to protect against the possibility of unforeseen volatility.

We analyze our reinsurance contracts to ensure that they meet the risk transfer requirements of applicable accounting guidance, which requires that the reinsurer must assume significant insurance risk under the reinsured portions of the underlying insurance contracts and that there must be a reasonably possible chance that the reinsurer may realize a significant loss from the transaction. See Note 9 of the notes to consolidated financial statements in Item 8 of Part II of this report for details concerning our current reinsurance contracts.

We continually evaluate our retention levels across the entire line of business and specialty product portfolio seeking to ensure that the ultimate reinsurance structures are aligned with our corporate risk tolerance levels associated with such lines of business products. Any decision to decrease our reliance upon proportional reinsurance or to increase our excess of loss retentions could increase our earnings volatility. In cases where we decide to increase our excess of loss retentions, such decisions will be a result of a change or progression in our risk tolerance level and will be supported by an actuarial analysis. We endeavor to purchase reinsurance from financially strong reinsurers with which we have long-standing relationships. In addition, in certain circumstances, we hold collateral, including letters of credit, under reinsurance agreements.

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The following table sets forth the ten reinsurers for which we have the largest reinsurance receivables, as of December 31, 2011. Also shown are the amounts of premiums ceded by us to these reinsurers during the year ended December 31, 2011.

(Dollars in millions)	A.M. Best Rating	Gross Reinsurance Receivables	Prepaid Reinsurance Premium	Total Reinsurance Assets	Percent of Total	Ceded Premiums Written	Percent of Total
Munich Re America Corp.	A+	$ 153.3	$ 3.4	$ 156.7	49.8%	$ 11.3	41.5%
Westport Insurance Corp.	A+	52.9		52.9	16.8	(0.1)	(0.4)
General Reinsurance Corp.	A++	15.8	0.1	15.9	5.1	0.3	1.1
Transatlantic Reinsurance	A	14.0	1.8	15.8	5.0	5.2	19.0
Hartford Fire Insurance Co.	A	11.2		11.2	3.6		
GE Reinsurance Corporation (Swiss Re)	A+	8.2		8.2	2.6		
Swiss Reinsurance America Corp.	A+	5.9	0.1	6.0	1.9	0.6	2.2
Clearwater Insurance Company	B++	5.7		5.7	1.8		
Scor Holding (Switzerland)	A	5.4		5.4	1.7		
Finial Reinsurance Company	A-	4.1		4.1	1.3		
Subtotal		276.5	5.4	281.9	89.6	17.3	63.4
All other reinsurers		31.5	1.2	32.7	10.4	10.0	36.6
Total reinsurance receivables before purchase accounting adjustments and allowance for uncollectible reinsurance		308.0	6.6	314.6	100.0%	$ 27.3	100.0%
Purchase accounting adjustments and allowance for uncollectible reinsurance		(20.0)		(20.0)			
Total receivables, net of purchase accounting adjustments and allowance for uncollectible reinsurance		288.0	6.6	294.6			
Collateral held in trust from reinsurers		(169.0)		(169.0)			
Net receivables		$ 119.0	$ 6.6	$ 125.6			

At December 31, 2011, we carried reinsurance receivables of $288.0 million. This amount is net of a purchase accounting adjustment and an allowance for uncollectible reinsurance receivables. The purchase accounting adjustment resulted from our acquisition of Wind River Investment Corporation on September 5, 2003 and is related to discounting the acquired loss reserves to their present value and applying a risk margin to the discounted reserves. This adjustment was $10.0 million at December 31, 2011. The allowance for uncollectible reinsurance receivables was $10.0 million at December 31, 2011.

Historically, there have been insolvencies following a period of competitive pricing in the industry. While we have recorded allowances for reinsurance receivables based on currently available information, conditions may change or additional information might be obtained that may require us to record additional allowances. On a quarterly basis, we review our financial exposure to the reinsurance market and assess the adequacy of our collateral and allowance for uncollectible reinsurance and continue to take actions to mitigate our exposure to possible loss.

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Claims Management and Administration

Our approach to claims management is designed to investigate reported incidents at the earliest juncture, to select, manage, and supervise all legal and adjustment aspects of claims, including settlement, for the mutual benefit of us, our professional general agents, wholesale brokers, reinsurers and insureds. Our professional general agents and wholesale brokers have no authority to settle claims or otherwise exercise control over the claims process, with the exception of one statutory managing general agent. Our claims management staff supervises or processes all claims. We have a formal claims review process, and all claims greater than $100,000, gross of reinsurance, are reviewed by our senior claims management and certain of our senior executives.

To handle claims, we utilize our own in-house claims department as well as third-party claims administrators (TPAs) and assuming reinsurers, to whom we delegate limited claims handling authority. Our experienced in-house staff of claims management professionals are assigned to one of five dedicated claim units: casualty claims, latent exposure claims, property claims, TPA oversight, and a wholly owned subsidiary that administers construction defect claims. The dedicated claims units meet regularly to communicate current developments within their assigned areas of specialty.

As of December 31, 2011, we had $304.3 million of direct outstanding loss and loss adjustment expense case reserves at our Insurance Operations. Claims relating to approximately 81.1% of those reserves are handled by our in-house claims management professionals, while claims relating to approximately 3.5% of those reserves are handled by our TPAs, which send us detailed financial and claims information on a monthly basis. We also individually supervise in-house any significant or complicated TPA handled claims, and conduct on-site audits of our material TPAs at least twice a year. Approximately 15.4% of our reserves are handled by our assuming reinsurers. We review and supervise the claims handled by our reinsurers seeking to protect our reputation and minimize exposure.

Reserves for Unpaid Losses and Loss Adjustment Expenses

Applicable insurance laws require us to maintain reserves to cover our estimated ultimate losses under insurance policies that we write and for loss adjustment expenses relating to the investigation and settlement of policy claims.

We establish loss and loss adjustment expense reserves for individual claims by evaluating reported claims on the basis of:

- our knowledge of the circumstances surrounding the claim;
- the severity of injury or damage;
- jurisdiction of the occurrence;
- the potential for ultimate exposure;
- litigation related developments;
- the type of loss; and
- our experience with the insured and the line of business and policy provisions relating to the particular type of claim.

We generally estimate such losses and claims costs through an evaluation of individual reported claims. We also establish reserves for incurred but not reported losses (IBNR). IBNR reserves are based in part on statistical information and in part on industry experience with respect to the expected number and nature of claims arising from occurrences that have not been reported. We also establish our reserves based on our estimates of future trends in claims severity and other subjective factors. Insurance companies are not permitted to reserve for a catastrophe until it has occurred. Reserves are recorded on an undiscounted basis other than fair value adjustments recorded under purchase accounting. The reserves are reviewed quarterly by the in-house actuarial staff. In addition to our internal reserve analysis, independent external actuaries perform a full, detailed review of our Insurance Operations reserves during the second and fourth quarters of each fiscal year. Our independent external actuaries also perform a full, detailed review of our Reinsurance Operations reserves on a quarterly basis. We do not rely upon the review by the independent actuaries to develop our reserves; however, the data is used to corroborate the analysis performed by the in-house actuarial staff.

With respect to some classes of risks, the period of time between the occurrence of an insured event and the final resolution of a claim may be many years, and during this period it often becomes necessary to adjust the claim estimates either upward or downward. Certain classes of umbrella and excess liability that we underwrite have historically had longer intervals between the occurrence of an insured event, reporting of the claim and final resolution. In such cases, we must estimate reserves over long periods of time with the possibility of several adjustments to reserves. Other classes of insurance that we underwrite, such as most property insurance, historically have shorter intervals between the occurrence of an insured event, reporting of the claim and final resolution. Reserves with respect to these classes are therefore inherently less likely to be adjusted.

The loss and loss expense reserving process is intended to reflect the impact of inflation and other factors affecting loss payments by taking into account changes in historical payment patterns and perceived trends. However, there is no precise method for the subsequent evaluation of the adequacy of the consideration given to inflation, or to any other specific factor, or to the way one factor may affect another.

The loss and loss expense development table below shows changes in our reserves in subsequent years from the prior loss and loss expense estimates based on experience as of the end of each succeeding year and in conformity with GAAP. The estimate is increased or decreased as more information becomes known about the frequency and severity of losses for individual years. A redundancy means the original estimate was higher than the current estimate; a deficiency means that the current estimate is higher than the original estimate.

The first line of the loss and loss expense development table shows, for the years indicated, our net reserve liability including the reserve for IBNR. The first section of the table shows, by year, the cumulative amounts of losses and loss adjustment expenses paid as of the end of each succeeding year. The second section sets forth the re-estimates in later years of incurred losses and loss expenses, including payments, for the years indicated. The cumulative redundancy (deficiency) represents, as of the date indicated, the difference between the latest re-estimated liability and the reserves as originally estimated.

In 2005, $235.2 million of loss reserves were acquired as a result of the merger with Penn-America Group, Inc. that took place on January 24, 2005. As such, there are no loss reserves in our loss development table related to the Penn-America Insurance Companies for any years prior to 2005.

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This loss development table shows development in Global Indemnity s loss and loss expense reserves on a net basis:

(Dollars in thousands)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Balance sheet reserves:	$ 156,784	$ 260,820	$ 314,027	$ 344,614	$ 639,291	$ 735,342	$ 800,885	$ 835,839	$ 725,297	$ 638,906	$ 684,878
Cumulative paid as of:											
One year later	$ 63,667	$ 42,779	$ 76,048	$ 85,960	$ 154,069	$ 169,899	$ 190,723	$ 215,903	$ 189,358	$ 160,204	
Two years later	82,970	96,623	136,133	139,822	268,827	300,041	360,336	366,647	299,720		
Three years later	118,401	141,545	171,659	180,801	355,987	413,055	470,313	454,284			
Four years later	150,062	164,181	197,596	209,938	414,068	478,408	532,753				
Five years later	164,023	182,043	214,376	237,636	440,206	506,915					
Six years later	177,682	193,536	235,022	251,350	454,982						
Seven years later	186,173	211,036	244,389	261,773							
Eight years later	201,899	218,930	253,267								
Nine years later	208,806	227,352									
Ten years later	214,839										
Re-estimated liability as of:											
End of year	$ 156,784	$ 260,820	$ 314,027	$ 344,614	$ 639,291	$ 735,342	$ 800,885	$ 835,839	$ 725,297	$ 638,906	$ 684,878
One year later	228,207	261,465	313,213	343,332	632,327	716,361	832,733	827,439	671,399	643,569	
Two years later	228,391	263,995	315,230	326,031	629,859	732,056	812,732	768,623	640,750		
Three years later	231,133	268,149	298,989	323,696	635,504	707,525	765,435	730,079			
Four years later	236,271	252,078	301,660	332,302	622,122	672,712	737,614				
Five years later	226,116	264,058	308,776	323,547	608,050	658,429					
Six years later	242,666	272,806	303,146	316,195	598,384						
Seven years later	254,110	266,880	298,566	312,860							
Eight years later	249,861	264,055	297,544								
Nine years later	249,673	265,195									
Ten years later	248,855										
Cumulative redundancy/(deficiency)	$ (92,071)	$ (4,375)	$ 16,483	$ 31,754	$ 40,907	$ 76,913	$ 63,271	$ 105,760	$ 84,547	$ (4,663)	$
Gross Liability end of year	907,357	2,004,422	2,059,760	1,876,510	1,914,224	1,702,010	1,503,238	1,506,430	1,257,741	1,059,756	971,377
Less: Reinsurance recoverable	750,573	1,743,602	1,745,733	1,531,896	1,274,933	966,668	702,353	670,591	532,444	420,850	286,499
Net liability-end of year	156,784	260,820	314,027	344,614	639,291	735,342	800,885	835,839	725,297	638,906	684,878
Gross re-estimated liability	1,528,117	1,599,235	1,463,678	1,221,095	1,333,447	1,123,963	1,263,306	1,203,687	1,012,877	962,396	971,377
Less: Re-estimated recoverable at December 31, 2011	1,279,262	1,334,040	1,166,134	908,235	735,063	465,534	525,692	473,608	372,127	318,827	286,499
Net re-estimated liability at December 31, 2011	$ 248,855	$ 265,195	$ 297,544	$ 312,860	$ 598,384	$ 658,429	$ 737,614	$ 730,079	$ 640,750	$ 643,569	$ 684,878
Gross cumulative redundancy/ (deficiency)	$ (620,760)	$ 405,187	$ 596,082	$ 655,415	$ 580,777	$ 578,047	$ 239,932	$ 302,743	$ 244,864	$ 97,360	$

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See Note 11 of the notes to consolidated financial statements in Item 8 of Part II of this report for a reconciliation of Global Indemnity s liability for losses and loss adjustment expenses, net of reinsurance ceded, as well as further discussion surrounding changes to reserves for prior accident years.

The adverse development noted in the table above from 2001 through 2002 is primarily related to increasing asbestos and environmental (A&E) reserves related to a single policy. The insurance industry continues to receive a substantial number of asbestos-related bodily injury claims, with an increasing focus being directed toward installers of products containing 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 developments, management increased gross and net A&E reserves during 2008 to reflect its best estimate of A&E exposures.

Asbestos and Environmental Exposure

Our environmental exposure arises from the sale of general liability and commercial multi-peril insurance. Currently, our policies continue to exclude classic environmental contamination claims. In some states we are required, however, depending on the circumstances, to provide coverage for certain bodily injury claims, such as an individual s exposure to a release of chemicals. We have also issued policies that were intended to provide limited pollution and environmental coverage. These policies were specific to certain types of products underwritten by us. We have also received a number of asbestos-related claims, the majority of which are declined based on well-established exclusions. In establishing the liability for unpaid losses and loss adjustment expenses related to A&E exposures, management considers facts currently known and the current state of the law and coverage litigations. Estimates of these liabilities are reviewed and updated continually.

Significant uncertainty remains as to our ultimate liability for asbestos-related claims due to such factors as the long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims, the increase in the volume of claims made by plaintiffs who claim exposure but who have no symptoms of asbestos-related disease, and an increase in claims subject to coverage under general liability policies that do not contain aggregate limits of liability.

The liability for unpaid losses and loss adjustment expenses, inclusive of A&E reserves, reflects our best estimates for future amounts needed to pay losses and related adjustment expenses as of each of the balance sheet dates reflected in the financial statements herein in accordance with GAAP. As of December 31, 2011, we had $21.8 million of net loss reserves for asbestos-related claims and $8.0 million for environmental claims. We attempt to estimate the full impact of the A&E exposures by establishing specific case reserves on all known losses. See Note 11 of the notes to the consolidated financial statements in Item 8 of Part II of this report for tables showing our gross and net reserves for A&E losses.

In addition to the factors referenced above, establishing reserves for A&E and other mass tort claims involves 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. In 2009, one of our insurance companies was dismissed from a lawsuit seeking coverage from it and other unrelated insurance companies. The suit involved issues related to approximately 3,900 existing asbestos-related bodily injury claims and future claims related to a single policy. The dismissal was the result of a settlement of a disputed claim related to accident year 1984. The settlement is conditioned upon certain legal events occurring which will trigger financial obligations by the insurance company. Management will continue to monitor the developments of the litigation to determine if any additional financial exposure is present.

See Note 11 of the notes to the consolidated financial statements in Item 8 of Part II of this report for the survival ratios on a gross basis for our open A&E claims.

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Investments

Our investment policy is determined by the Investment Committee of our Board of Directors. We have engaged third-party investment advisors to oversee our investments and to make recommendations to the Investment Committee of our Board of Directors. Our investment policy allows us to invest in taxable and tax-exempt fixed income investments including corporate bonds and loans as well as publicly traded and private equity investments. With respect to fixed income investments, the maximum exposure per issuer varies as a function of the credit quality of the security. For our corporate loans portfolio, the maximum exposure per issuer is limited to 5% of the market value of the corporate loans portfolio. The allocation between taxable and tax-exempt bonds is determined based on market conditions and tax considerations, including the applicability of the alternative minimum tax. The maximum allowable investment in equity securities under our investment policy is 30% of our GAAP equity, or $252.5 million at December 31, 2011. As of December 31, 2011, we had $1,649.2 million of investments and cash and cash equivalent assets, including $175.0 million of equity and limited partnership investments and $195.9 million in floating rate corporate loans, plus a $1.5 million receivable for securities.

Insurance company investments must comply with applicable statutory regulations that prescribe the type, quality and concentration of investments. These regulations permit investments, within specified limits and subject to certain qualifications, in federal, state, and municipal obligations, corporate bonds, and preferred and common equity securities.

The following table summarizes by type the estimated fair value of Global Indemnity s investments and cash and cash equivalents as of December 31, 2011, 2010, and 2009:

	December 31, 2011		December 31, 2010		December 31, 2009	
(Dollars in thousands)	**Estimated Fair Value**	**Percent of Total**	**Estimated Fair Value**	**Percent of Total**	**Estimated Fair Value**	**Percent of Total**
Cash and cash equivalents	$ 175,860	10.7%	$ 119,888	7.0%	$ 186,087	10.8%
U.S. treasury and agency obligations	131,289	8.0	202,690	11.8	236,088	13.6
Obligations of states and political subdivisions	206,133	12.5	245,012	14.3	225,598	13.0
Mortgage-backed securities **(1)**	268,990	16.3	249,080	14.4	364,000	21.0
Commercial mortgage-backed securities	29,969	1.8	38,733	2.3		
Asset-backed securities	95,964	5.8	115,099	6.7	114,163	6.6
Corporate bonds and loans	521,201	31.7	532,784	31.0	460,730	26.6
Foreign corporate bonds	43,339	2.6	60,994	3.6	70,993	4.1
Total fixed maturities	1,296,885	78.7	1,444,392	84.1	1,471,572	84.9
Equity securities	168,361	10.2	147,526	8.6	65,656	3.8
Other investments	6,617	0.4	5,380	0.3	7,999	0.5
Total investments and cash and cash equivalents **(2)**	$ 1,647,723	100.0%	$ 1,717,186	100.0%	$ 1,731,314	100.0%

(1) Includes collateralized mortgage obligations of $20,921, $13,445, and $21,959 for 2011, 2010, and 2009, respectively.
(2) Does not include net receivable for securities sold of $1,484, ($4,768) and ($37,258) for 2011, 2010 and 2009, respectively.

Although we generally intend to hold fixed maturities to recovery and/or maturity, we regularly re-evaluate our position based upon market conditions. As of December 31, 2011, our fixed maturities, excluding our mortgage-backed, commercial mortgage-backed and collateralized mortgage obligations had a weighted average maturity of 4.35 years and a weighted average duration, excluding mortgage-backed, commercial mortgage-backed and collateralized mortgage obligations and including cash and short-term investments, of 1.7 years. Our financial statements reflect a net unrealized gain on fixed maturities available for sale as of December 31, 2011 of $38.4 million on a pre-tax basis.

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The following table shows the average amount of fixed maturities, income earned on fixed maturities, and the book yield thereon, as well as unrealized gains for the periods indicated:

(Dollars in thousands)	Years Ended December 31, 2011	2010	2009
Average fixed maturities at book value	$ 1,326,094	$ 1,408,353	$ 1,307,718
Gross income on fixed maturities **(1)**	54,153	60,262	62,099
Book yield	4.08%	4.28%	4.75%
Fixed maturities at book value	$ 1,258,533	$ 1,393,655	$ 1,423,050
Unrealized gain	38,352	50,737	48,522

(1) Represents income earned by fixed maturities, gross of investment expenses and excluding realized gains and losses.

Default rates on collateralized commercial real estate obligations and asset-backed securities may continue to rise. To protect ourselves against this possibility, we have sought to structure our portfolio to reduce the risk of default. Of the $269.0 million of mortgage-backed securities, $248.1 million is invested in U.S. agency paper and $20.9 million is invested in collateralized mortgage obligations, of which $20.0 million, or 95.4%, are rated AA+ or better. Of the $96.0 million in asset-backed securities, 87.8% are rated AAA. The weighted average credit enhancement for our asset-backed securities is 28.9. We also face liquidity risk. Liquidity risk is when the fair value of an investment is not able to be realized due to lack of interest by outside parties in the marketplace. We attempt to diversify our investment holdings to minimize this risk. Our investment managers run periodic analysis of liquidity costs to the fixed income portfolio. We also face credit risk. 84.7% of our fixed income securities are investment grade securities. 10.0% of our fixed maturities are rated AAA. See Quantitative and Qualitative Disclosures About Market Risk in Item 7A of Part II of this report for a more detailed discussion of the credit market and our investment strategy.

The following table summarizes, by Standard & Poor s rating classifications, the estimated fair value of Global Indemnity s investments in fixed maturities, as of December 31, 2011 and 2010:

(Dollars in thousands)	December 31, 2011 Estimated Fair Value	December 31, 2011 Percent of Total	December 31, 2010 Estimated Fair Value	December 31, 2010 Percent of Total
AAA	$ 130,004	10.0%	$ 639,814	44.3%
AA	596,490	46.0	251,850	17.5
A	273,379	21.1	288,663	20.0
BBB	99,189	7.6	53,468	3.7
BB	80,033	6.2	85,641	5.9
B	108,296	8.4	110,931	7.7
CCC	4,478	0.3	7,899	0.5
CC	938	0.1		
Not rated	4,078	0.3	6,126	0.4
Total fixed maturities	$ 1,296,885	100.0%	$ 1,444,392	100.0%

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The following table sets forth the expected maturity distribution of Global Indemnity s fixed maturities portfolio at their estimated market value as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
(Dollars in thousands)	Estimated Market Value	Percent of Total	Estimated Market Value	Percent of Total
Due in one year or less	$ 86,100	6.6%	$ 90,076	6.2%
Due in one year through five years	617,121	47.6	665,633	46.2
Due in five years through ten years	155,947	12.0	212,990	14.7
Due in ten years through fifteen years	11,136	0.9	26,339	1.8
Due after fifteen years	31,658	2.4	46,442	3.2
Securities with fixed maturities	901,962	69.5	1,041,480	72.1
Mortgaged-backed securities	268,990	20.8	249,080	17.2
Commercial mortgage-backed securities	29,969	2.3	38,733	2.7
Asset-backed securities	95,964	7.4	115,099	8.0
Total fixed maturities	$ 1,296,885	100.0%	$ 1,444,392	100.0%

The expected weighted average duration of our asset-backed, mortgage-backed, and commercial mortgage-backed securities is 1.3 years.

The value of our portfolio of bonds is inversely correlated to changes in market interest rates. In addition, some of our bonds have call or prepayment options. This could subject us to reinvestment risk should interest rates fall and issuers call their securities and we are forced to invest the proceeds at lower interest rates. We seek to mitigate our reinvestment risk by investing in securities with varied maturity dates, so that only a portion of the portfolio will mature, be called, or be prepaid at any point in time.

Our investments in corporate loans were valued at $195.9 million at December 31, 2011. Corporate loans, a new investment vehicle in 2009, sometimes referred to as leveraged loans, are primarily investments in senior secured floating rate loans that banks have made to corporations. The loans are generally priced at an interest rate spread over LIBOR that resets periodically, typically at intervals between one month and one year. As a result of the floating rate feature, this asset class provides protection against rising interest rates. However, this asset class is subject to default risk since these investments are typically below investment grade. To mitigate this risk, our investment managers perform an in-depth structural analysis. As part of this analysis, they focus on the strength of any security granted to the lenders, the position of the loan in the company s capital structure and the appropriate covenant protection. In addition, as part of our risk control, our investment managers seek to maintain appropriate portfolio diversification by limiting issuer and industry exposure.

As of December 31, 2011, we had aggregate equity securities of $168.4 million that consisted entirely of common stocks.

Our investments in other invested assets are comprised primarily of limited liability partnerships, and were valued at $6.6 million at December 31, 2011. This entire amount was comprised of securities for which there is no readily available independent market price. 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. We obtain the value of the partnerships at the end of each reporting period; however, we are not provided with a detailed listing of the investments held by these partnerships. We receive annual audited financial statements from each of the partnerships we own.

Realized gains, including other than temporary impairments, for the years ended December 31, 2011, 2010, and 2009 were $21.5 million, $26.4 million, and $15.9 million, respectively.

Competition

We compete with numerous domestic and international insurance and reinsurance companies, mutual companies, specialty insurance companies, underwriting agencies, diversified financial services companies, Lloyd s syndicates, risk retention groups, insurance buying groups, risk securitization products and alternative self-insurance mechanisms. In particular, we compete against insurance subsidiaries of the groups in the specialty insurance market noted below, insurance companies, and others, including:

- American International Group;
- Argo Group International Holdings, Ltd.;
- Berkshire Hathaway;
- Everest Re Group, Ltd.;
- Great American Insurance Group;
- HCC Insurance Holdings, Inc.;
- IFG Companies;
- Markel Corporation;
- Nationwide Insurance;
- Navigators Insurance Group;
- RLI Corporation;
- Selective Insurance Group, Inc.;
- The Travelers Companies, Inc.;
- W.R. Berkley Corporation; and

Western World Insurance Group.

In addition to the companies mentioned above, we are facing competition from standard line companies who are continuing to write risks that traditionally had been written by excess and surplus lines carriers, Bermuda companies who are establishing relationships with wholesale brokers, and other excess and surplus lines competitors.

Competition may also take the form of lower prices, broader coverage, greater product flexibility, higher quality services, reputation and financial strength or higher ratings by independent rating agencies. In all of our markets, we compete by developing insurance products to satisfy well-defined market needs and by maintaining relationships with brokers and insureds that rely on our expertise. For our program and specialty wholesale products, offerings and underwriting products that are not readily available is our principal means of differentiating ourselves from our competition. Each of our products has its own distinct competitive environment. We seek to compete through innovative products, appropriate pricing, niche underwriting expertise, and quality service to policyholders, general agencies and brokers.

A number of recent, proposed, or potential legislative or marketplace developments could further increase competition in our industry. These developments include an influx of new capital that resulted from the formation of new insurers in the marketplace and existing companies that have attempted to expand their business as a result of better pricing or terms, legislative mandates for insurers to provide certain types of coverage in areas where existing insurers do business which could eliminate the opportunities to write those coverage, and proposed federal legislation which would establish national standards for state insurance regulation.

These developments are making the property and casualty insurance marketplace more competitive by increasing the supply of insurance capacity.

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Employees

We have approximately 270 employees. None of our employees are covered by collective bargaining agreements.

Ratings

A.M. Best ratings for the industry range from A++ (Superior) to F (In Liquidation) with some companies not being rated. The United States Based Insurance Companies and Wind River Reinsurance are currently rated A (Excellent) by A.M. Best, the third highest of sixteen rating categories.

Publications of A.M. Best indicate that A (Excellent) ratings are assigned to those companies that, in A.M. Best s opinion, have an excellent ability to meet their ongoing obligations to policyholders. In evaluating a company s financial and operating performance, A.M. Best reviews its profitability, leverage and liquidity, as well as its spread of risk, the quality and appropriateness of its reinsurance, the quality and diversification of its assets, the adequacy of its policy and loss reserves, the adequacy of its surplus, its capital structure and the experience and objectives of its management. These ratings are based on factors relevant to policyholders, general agencies, insurance brokers and intermediaries and are not directed to the protection of investors.

Regulation

General

The business of insurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. As a holding company, Global Indemnity is not subject to any insurance regulation by any authority in the Republic of Ireland. However, Global Indemnity is subject to various Irish laws and regulations, including, but not limited to, laws and regulations governing interested directors, mergers and acquisitions, takeovers, shareholder lawsuits, and indemnification of directors.

U.S. Regulation

We have seven operating insurance subsidiaries domiciled in the United States; United National Insurance Company, Penn-America Insurance Company, and Penn-Star Insurance Company, which are domiciled in Pennsylvania; Diamond State Insurance Company and United National Casualty Insurance Company, which are domiciled in Indiana; United National Specialty Insurance Company, which is domiciled in Wisconsin; and Penn-Patriot Insurance Company, which is domiciled in Virginia.

As the indirect parent of the U.S. Insurance Companies, we are subject to the insurance holding company laws of Indiana, Pennsylvania, Virginia, and Wisconsin. These laws generally require each company of our U.S. Insurance Companies to register with its respective domestic state insurance department and to furnish annually financial and other information about the operations of the companies within our insurance holding company system. Generally, all material transactions among affiliated companies in the holding company system to which any of the U.S. Insurance Companies is a party must be fair, and, if material or of a specified category, require prior notice and approval or absence of disapproval by the insurance department where the subsidiary is domiciled. Material transactions include sales, loans, reinsurance agreements, and service agreements with the non-insurance companies within our family of companies, our Insurance Operations, or our Reinsurance Operations.

Changes of Control

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider factors such

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as the financial strength of the applicant, the integrity and management of the applicant s Board of Directors and executive officers, the acquirer s plans for the management, Board of Directors and executive officers of the company being acquired, the acquirer s plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of the domestic insurer. Because a person acquiring 10% or more of our ordinary shares would indirectly control the same percentage of the stock of the U.S. Insurance Companies, the insurance change of control laws of Indiana, Pennsylvania, Virginia, and Wisconsin would likely apply to such a transaction. While our articles of association limit the voting power of any U.S. shareholder to less than 9.5%, there can be no assurance that the applicable state insurance regulator would agree that any shareholder did not control the applicable insurance company.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Global Indemnity, including through transactions, and in particular unsolicited transactions, that some or all of the shareholders of Global Indemnity might consider desirable.

Notice must also be provided to the IID after a person acquires 10% or more of the voting securities of Wind River Reinsurance. Failure to do so may cause Wind River Reinsurance to be removed from the IID listing. In the event of a change in control and/or merger of Wind River Reinsurance, a complete application must be filed with the IID, including all documents that are necessary for the IID to determine if Wind River Reinsurance continues to be in compliance for listing with the IID. The IID may determine after a change in control and/or merger that Wind River Reinsurance is not in compliance and may remove it from continued listing.

Federal Insurance Regulation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) includes a number of provisions having a direct impact on the insurance industry, most notably, the creation of a Federal Insurance Office to monitor the insurance industry, streamlining of surplus lines insurance, credit for reinsurance, and systemic risk regulation. The Federal Insurance Office is empowered to gather data and information regarding the insurance industry and insurers, including conducting a study for submission to the U.S. Congress on how to modernize and improve insurance regulation in the United States. With respect to surplus lines insurance, the Dodd-Frank Act gives exclusive authority to regulate surplus lines transactions to the home state of the insured, and the requirement that a surplus lines broker must first attempt to place coverage in the admitted market is substantially softened with respect to large commercial policyholders. Significantly, the Dodd-Frank Act provides that a state may not prevent a surplus lines broker from placing surplus lines insurance with a non-U.S. insurer, such as our Wind River subsidiary, that appears on the quarterly listing of non-admitted insurers maintained by the IID of the NAIC. Regarding credit for reinsurance, the Dodd-Frank Act generally provides that the state of domicile of the ceding company (and no other state) may regulate financial statement credit for the ceded risk. The Dodd-Frank Act also provides the U.S. Federal Reserve with supervisory authority over insurance companies that are deemed to be systemically important. Regulations to implement the Dodd-Frank Act are currently under development and we are continuing to monitor the impact the Dodd-Frank Act may have on our operations.

State Insurance Regulation

State insurance authorities have broad regulatory powers with respect to various aspects of the business of U.S. insurance companies, including, but not limited to, licensing companies to transact admitted business or determining eligibility to write surplus lines business, accreditation of reinsurers, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, management of enterprise risk, regulating investments and dividends, approving policy forms and related materials in certain instances and approving premium rates in certain instances. State insurance laws and regulations may require the U.S. Insurance Companies to file financial statements with insurance departments everywhere they will be licensed or eligible or accredited to conduct insurance business, and their operations are subject to review by those departments at any time. The U.S. Insurance Companies prepare statutory financial statements in accordance with statutory accounting principles (SAP) and procedures prescribed or permitted by these departments. State insurance departments also conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years, although market conduct examinations may take place at any time. These examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. In addition, admitted insurers are subject to targeted market conduct examinations involving specific insurers by state insurance regulators in any state in which the insurer is admitted. The insurance departments for the states of Pennsylvania, Indiana, Wisconsin, and Virginia completed their financial examinations of our U.S. Insurance Subsidiaries for the period ended December 31, 2007. Their final reports were issued in 2009, and there were no materially adverse findings.

Insurance Regulatory Information System Ratios

The NAIC Insurance Regulatory Information System (IRIS) was developed by a committee of the state insurance regulators and is intended primarily to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies twelve industry ratios and specifies usual values for each ratio. Departure from the usual values of the ratios can lead to inquiries from individual state insurance commissioners as to certain aspects of an insurer s business. Insurers that report four or more ratios that fall outside the range of usual values are generally targeted for increased regulatory review. During 2011, our insurance companies in our Insurance Operations did not experience any IRIS ratios that fell outside the normal range of industry expectations.

Risk-Based Capital Regulations

The state insurance departments of Indiana, Pennsylvania, Virginia, and Wisconsin require that each domestic insurer report its risk-based capital based on a formula calculated by applying factors to various asset, premium and reserve items. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk and business risk. The respective state insurance regulators use the formula as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and generally not as a means to rank insurers. State insurance laws impose broad confidentiality requirements on those engaged in the insurance business (including insurers, general agencies, brokers and others) and on state insurance departments as to the use and publication of risk-based capital data. The respective state insurance regulators have explicit regulatory authority to require various actions by, or to take various actions against, insurers whose total adjusted capital does not exceed certain company action level risk-based capital levels.

Based on the standards currently adopted, we reported in our 2011 statutory filings that the capital and surplus of our U.S. Insurance Companies are above the prescribed company action level risk-based capital requirements.

Statutory Accounting Principles

SAP is a basis of accounting developed to assist insurance regulators in monitoring and regulating the solvency of insurance companies. SAP is primarily concerned with measuring an insurer s surplus. Accordingly, statutory accounting focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with appropriate insurance laws, regulatory provisions, and practices prescribed or permitted by each insurer s domiciliary state.

GAAP is concerned with a company s solvency, but it is also concerned with other financial measurements, such as income and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenue and expenses. As a direct result, different line item groupings of assets and liabilities and different amounts of assets and liabilities are reflected in financial statements prepared in accordance with GAAP than financial statements prepared in accordance with SAP.

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Statutory accounting practices established by the NAIC and adopted in part by the Indiana, Pennsylvania, Virginia, and Wisconsin regulators determine, among other things, the amount of statutory surplus and statutory net income of the U.S. Insurance Companies and thus determine, in part, the amount of funds these subsidiaries have available to pay dividends.

State Dividend Limitations

The U.S. Insurance Companies are restricted by statute as to the amount of dividends that they may pay without the prior approval of the applicable state regulatory authorities. Dividends may be paid without advanced regulatory approval only out of unassigned surplus. The dividend limitations imposed by the applicable state laws are based on the statutory financial results of each company within our Insurance Operations that are determined 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. Key differences relate to, among other items, deferred acquisition costs, limitations on deferred income taxes, reserve calculation assumptions and surplus notes.

See the Liquidity and Capital Resources section in Item 7 of Part II of this report for a more complete description of the state dividend limitations. See Note 19 of the notes to consolidated financial statements in Item 8 of Part II of this report for the dividends declared and paid by the U.S. Insurance Companies in 2011 and the maximum amount of distributions that they could pay as dividends in 2012.

Guaranty Associations and Similar Arrangements

Most of the jurisdictions in which our U.S. Insurance Companies are admitted to transact business require property and casualty insurers doing business within that jurisdiction to participate in guaranty associations. These organizations are organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent, or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets or in limited circumstances by surcharging policyholders.

Operations of Wind River Reinsurance

The insurance laws of each of the United States and of many other countries regulate or prohibit the sale of insurance and reinsurance within their jurisdictions by non-U.S. insurers and reinsurers that are not admitted to do business within such jurisdictions. Wind River Reinsurance is not admitted to do business in the United States. We do not intend for Wind River Reinsurance to maintain offices or solicit, advertise, settle claims or conduct other insurance and reinsurance underwriting activities in any jurisdiction in the United States where the conduct of such activities would require that Wind River Reinsurance be admitted or authorized.

As a reinsurer that is not licensed, accredited, or approved in any state in the United States, Wind River Reinsurance is required to post collateral security with respect to the reinsurance liabilities it assumes from our Insurance Operations as well as other U.S. ceding companies. The posting of collateral security is generally required in order for U.S. ceding companies to obtain credit on their U.S. statutory financial statements with respect to reinsurance liabilities ceded to unlicensed or unaccredited reinsurers. Under applicable United States credit for reinsurance statutory provisions, the security arrangements generally may be in the form of letters of credit, reinsurance trusts maintained by third-party trustees or funds-withheld arrangements whereby the ceded premium is held by the ceding company. If credit for reinsurance laws or regulations are made more stringent in Indiana, Pennsylvania, Virginia, Wisconsin or other applicable states or any of the Insurance Operations re-domesticates to one of the few states that do not allow credit for reinsurance ceded to non-licensed reinsurers, we may be unable to realize some of the benefits we expect from our business plan. Accordingly, our Reinsurance Operations could be adversely affected.

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Even though Wind River Reinsurance does not currently offer third party excess and surplus lines insurance products, it maintains a U.S. surplus lines trust fund with a U.S. bank to secure its U.S. surplus lines policyholders. The amount held in trust at December 31, 2011 was $6.1 million. Outstanding reserves at December 31, 2011 were $0.1 million. The current minimum amount that Wind River Reinsurance needs to maintain in the trust fund is $5.4 million. In subsequent years, if Wind River Reinsurance were to write third party excess and surplus lines insurance, it would need to maintain in the trust fund an amount equal to 30% of any amount up to the first $200.0 million plus further graduated amounts of its U.S. surplus lines loss reserves and unearned premium, as at each year end, as certified by an actuary, but subject to a current maximum of $100.0 million. The trust fund is irrevocable and must remain in force for a period of five years from the date of written notice to the trustee of the termination of the trust unless the liabilities with respect to all risks covered by the trust fund have been transferred to an insurer licensed to do business in all states where insurance is in force.

Apart from the financial and related filings required to maintain Wind River Reinsurance s place on the IID s Non-Admitted Insurers Quarterly Listing and its jurisdiction-specific approvals and eligibilities, Wind River Reinsurance generally is not subject to regulation by U.S. jurisdictions. Specifically, rate and form regulations otherwise applicable to authorized insurers generally do not apply to Wind River Reinsurance s surplus lines transactions.

Bermuda Insurance Regulation

The Bermuda Insurance Act 1978 and related regulations, as amended (the Insurance Act), regulates the insurance business of Wind River Reinsurance and provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (the BMA) under the Insurance Act. Wind River Reinsurance has been registered as a Class 3B insurer by the BMA. A corporate body is registrable as a Class 3B insurer if it intends to carry on insurance business in circumstances where 50% or more of the net premiums written or 50% or more of the loss and loss expense provisions represent unrelated business, or its total net premiums written from unrelated business are $50.0 million or more. The continued registration of an applicant as an insurer is subject to it complying with the terms of its registration and such other conditions as the BMA may impose from time to time.

The Insurance Act also imposes on Bermuda insurance companies solvency and liquidity standards and auditing and reporting requirements. Certain significant aspects of the Bermuda insurance regulatory framework are set forth as follows.

Classification of Insurers

Wind River Reinsurance, which is incorporated to carry on general insurance and reinsurance business, is registered as a Class 3B insurer in Bermuda.

Cancellation of Insurer s Registration

An insurer s registration may be canceled by the Supervisor of Insurance of the BMA on certain grounds specified in the Insurance Act, including failure of the insurer to comply with its obligations under the Insurance Act.

Principal Representative

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. Wind River Reinsurance s principal office is its executive offices in Hamilton, Bermuda, and Wind River Reinsurance uses a Bermuda firm to act as its principal representative.

Independent Approved Auditor

Every registered insurer, such as Wind River Reinsurance, must appoint an independent auditor who will audit and report annually on the statutory financial statements and the statutory financial return of the insurer, both of which are required to be filed annually with the BMA.

Loss Reserve Specialist

As a registered Class 3B insurer, Wind River Reinsurance is required to submit an opinion of its approved loss reserve specialist in respect of its losses and loss expense provisions with its statutory financial return.

Statutory Financial Statements

Wind River Reinsurance must prepare annual statutory financial statements. The Insurance Act prescribes rules for the preparation and substance of these statutory financial statements (which include, in statutory form, a balance sheet, an income statement, a statement of capital and surplus and notes thereto). Wind River Reinsurance is required to give detailed information and analyses regarding premiums, claims, reinsurance, and investments. The statutory financial statements are not prepared in accordance with GAAP or SAP and are distinct from the financial statements prepared for presentation to Wind River Reinsurance s shareholders and under the Bermuda Companies Act 1981 (the Companies Act), which financial statements will be prepared in accordance with GAAP.

Annual Statutory Financial Return

Wind River Reinsurance is required to file with the BMA a statutory financial return no later than four months after its financial year end (unless specifically extended upon application to the BMA). The statutory financial return for a Class 3B insurer includes, among other matters, a report of the approved independent auditor on the statutory financial statements of the insurer, solvency certificates, the statutory financial statements, a declaration of statutory ratios and the opinion of the loss reserve specialist.

Minimum Margin of Solvency and Restrictions on Dividends and Distributions

The Insurance Act provides a minimum margin of solvency for Class 3B general business insurers, such as Wind River Reinsurance. A Class 3B insurer engaged in general business is required to maintain the amount by which the value of its assets exceed its liabilities at the greater of: (1) $1.0 million; (2) where net premiums written exceed $6.0 million: $1.2 million plus 15% of the excess over $6.0 million; or (3) 15% of loss and loss expenses provisions plus other insurance reserves, as such terms are defined in the Insurance Act.

Additionally, under the Companies Act, Wind River Reinsurance may only declare or pay a dividend if Wind River Reinsurance has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Minimum Liquidity Ratio

The Insurance Act provides a minimum liquidity ratio for general business insurers, such as Wind River Reinsurance. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities; as such terms are defined in the Insurance Act.

Restrictions on Dividends and Distributions

Wind River Reinsurance is prohibited from declaring or paying any dividends during any financial year if it is in breach of its minimum solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, if it has failed to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, Wind River Reinsurance will be prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year.

Wind River Reinsurance is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its previous year s financial statements, and any application for such approval must include such information as the BMA may require. In addition, at any time it fails to meet its minimum margin of solvency, Wind River Reinsurance is required within 30 days after becoming aware of such failure or having reason to believe that such failure has occurred, to file with the BMA a written report containing certain information.

Additionally, under the Companies Act, Wind River Reinsurance may not declare or pay a dividend, or make a distribution from contributed surplus, if there are reasonable grounds for believing that it is, or would after the payment, be unable to pay its liabilities as they become due, or if the realizable value of its assets would be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Supervision, Investigation and Intervention

The BMA has wide powers of investigation and document production in relation to Bermuda insurers under the Insurance Act. For example, the BMA may appoint an inspector with extensive powers to investigate the affairs of Wind River Reinsurance if the BMA believes that such an investigation is in the best interests of its policyholders or persons who may become policyholders.

Disclosure of Information

The BMA may assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda, but subject to restrictions. For example, the BMA must be satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities of the foreign regulatory authority. Further, the BMA must consider whether cooperation is in the public interest. The grounds for disclosure are limited and the Insurance Act provides sanctions for breach of the statutory duty of confidentiality.

Under the Companies Act, the Minister of Finance may assist a foreign regulatory authority that has requested assistance in connection with inquiries being carried out by it in the performance of its regulatory functions. The Minster of Finance s powers include requiring a person to furnish information to the Minister of Finance, to produce documents to the Minister of Finance, to attend and answer questions and to give assistance to the Minister of Finance in relation to inquiries. The Minister of Finance must be satisfied that the assistance requested by the foreign regulatory authority is for the purpose of its regulatory functions and that the request is in relation to information in Bermuda that a person has in his possession or under his control. The Minister of Finance must consider, among other things, whether it is in the public interest to give the information sought.

Certain Other Bermuda Law Considerations

Although Wind River Reinsurance is incorporated in Bermuda, it is classified as a non-resident of Bermuda for exchange control purposes by the BMA. Pursuant to the non-resident status, Wind River Reinsurance may engage in transactions in currencies other than Bermuda dollars, and there are no restrictions on its ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to United States residents that are holders of its ordinary shares.

Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place of business in Bermuda. As an exempted company, Wind River Reinsurance may not, without the express authorization of the Bermuda legislature or under a license or consent granted by the Minister of Finance, participate in certain business transactions, including transactions involving Bermuda landholding rights and the carrying on of business of any kind for which it is not licensed in Bermuda.

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The European Union s (EU) executive body, the European Commission, is implementing new capital adequacy and risk management regulations for the European insurance industry known as Solvency II, which aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current Solvency I requirements. Once finalized, Solvency II is expected to set out new, strengthened requirements applicable to the entire EU relating to capital adequacy and risk management for insurers. Bermuda is strengthening its capital and risk management requirements to be in line with Solvency II with the goal of full implementation by the end of 2012. Consequently the Company s implementation plans are based on its current understanding of Solvency II equivalence for the BMA s regime, which may change.

Taxation of Global Indemnity and Subsidiaries

Ireland

Global Indemnity plc is a public limited company incorporated under the laws of Ireland. The company is a resident taxpayer fully subject to Ireland corporate income tax of 12.5% on trading income and 25.0% on non-trading income, including interest and dividends from foreign companies. Currently, Global Indemnity plc has only non-trading income, so it is subject to corporate income tax of 25.0%.

United America Indemnity, Ltd., a direct wholly-owned subsidiary, is a private limited liability company incorporated under the laws of the Cayman Islands. The company is an Irish tax resident fully subject to Ireland corporate income tax of 12.5% on trading income and 25.0% on non-trading income, including interest and dividends from foreign companies. Currently, United America Indemnity, Ltd. has only non-trading income, so it is subject to corporate income tax of 25.0%.

Global Indemnity Services Ltd., a direct wholly-owned subsidiary, is a private limited liability company incorporated under the laws of Ireland. The company is a resident taxpayer fully subject to Ireland corporate income tax of 12.5% on trading income and 25.0% on non-trading income, including interest and dividends from foreign companies. Currently, Global Indemnity Services Ltd. has only trading income, so it is subject to corporate income tax of 12.5%.

U.A.I. (Ireland) Limited, an indirect wholly-owned subsidiary, is a private limited liability company incorporated under the laws of Ireland. The company is a resident taxpayer fully subject to Ireland corporate income tax of 12.5% on trading income and 25.0% on non-trading income, including interest and dividends from foreign companies. Currently, U.A.I. (Ireland) Limited has only non-trading income, so it is subject to corporate income tax of 25.0%.

Cayman Islands

United America Indemnity, Ltd., a direct wholly-owned subsidiary, and Global Indemnity (Cayman) Ltd., an indirect wholly-owned subsidiary, are private limited liability companies incorporated under the laws of the Cayman Islands. Under current Cayman Islands law, we are not required to pay any taxes in the Cayman Islands on our income or capital gains. United America Indemnity, Ltd. obtained an undertaking on September 2, 2003 from the Governor in Council of the Cayman Islands substantially that, for a period of 20 years from the date of such undertaking, no law that is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to it and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on its shares. Given the limited duration of the undertaking, we cannot be certain that it will not be subject to Cayman Islands tax after the expiration of the 20-year period.

Bermuda

Under current Bermuda law, we and our Bermuda subsidiaries are not required to pay any taxes in Bermuda on our income or capital gains. Currently, there is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by Wind River Reinsurance or its shareholders, other than shareholders ordinarily resident in Bermuda, if any. Currently, there is no Bermuda withholding or other tax on principal, interest, or dividends paid to holders of the ordinary shares of Wind River Reinsurance, other than holders ordinarily resident in Bermuda, if any. There can be no assurance that Wind River Reinsurance or its shareholders will not be subject to any such tax in the future.

We have received a written assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act of 1966 of Bermuda, that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of that tax would not be applicable to Wind River Reinsurance or to any of its operations, shares, debentures or obligations through March 28, 2016; provided that such assurance is subject to the condition that it will not be construed to prevent the application of such tax to people ordinarily resident in Bermuda, or to prevent the application of any taxes payable by Wind River Reinsurance in respect of real property or leasehold interests in Bermuda held by them. Given the limited duration of the assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 28, 2016.

Gibraltar

Global Indemnity (Gibraltar) Ltd., an indirect wholly-owned subsidiary, is a private limited liability company incorporated under the laws of Gibraltar. The Company received a tax ruling from the Ministry of Finance Income Tax Office of Gibraltar that dividends and distributions received by Global Indemnity (Gibraltar) Ltd. from Global Indemnity (Cayman) Ltd. would not be subject to tax in Gibraltar, provided that Global Indemnity (Gibraltar) Ltd. continues to indirectly hold a relevant participation in U.A.I. (Luxembourg) I S.à.r.l.

Luxembourg

The Luxembourg Companies and Global Indemnity (Luxembourg) S.à.r.l. are indirect wholly-owned subsidiaries and private limited liability companies incorporated under the laws of Luxembourg. These are taxable companies, which may carry out any activities that fall within the scope of their corporate object clause. The companies are resident taxpayers fully subject to Luxembourg corporate income tax at a rate of 28.8% and net worth tax at a rate of 0.5%. The companies are entitled to benefits of the tax treaties concluded between Luxembourg and other countries and European Union Directives.

Profit distributions (not in respect to liquidations) by the companies are generally subject to Luxembourg dividend withholding tax at a rate of 15%, unless a domestic law exemption or a lower tax treaty rate applies. Dividends paid by any of the Luxembourg Companies to their Luxembourg resident parent company are exempt from Luxembourg dividend withholding tax, provided that at the time of the dividend distribution, the resident parent company has held (or commits itself to continue to hold) 10% or more of the nominal paid up capital of the distributing entity or, in the event of a lower percentage participation, a participation having an acquisition price of Euro 1.2 million or more for a period of at least 12 months.

The Luxembourg Companies have obtained a confirmation from the Luxembourg Administration des Contributions Directes (Luxembourg Tax Administration) that the current financing activities of the Luxembourg Companies under the application of at arm s length principles will not lead to any material taxation in Luxembourg. The confirmation from the Luxembourg Tax Administration covers the current financing operations of the Luxembourg Companies through September 15, 2018. Given the limited duration of the confirmation and the possibility of a change in the relevant tax laws or the administrative policy of the Luxembourg Tax Administration, we cannot be certain that we will not be subject to greater Luxembourg taxes in the future.

Dividends by Global Indemnity (Luxembourg) S.à.r.l. to United America Indemnity, Ltd., an Irish tax resident, are exempt from withholding tax in Luxembourg, provided that as of the date on which the income is made available, United America Indemnity, Ltd. has held or undertakes to hold, directly, for an uninterrupted period of at least 12 months, a relevant participation in the share capital of Global Indemnity (Luxembourg) S.à.r.l. United America Indemnity, Ltd. has held such participation since April, 2010.

Global Indemnity (Luxembourg) S.à.r.l. benefits from the Luxembourg participation exemption regime for its participation in Global Indemnity (Gibraltar) Ltd. with respect to dividends and capital gains derived there from, provided Global Indemnity (Luxembourg) S.à.r.l. has held or commits to hold a participation in the share capital of Global Indemnity (Gibraltar) Ltd. for an uninterrupted period of at least 12 months. Global Indemnity (Luxembourg) S.à.r.l. has held such participation since June, 2010.

United States

The following discussion is a summary of all material U.S. federal income tax considerations relating to our operations. We manage our business in a manner that seeks to mitigate the risk that either Global Indemnity or Wind River Reinsurance will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes. However, whether business is being conducted in the United States is an inherently factual determination. Because the United States Internal Revenue Code (the Code), regulations and court decisions fail to identify definitively activities that constitute being engaged in a trade or business in the United States, we cannot be certain that the IRS will not contend successfully that Global Indemnity or Wind River Reinsurance is or will be engaged in a trade or business in the United States. A non-U.S. corporation deemed to be so engaged would be subject to U.S. income tax at regular corporate rates, as well as the branch profits tax, on its income that is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a non-U.S. corporation is generally entitled to deductions and credits only if it timely files a U.S. federal income tax return. Global Indemnity and Wind River Reinsurance are filing protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that it is subject to U.S. federal income tax. All of our other non-U.S. entities are considered disregarded entities for federal income tax purposes. The highest marginal federal income tax rates currently are 35% for a corporation s effectively connected income and 30% for the branch profits tax.

Global Indemnity Group, Inc. is a Delaware corporation wholly owned by U.A.I. (Luxembourg) Investment S.à.r.l. Under U.S. federal income tax law, dividends and interest paid by a U.S. corporation to a non-U.S. shareholder are generally subject to a 30% withholding tax, unless reduced by treaty. The income tax treaty between Luxembourg and the United States (the Luxembourg Treaty) reduces the rate of withholding tax on interest payments to 0% and on dividends to 15%, or 5% (if the shareholder owns 10% or more of the company s voting stock).

If Wind River Reinsurance is entitled to the benefits under the income tax treaty between Bermuda and the United States (the Bermuda Treaty), Wind River Reinsurance would not be subject to U.S. income tax on any business profits of its insurance enterprise found to be effectively connected with a U.S. trade or business, unless that trade or business is conducted through a permanent establishment in the United States. No regulations interpreting the Bermuda Treaty have been issued. Wind River Reinsurance currently conducts its activities to reduce the risk that it will have a permanent establishment in the United States, although we cannot be certain that we will achieve this result.

An insurance enterprise resident in Bermuda generally will be entitled to the benefits of the Bermuda Treaty if (1) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the United States or Bermuda or U.S. citizens and (2) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities to, persons who are neither residents of either the United States or Bermuda nor U.S. citizens. We cannot be certain that Wind River Reinsurance will be eligible for Bermuda Treaty benefits in the future because of factual and legal uncertainties regarding the residency and citizenship of our shareholders.

Foreign insurance companies carrying on an insurance business within the United States have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of U.S. risk insured or reinsured by such companies. If Wind River Reinsurance is considered to be engaged in the conduct of an insurance business in the United States and it is not entitled to the benefits of the Bermuda Treaty in general (because it fails to satisfy one of the limitations on treaty benefits discussed above), the Code could subject a significant portion of Wind River Reinsurance s investment income to U.S. income tax. In addition, while the Bermuda Treaty clearly applies to premium income, it is uncertain whether the Bermuda Treaty applies to other income such as investment income. If Wind River Reinsurance is considered engaged in the conduct of an insurance business in the United States and is entitled to the benefits of the Bermuda Treaty in general, but the Bermuda Treaty is interpreted to not apply to investment income, a significant portion of Wind River Reinsurance s investment income could be subject to U.S. federal income tax.

Foreign corporations not engaged in a trade or business in the United States are subject to 30% U.S. income tax imposed by withholding on the gross amount of certain fixed or determinable annual or periodic gains, profits and income derived from sources within the United States (such as dividends and certain interest on investments), subject to exemption under the Code or reduction by applicable treaties. The Bermuda Treaty does not reduce the rate of tax in such circumstances. The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rates of tax applicable to premiums paid to Wind River Reinsurance on such business are 4% for direct insurance premiums and 1% for reinsurance premiums.

Our U.S. Subsidiaries are each subject to taxation in the United States at regular corporate rates.

Item 1A. RISK FACTORS

The risks and uncertainties described below are those we believe to be material, but they are not the only ones we face. If any of the following risks, or other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur, our business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected.

Some of the statements regarding risk factors below and elsewhere in this report may include forward-looking statements that reflect our current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to us specifically and the insurance and reinsurance sectors in general, both as to underwriting and investment matters. Statements that include words such as expect, intend, plan, believe, project, anticipate, seek, will and similar statements of a future or forward-looking nature iden forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. We assume no obligation to update our forward-looking statements to reflect actual results or changes in or additions to such forward-looking statements.

Risks Related to our Business

If actual claims payments exceed our reserves for losses and loss adjustment expenses, our financial condition and results of operations could be adversely affected.

Our success depends upon our ability to accurately assess the risks associated with the insurance and reinsurance policies that we write. We establish reserves on an undiscounted basis to cover our estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to premiums earned on the insurance policies that we write. Reserves do not represent an exact calculation of liability. Rather, reserves are estimates of what we expect to be the ultimate cost of resolution and administration of claims under the insurance policies that we write. These estimates are based upon actuarial and statistical projections, our assessment of currently available data, as well as estimates and assumptions as to future trends in claims severity and frequency, judicial

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theories of liability and other factors. We continually refine our reserve estimates in an ongoing process as experience develops and claims are reported and settled. Our insurance subsidiaries obtain an annual statement of opinion from an independent actuarial firm on the reasonableness of these reserves.

Establishing an appropriate level of reserves is an inherently uncertain process. The following factors may have a substantial impact on our future actual losses and loss adjustment experience:

- claim and expense payments;
- severity of claims;
- legislative and judicial developments; and
- changes in economic conditions, including the effect of inflation.

For example, as industry practices and legal, judicial, social and other conditions change, unexpected and unintended exposures related to claims and coverage may emerge. Recent examples include claims relating to mold, asbestos and construction defects, as well as larger settlements and jury awards against professionals and corporate directors and officers. In addition, there is a growing trend of plaintiffs targeting property and casualty insurers in purported class action litigations relating to claims-handling, insurance sales practices and other practices. These exposures may either extend coverage beyond our underwriting intent or increase the frequency or severity of claims. As a result, such developments could cause our level of reserves to be inadequate.

Actual losses and loss adjustment expenses we incur under insurance policies that we write may be different from the amount of reserves we establish, and to the extent that actual losses and loss adjustment expenses exceed our expectations and the reserves reflected on our financial statements, we will be required to immediately reflect those changes by increasing our reserves. In addition, regulators could require that we increase our reserves if they determine that our reserves were understated in the past. When we increase reserves, our pre-tax income for the period in which we do so will decrease by a corresponding amount. In addition to having an effect on reserves and pre-tax income, increasing or strengthening reserves causes a reduction in our insurance companies surplus and could cause the rating of our insurance company subsidiaries to be downgraded or placed on credit watch. Such a downgrade could, in turn, adversely affect our ability to sell insurance policies.

Catastrophic events can have a significant impact on our financial and operational condition.

Results of operations of property and casualty insurers are subject to man-made and natural catastrophes. We have experienced, and expect to experience in the future, catastrophe losses. It is possible that a catastrophic event or a series of multiple catastrophic events could have a material adverse effect on our operating results and financial condition. Our operating results could be negatively impacted if we experience losses from catastrophes that are in excess of the catastrophe reinsurance coverage of our Insurance Operations. Our Reinsurance Operations also have exposure to losses from catastrophes as a result of the reinsurance treaties that it writes. Our operating results could be negatively impacted if losses and expenses related to the property catastrophe events exceed premiums assumed. Catastrophes include windstorms, hurricanes, typhoons, floods, earthquakes, tornadoes, hail, severe winter weather, fires and may include terrorist events such as the attacks on the World Trade Center and Pentagon on September 11, 2001. We cannot predict how severe a particular catastrophe may be until after it occurs. The extent of losses from catastrophes is a function of the total amount and type of losses incurred, the number of insureds affected, the frequency of the events and the severity of the particular catastrophe. Most catastrophes occur in small geographic areas. However, some catastrophes may produce significant damage in large, heavily populated areas. In 2011, we suffered net losses due to an earthquake and tsunami in Japan, an earthquake in New Zealand, Hurricane Irene, Tropical Storm Lee and smaller events in other locations.

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A failure in our operational systems or infrastructure or those of third parties could disrupt business, damage our reputation, and cause losses.

Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Our business depends on effective information systems and the integrity and timeliness of the data we use to run our business. Our ability to adequately price products and services, to establish reserves, to provide effective and efficient service to our customers, and to timely and accurately report our financial results also depends significantly on the integrity of the data in our information systems. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software, and networks may be vulnerable, externally and internally, to unauthorized access, computer viruses or other malicious code, and other events that could have security consequences. If one or more of such events occur, this potentially could jeopardize our or our clients or counterparties confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients , our counterparties , or third parties operations, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered by insurance maintained.

Despite the contingency plans and facilities we have in place, our ability to conduct business may be adversely affected by a disruption of the infrastructure that supports our business in the communities in which we are located, or of outsourced services or functions. This may include a disruption involving electrical, communications, transportation, or other services used by us. These disruptions may occur, for example, as a result of events that affect only the buildings occupied by us or as a result of events with a broader effect on the cities where those buildings are located. If a disruption occurs in one location and our employees in that location are unable to occupy their offices and conduct business or communicate with or travel to other locations, our ability to service and interact with clients may suffer and we may not be able to successfully implement contingency plans that depend on communication or travel.

We are dependent on our senior executives and the loss of any of these executives or our inability to attract and retain other key personnel could adversely affect our business.

Our success depends upon our ability to attract and retain qualified employees and upon the ability of our senior management and other key employees to implement our business strategy. We believe there are a limited number of available, qualified executives in the business lines in which we compete. The success of our initiatives and our future performance depend, in significant part, upon the continued service of our senior management team. The future loss of any of the services of members of our senior management team or the inability to attract and retain other talented personnel could impede the further implementation of our business strategy, which could have a material adverse effect on our business. In addition, we do not currently maintain key man life insurance policies with respect to any of our employees.

Employee error and misconduct may be difficult to detect and prevent and could adversely affect our business, results of operations, and financial condition.

Losses may result from, among other things, fraud, errors, failure to document transactions properly, failure to obtain proper internal authorization, or failure to comply with regulatory requirements. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases. Resultant losses could adversely affect our business, results of operations, and financial condition.

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A decline in rating for any of our insurance or reinsurance subsidiaries could adversely affect our position in the insurance market, make it more difficult to market our insurance products and cause our premiums and earnings to decrease.

If the rating of any of the companies in our Insurance Operations or Reinsurance Operations is reduced from its current level of A (Excellent) by A.M. Best, our competitive position in the insurance industry could suffer, and it could be more difficult for us to market our insurance products. A downgrade could result in a significant reduction in the number of insurance contracts we write and in a substantial loss of business; as such business could move to other competitors with higher ratings, thus causing premiums and earnings to decrease.

Ratings have become an increasingly important factor in establishing the competitive position for insurance companies. A.M. Best ratings currently range from A++ (Superior) to F (In Liquidation), with a total of 16 separate ratings categories. A.M. Best currently assigns the companies in our Insurance Operations and Reinsurance Operations a financial strength rating of A (Excellent), the third highest of their 16 rating categories. The objective of A.M. Best s rating system is to provide potential policyholders an opinion of an insurer s financial strength and its ability to meet ongoing obligations, including paying claims. In evaluating a company s financial and operating performance, A.M. Best reviews its profitability, leverage and liquidity, its spread of risk, the quality and appropriateness of its reinsurance, the quality and diversification of its assets, the adequacy of its policy and loss reserves, the adequacy of its surplus, its capital structure, and the experience and objectives of its management. These ratings are based on factors relevant to policyholders, general agencies, insurance brokers, reinsurers, and intermediaries and are not directed to the protection of investors. These ratings are not an evaluation of, nor are they directed to, investors in our Class A ordinary shares and are not a recommendation to buy, sell or hold our Class A ordinary shares. Publications of A.M. Best indicate that companies are assigned A (Excellent) ratings if, in A.M. Best s opinion, they have an excellent ability to meet their ongoing obligations to policyholders. These ratings are subject to periodic review by, and may be revised downward or revoked at the sole discretion of, A.M. Best.

We cannot guarantee that our reinsurers will pay in a timely fashion, if at all, and as a result, we could experience losses.

We cede a portion of gross premiums written to third party reinsurers under reinsurance contracts. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred, it does not relieve us of our liability to our policyholders. Upon payment of claims, we will bill our reinsurers for their share of such claims. Our reinsurers may not pay the reinsurance receivables that they owe to us or they may not pay such receivables on a timely basis. If our reinsurers fail to pay us or fail to pay us on a timely basis, our financial results would be adversely affected. Lack of reinsurer liquidity, perceived improper underwriting, or claim handling by us, and other factors could cause a reinsurer not to pay. See Business Reinsurance of Underwriting Risk in Item 1 of Part I of this report.

See Note 9 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding our reinsurance receivable balances as of December 31, 2011 and 2010.

Our investment performance may suffer as a result of adverse capital market developments or other factors, which would in turn adversely affect our financial condition and results of operations.

We derive a significant portion of our income from our invested assets. As a result, our operating results depend in part on the performance of our investment portfolio. For 2011, our pre-tax income derived from invested assets was $74.6 million, net of investment expenses, including net realized gains of $21.5 million. Of this amount, $6.6 million were other than temporary impairments. Our operating results are subject to a variety of investment risks, including risks relating to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk. The fair value of fixed income investments can fluctuate depending on changes in interest rates and the credit quality of underlying issuers. Generally, the fair market value of these investments has an inverse relationship with changes in interest rates, while net investment income earned by us from future investments in fixed maturities will generally increase or decrease with changes in interest rates. Additionally, with respect to certain of our investments, we are subject to pre-payment or reinvestment risk.

Credit tightening could negatively impact our future investment returns and limit the ability to invest in certain classes of investments. Credit tightening may cause opportunities that are marginally attractive to not be financed, which could cause a decrease in the number of bond issuances. If marginally attractive opportunities are financed, they may be at higher interest rates, which would cause credit risk of such opportunities to increase. If new debt supply is curtailed, it could cause interest rates on securities that are deemed to be credit-worthy to decline. Funds generated by operations, sales, and maturities will need to be invested. If we invest during a tight credit market, our investment returns could be lower than the returns we are currently realizing and/or we may have to invest in higher risk securities.

With respect to our longer-term liabilities, we strive to structure our investments in a manner that recognizes our liquidity needs for our future liabilities. In that regard, we attempt to correlate the maturity and duration of our investment portfolio to our liability for insurance reserves. However, if our liquidity needs or general and specific liability profile unexpectedly changes, we may not be successful in continuing to structure our investment portfolio in that manner. To the extent that we are unsuccessful in correlating our investment portfolio with our expected liabilities, we may be forced to liquidate our investments at times and prices that are not optimal, which could have a material adverse affect on the performance of our investment portfolio. We refer to this risk as liquidity risk, which is when the fair value of an investment is not able to be realized due to low demand by outside parties in the marketplace.

We are also subject to credit risk due to non-payment of principal or interest. Current market conditions increase the risk that companies may default on their credit obligations. Several classes of securities that we hold, including our corporate loan securities, have default risk. As interest rates rise for companies that are deemed to be less creditworthy, there is a greater risk that they will be unable to pay contractual interest or principal on their debt obligations.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we attempt to take measures to manage the risks of investing in a changing interest rate environment, we may not be able to mitigate interest rate sensitivity effectively. A significant increase in interest rates could have a material adverse effect on the market value of our fixed maturities securities. Our mitigation efforts include maintaining a high-quality portfolio with a relatively short duration that seeks to reduce the effect of interest rate changes on market value.

We also have an equity portfolio that represented approximately 10.2% of our total investments and cash and cash equivalents portfolio plus a net receivable for securities sold of $1.5 million, as of December 31, 2011. The performance of our equity portfolio is dependent upon a number of factors, including many of the same factors that affect the performance of our fixed income investments, although those factors sometimes have the opposite effect on the performance of the equity portfolio. Individual equity securities have unsystematic risk. We could experience market declines on these investments. We also have systematic risk, which is the risk inherent in the general market due to broad macroeconomic factors that affect all companies in the market. If the market indexes were to decline, we anticipate that the value of our portfolio would be negatively affected.

We have $195.9 million of investments in corporate loans. Corporate loans are primarily investments in senior secured floating rate loans that banks have made to corporations. The loans are generally priced at an interest rate spread over LIBOR that resets periodically, typically at intervals between one month and one year. As a result, this asset class provides protection against rising interest rates. However, this asset class is subject to default risk since these investments are typically below investment grade.

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We have $6.6 million of an investment in a 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.

Our limited partnership investment is not liquid. 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. Our returns could be negatively affected if the market value of the partnership declines. If we need liquidity, we might be forced to liquidate other investments at a time when prices are not optimal.

As of December 31, 2011, we had approximately $2.3 million worth of investment exposure to subprime investments and Alt-A investments. Of that amount, approximately $0.3 million were rated BBB- to A and $2.0 million were rated below investment grade. There were no impairments on these investments during 2011.

Since we depend on professional general agencies, brokers, other insurance companies and other reinsurance companies for a significant portion of our revenue, a loss of any one of them could adversely affect us.

We market and distribute our insurance products through a group of approximately 100 professional general agencies that have specific quoting and binding authority and that in turn sell our insurance products to insureds through retail insurance brokers. We also market and distribute our reinsurance products through third-party brokers, insurance companies and reinsurance companies. For the year ended December 31, 2011, our top five non-affiliated agencies, all of which market more than one specific product, represented 23.1% of our Insurance Operations gross premiums written. No one agency accounted for more than 9.6% of our Insurance Operations gross premiums written. A loss of all or substantially all of the business produced by any more of these general agencies, brokers, insurance companies or reinsurance companies could have an adverse effect on our results of operations.

If market conditions cause reinsurance to be more costly or unavailable, we may be required to bear increased risks or reduce the level of our underwriting commitments.

As part of our overall strategy of risk and capacity management, we purchase reinsurance for a portion of the risk underwritten by our insurance subsidiaries. Market conditions beyond our control determine the availability and cost of the reinsurance we purchase, which may affect the level of our business and profitability. Our third party reinsurance facilities are generally subject to annual renewal. We may be unable to maintain our current reinsurance facilities or obtain other reinsurance facilities in adequate amounts and at favorable rates. If we are unable to renew our expiring facilities or obtain new reinsurance facilities, either our net exposure to risk would increase or, if we are unwilling to bear an increase in net risk exposures, we would have to reduce the amount of risk we underwrite.

Our results may fluctuate as a result of many factors, including cyclical changes in the insurance industry.

Historically, the results of companies in the property and casualty insurance industry have been subject to significant fluctuations and uncertainties. The industry s profitability can be affected significantly by:

- competition;
- capital capacity;
- rising levels of actual costs that are not foreseen by companies at the time they price their products;
- volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks;

changes in loss reserves resulting from the general claims and legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers liability develop; and fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested assets and may affect the ultimate payout of losses.

The demand for property and casualty insurance and reinsurance can also vary significantly, rising as the overall level of economic activity increases and falling as that activity decreases. The property and casualty insurance industry historically is cyclical in nature. These fluctuations in demand and competition could produce underwriting results that would have a negative impact on our consolidated results of operations and financial condition.

We face significant competitive pressures in our business that could cause demand for our products to fall and adversely affect our profitability.

We compete with a large number of other companies in our selected lines of business. We compete, and will continue to compete, with major U.S. and non-U.S. insurers and other regional companies, as well as mutual companies, specialty insurance companies, reinsurance companies, underwriting agencies and diversified financial services companies. Our competitors include, among others: American International Group, Argo Group International Holdings, Ltd., Berkshire Hathaway, Everest Re Group, Ltd., Great American Insurance Group, HCC Insurance Holdings, Inc., IFG Companies, Markel Corporation, Nationwide Insurance, Navigators Insurance Group, RLI Corporation, Selective Insurance Group, Inc., The Travelers Companies, Inc., W.R. Berkley Corporation, and Western World Insurance Group. Some of our competitors have greater financial and marketing resources than we do. Our profitability could be adversely affected if we lose business to competitors offering similar or better products at or below our prices.

Our general agencies typically pay the insurance premiums on business they have bound to us on a monthly basis. This accumulation of balances due to us exposes us to a credit risk.

Insurance premiums generally flow from the insured to their retail broker, then into a trust account controlled by our professional general agencies. Our professional general agencies are typically required to forward funds, net of commissions, to us following the end of each month. Consequently, we assume a degree of credit risk on the aggregate amount of these balances that have been paid by the insured but have yet to reach us.

Brokers, insurance companies and reinsurance companies typically pay premiums on reinsurance treaties written with us on a quarterly basis. This accumulation of balances due to us exposes us to a credit risk.

Assumed premiums on reinsurance treaties generally flow from the ceding insurance and reinsurance companies to us on a quarterly basis. Consequently, we assume a degree of credit risk on the aggregate amount of these balances that have been collected by the reinsured but have yet to reach us.

Because we provide our general agencies with specific quoting and binding authority, if any of them fail to comply with our pre-established guidelines, our results of operations could be adversely affected.

We market and distribute our insurance products through professional general agencies that have limited quoting and binding authority and that in turn sell our insurance products to insureds through retail insurance brokers. These professional general agencies can bind certain risks without our initial approval. If any of these wholesale professional general agencies fail to comply with our underwriting guidelines and the terms of their appointment, we could be bound on a particular risk or number of risks that were not anticipated when we developed the insurance products or estimated loss and loss adjustment expenses. Such actions could adversely affect our results of operations.

Our holding company structure and regulatory constraints limit our ability to receive dividends from our subsidiaries in order to meet our cash requirements.

Global Indemnity is a holding company and, as such, has no substantial operations of its own, and its assets primarily consist of cash and its ownership of the shares of its direct and indirect subsidiaries. Dividends and other permitted distributions from insurance subsidiaries, which include payment for equity awards granted by Global Indemnity to employees of such subsidiaries, are expected to be Global Indemnity s sole source of funds to meet ongoing cash requirements, including debt service payments and other expenses.

Due to our corporate structure, most of the dividends that Global Indemnity receives from its subsidiaries must pass through Wind River Reinsurance. The inability of Wind River Reinsurance to pay dividends in an amount sufficient to enable Global Indemnity to meet its cash requirements at the holding company level could have a material adverse effect on its operations.

Bermuda law does not permit payment of dividends or distributions of contributed surplus by a company if there are reasonable grounds for believing that the company, after the payment is made, would be unable to pay its liabilities as they become due, or the realizable value of the company s assets would be less, as a result of the payment, than the aggregate of its liabilities and its issued share capital and share premium accounts. Furthermore, pursuant to the Bermuda Insurance Act 1978, an insurance company is prohibited from declaring or paying a dividend during the financial year if it is in breach of its minimum solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. See Regulation Bermuda Insurance Regulation in Item 1 of Part I of this report.

In addition, the U.S. Insurance Subsidiaries, which are indirect subsidiaries of Wind River Reinsurance, are subject to significant regulatory restrictions limiting their ability to declare and pay dividends, which must first pass through Wind River Reinsurance before being paid to Global Indemnity. See Regulation U.S. Regulation in Item 1 of Part I of this report. Also, see Note 19 of the notes to consolidated financial statements in Item 8 of Part II of this report for the maximum amount of dividends that could be paid by the U.S. Insurance Subsidiaries in 2012.

Our businesses are heavily regulated and changes in regulation may limit the way we operate.

We are subject to extensive supervision and regulation in the U.S. states in which our Insurance Operations operate. This is particularly true in those states in which our insurance subsidiaries are licensed, as opposed to those states where our insurance subsidiaries write business on a surplus lines basis. The supervision and regulation relate to numerous aspects of our business and financial condition. The primary purpose of the supervision and regulation is the protection of our insurance policyholders and not our investors. The extent of regulation varies, but generally is governed by state statutes. These statutes delegate regulatory, supervisory, and administrative authority to state insurance departments. This system of regulation covers, among other things:

- standards of solvency, including risk-based capital measurements;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the types of terms that we can include or exclude in the insurance policies we offer;
- restrictions on the way rates are developed and the premiums we may charge;
- standards for the manner in which general agencies may be appointed or terminated;
- credit for reinsurance;
- certain required methods of accounting;
- reserves for unearned premiums, losses and other purposes; and

potential assessments for the provision of funds necessary for the settlement of covered claims under certain insurance policies provided by impaired, insolvent or failed insurance companies.

The statutes or the state insurance department regulations may affect the cost or demand for our products and may impede us from obtaining rate increases or taking other actions we might wish to take to increase our profitability. Further, we may be unable to maintain all required licenses and approvals and our business may not

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fully comply with the wide variety of applicable laws and regulations or the relevant authority s interpretation of the laws and regulations. Also, regulatory authorities have discretion to grant, renew or revoke licenses and approvals subject to the applicable state statutes and appeal process. If we do not have the requisite licenses and approvals (including in some states the requisite secretary of state registration) or do not comply with applicable regulatory requirements, the insurance regulatory authorities could stop or temporarily suspend us from carrying on some or all of our activities or monetarily penalize us.

In recent years, the U.S. insurance regulatory framework has come under increased federal scrutiny, and some state legislators have considered or enacted laws that may alter or increase state regulation of insurance and reinsurance companies and holding companies. Moreover, the NAIC, which is an association of the insurance commissioners of all 50 U.S. States and the District of Columbia, and state insurance regulators regularly re-examine existing laws and regulations. Changes in these laws and regulations or the interpretation of these laws and regulations could have a material adverse effect on our business.

Although the U.S. federal government has not historically regulated the insurance business, there have been proposals from time to time, including after the financial crisis in 2008 and 2009, to impose federal regulation on the insurance industry. In 2010, the President signed into law the Dodd-Frank Act. Among other things, the Dodd-Frank Act establishes a Federal Insurance Office within the U.S. Department of the Treasury. The Federal Insurance Office initially has limited regulatory authority and is empowered to gather data and information regarding the insurance industry and insurers, including conducting a study for submission to the U.S. Congress on how to modernize and improve insurance regulation in the U.S. Further, the Dodd-Frank Act gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council as systemically important. While we do not believe that we are systemically important, as defined in the Dodd-Frank Act, it is possible that the Financial Stability Oversight Council may conclude that we are. If we were designated as systemically important, the Federal Reserve s supervisory authority could include the ability to impose heightened financial regulation and could impact requirements regarding our capital, liquidity, leverage, business and investment conduct. As a result of the foregoing, the Dodd-Frank Act, or other additional federal regulation that is adopted in the future, could impose significant burdens on us, including impacting the ways in which we conduct our business, increasing compliance costs and duplicating state regulation, and could result in a competitive disadvantage, particularly relative to smaller insurers who may not be subject to the same level of regulation.

We may require additional capital in the future that may not be available or only available on unfavorable terms.

Our future capital requirements depend on many factors, including the incurring of significant net catastrophe losses, our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that we need to raise additional funds, any equity or debt financing for this purpose, if available at all, may be on terms that are not favorable to us. If we cannot obtain adequate capital, our business, results of operations and financial condition could be adversely affected.

We have used and may in the future use a significant amount of our cash resources to repurchase shares of our ordinary shares and such repurchases present potential risks and disadvantages to us and our continuing shareholders.

Since November 2011 and through March 14, 2012, we repurchased and retired an aggregate of 1,945,023 shares of our Class A ordinary shares in the open market and in privately negotiated transactions at an aggregate price of $36.7 million or an average of $18.87 per share. We have outstanding authorization from our Board of Directors to purchase up to an additional $63.3 million of our Class A ordinary shares. Although our Board of Directors has determined that the repurchase program is in the best interests of our stockholders, the repurchases expose us to risks including:

- the use of a substantial portion of our cash reserves, which may reduce our ability to engage in significant cash acquisitions or to pursue other business opportunities that could create significant value to our stockholders;

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- the risk that we would not be able to replenish our cash reserves by raising debt or equity financing in the future on terms acceptable to us, or at all; and

- the risk that these repurchases have reduced our public float, which is the number of our shares owned by non-affiliate shareholders and available for trading in the securities markets, and likely reduced the number of our stockholders, which may reduce the volume of trading in our shares and may result in lower stock prices and reduced liquidity in the trading of our shares.

Interests of holders of Class A Ordinary Shares may conflict with the interests of our controlling shareholder.

Fox Paine & Company beneficially owns shares having approximately 90.5% of our total voting power. The percentage of our total voting power that Fox Paine & Company may exercise is greater than the percentage of our total shares that Fox Paine & Company beneficially owns because Fox Paine & Company beneficially owns a large number of Class B ordinary shares, which have ten votes per share as opposed to Class A ordinary shares, which have one vote per share. The Class A ordinary shares and the Class B ordinary shares generally vote together as a single class on matters presented to our shareholders. Based on the ownership structure of the affiliates of Fox Paine & Company that own these shares, these affiliates are subject to the voting restriction contained in our articles of association. As a result, Fox Paine & Company has and will continue to have control over the outcome of certain matters requiring shareholder approval, including the power to, among other things:

- elect all of our directors;

- amend our articles of association (as long as their voting power is greater than 75%);

- ratify the appointment of our auditors;

- increase our share capital;

- resolve to pay dividends or distributions; and

- approve the annual report and the annual financial statements.

Subject to certain exceptions, the Fox Paine Entities may also be able to prevent or cause a change of control. The Fox Paine Entities control over us, and Fox Paine & Company s ability in certain circumstances to prevent or cause a change of control, may delay or prevent a change of control, or cause a change of control to occur at a time when it is not favored by other shareholders. As a result, the trading price of our Class A ordinary shares could be adversely affected.

In addition, we have agreed to pay Fox Paine & Company, LLC an annual management fee of $1.5 million in exchange for management services and a termination fee of $10 million upon the termination of Fox Paine & Company, LLC s management services in connection with the consummation of a change of control transaction that does not involve Fox Paine & Company, LLC and its affiliates or the Funds. We have also agreed to pay Fox Paine & Company, LLC a transaction advisory fee of one percent of the transaction value upon the consummation of a change of control transaction that does not involve Fox Paine & Company, LLC and its affiliates or the Funds in exchange for advisory services to be provided by Fox Paine & Company, LLC in connection therewith. Fox Paine & Company may in the future make significant investments in other insurance or reinsurance companies. Some of these companies may compete with us or with our subsidiaries. Fox Paine & Company is not obligated to advise us of any investment or business opportunities of which they are aware, and they are not prohibited or restricted from competing with us or with our subsidiaries.

Our controlling shareholder has the contractual right to nominate a certain number of the members of our Board of Directors and also otherwise controls the election of Directors due to its ownership.

While Fox Paine & Company has the right under the terms of the memorandum and articles of association to nominate a certain number of directors of our Board of Directors, dependant on Fox Paine & Company s percentage ownership of voting shares in the Company for so long as Fox Paine & Company hold an aggregate

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25% or more of the voting power in the Company, it also controls the election of all directors to the Board of Directors due to its controlling share ownership. Our Board of Directors currently consists of eight directors, all of which, other than Ms. Valko, were identified and proposed for consideration for the Board of Directors by Fox Paine & Company.

Our Board of Directors, in turn, and subject to its fiduciary duties under Irish law, appoints the members of our senior management, who also have fiduciary duties to the Company. As a result, Fox Paine & Company effectively has the ability to control the appointment of the members of our senior management and to prevent any changes in senior management that other shareholders or other members of our Board of Directors may deem advisable.

Because we rely on certain services provided by Fox Paine & Company, the loss of such services could adversely affect our business.

During 2009, 2010, and 2011, Fox Paine & Company provided certain management services to us. To the extent that Fox Paine & Company is unable or unwilling to provide similar services in the future, and we are unable to perform those services ourselves or we are unable to secure replacement services, our business could be adversely affected.

Continued adverse consequences of the recent U.S. and global economic and financial industry downturns could harm our business, our liquidity and financial condition, and our stock price.

In recent years, global market and economic conditions were severely disrupted. While conditions have since improved, there is continued uncertainty regarding the timing and strength of any economic recovery. The trend may not continue or may continue at a slow rate for an extended period of time, or conditions may worsen. These conditions may potentially affect (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources, the availability of reinsurance protection, the risks we assume under reinsurance programs, and our investment performance. Continued volatility in the U.S. and other securities markets may adversely affect our stock price.

Our operating results and shareholders equity may be adversely affected by currency fluctuations.

Our functional currency is the U.S. Dollar. Our Reinsurance Operations conduct business with some customers in foreign currencies, and some of our Non-U.S. Subsidiaries have foreign currency denominated cash accounts and investments. Monetary assets and liabilities that are denominated in foreign currencies are revalued at the current exchange rates each period end with the resulting gains or losses reflected in net income. Foreign exchange risk is reviewed as part of our risk management process. We may experience losses resulting from fluctuations in the values of non-U.S. currencies relative to the strength of the U.S. Dollar, which could adversely impact our results of operations and financial condition.

We are incorporated in Ireland and some of our assets are located outside the United States. As a result, it might not be possible for shareholders to enforce civil liability provisions of the federal or state securities laws of the United States.

We are organized under the laws of Ireland, and some of our assets are located outside the United States. A shareholder who obtains a court judgment based on the civil liability provisions of U.S. federal or state securities laws may be unable to enforce the judgment against us in Ireland or in countries other than the United States where we have assets. In addition, there is some doubt as to whether the courts of Ireland and other countries would recognize or enforce judgments of U.S. courts obtained against us or our Directors or officers based on the civil liabilities provisions of the federal or state securities laws of the United States or would hear actions against us or those persons based on those laws. We have been advised that the United States and Ireland do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. The laws of Ireland do however, as a general rule, provide that the judgments of the courts of the United States have the same validity in Ireland as if rendered by Irish Courts. Certain important requirements must be satisfied before the Irish Courts will recognize the United States judgment. The originating court must have been a court of competent jurisdiction and the judgment may not be recognized if it was obtained by fraud or its recognition would be contrary to Irish public policy. Any judgment obtained in contravention of the rules of natural justice or that is irreconcilable with an earlier foreign judgment would not be enforced in Ireland. Similarly, judgments might not be enforceable in countries other than the United States where we have assets.

Irish law differs from the laws in effect in the United States and might afford less protection to shareholders.

Our shareholders could have more difficulty protecting their interests than would shareholders of a corporation incorporated in a jurisdiction of the United States. As an Irish company, we are governed by the Companies Acts 1963 to 2009 of Ireland (the Companies Acts) and other Irish statutes. The Companies Acts and other Irish statutes differ in some significant, and possibly material, respects from laws applicable to U.S. corporations and shareholders under various state corporation laws, including the provisions relating to interested directors, mergers and acquisitions, takeovers, shareholder lawsuits and indemnification of Directors.

Under Irish law, the duties of Directors and officers of a company are generally owed to the company only. Shareholders of Irish companies do not generally have rights to take action against Directors or officers of the company under Irish law, and may only exercise such right of action on behalf of the Company in limited circumstances. Directors of an Irish company must, in exercising their powers and performing their duties, act with due care and skill, honestly and in good faith with a view to the best interests of the company. Directors have a duty not to put themselves in a position in which their duties to the company and their personal interests might conflict and also are under a duty to disclose any personal interest in any contract or arrangement with the company or any of its subsidiaries. If a Director or officer of an Irish company is found to have breached his duties to that company, he could be held personally liable to the company in respect of that breach of duty.

A future transfer of your ordinary shares, other than one effected by means of the transfer of book entry interests in DTC, may be subject to Irish stamp duty.

A transfer of our Class A ordinary shares by a seller who holds Class A ordinary shares beneficially through DTC to a buyer who holds the acquired Class A ordinary shares beneficially through DTC will not be subject to Irish stamp duty. A transfer of our ordinary shares by a seller who holds shares directly to any buyer, or by a seller who holds the shares beneficially through DTC to a buyer who holds the acquired shares directly, may be subject to Irish stamp duty. Stamp duty is a liability of the buyer or transferee and is currently levied at the rate of 1% of the price paid or the market value of the shares acquired, if higher. The potential for stamp duty could adversely affect the price of our ordinary shares.

Risks Related to Taxation

Legislative and regulatory action by the U.S. Congress could materially and adversely affect us.

Our tax position could be adversely impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof. Legislative action may be taken by the U.S. Congress which, if ultimately enacted, could override tax treaties upon which we rely or could broaden the circumstances under which we would be considered a U.S. resident, each of which could materially and adversely affect our effective tax rate and cash tax position.

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We may become subject to taxes in the Cayman Islands or Bermuda in the future, which may have a material adverse effect on our results of operations.

United America Indemnity, Ltd. has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, obtained an undertaking on September 2, 2003 from the Governor in Council of the Cayman Islands substantially that, for a period of 20 years from the date of such undertaking, no law that is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to us and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on our ordinary shares. This undertaking would not, however, prevent the imposition of taxes on any person ordinarily resident in the Cayman Islands or any company in respect of its ownership of real property or leasehold interests in the Cayman Islands. Given the limited duration of the undertaking, we cannot be certain that we will not be subject to Cayman Islands tax after the expiration of the 20-year period.

Wind River Reinsurance was formed in 2006 through the amalgamation of our Non-U.S. Operations. We received an assurance from the Bermuda Minister of Finance, under the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended, that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to Wind River Reinsurance or any of its operations, shares, debentures or other obligations through March 28, 2016. Given the limited duration of the assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 28, 2016.

Following the expiration of the period described above, we may become subject to taxes in the Cayman Islands or Bermuda, which may have a material adverse effect on our results of operations.

Global Indemnity or Wind River Reinsurance may be subject to U.S. tax that may have a material adverse effect on Global Indemnity s or Wind River Reinsurance s results of operations.

Global Indemnity is an Irish company and Wind River Reinsurance is a Bermuda company. We seek to manage our business in a manner designed to reduce the risk that Global Indemnity and Wind River Reinsurance will be treated as being engaged in a U.S. trade or business for U.S. federal income tax purposes. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service will not contend successfully that Global Indemnity or Wind River Reinsurance will be engaged in a trade or business in the United States. If Global Indemnity or Wind River Reinsurance were considered to be engaged in a business in the United States, we could be subject to U.S. corporate income and branch profits taxes on the portion of our earnings effectively connected to such U.S. business, in which case our results of operations could be materially adversely affected.

The impact of the Cayman Islands Letter of Commitment or other concessions to the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect the tax status of our subsidiaries in the Cayman Islands or Bermuda.

The Organization for Economic Cooperation and Development, which is commonly referred to as the OECD, has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD s report dated January 27, 2011, the Cayman Islands and Bermuda were not listed as uncooperative tax haven jurisdictions because each had previously committed itself to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

There is a risk that interest paid by our U.S. Subsidiaries to a Luxembourg affiliate may be subject to 30% U.S. withholding tax.

U.A.I. (Luxembourg) Investment, S.à.r.l., an indirectly owned Luxembourg subsidiary of Wind River Reinsurance, owns two notes issued by Global Indemnity Group, Inc., a Delaware corporation. Under U.S. federal income tax law, interest paid by a U.S. corporation to a non-U.S. shareholder is generally subject to a 30% withholding tax, unless reduced by treaty. The income tax treaty between the United States and Luxembourg (the Luxembourg Treaty) generally eliminates the withholding tax on interest paid to qualified residents of Luxembourg. Were the IRS to contend successfully that U.A.I. (Luxembourg) Investment, S.à.r.l. is not eligible for benefits under the Luxembourg Treaty, interest paid to U.A.I. (Luxembourg) Investment, S.à.r.l. by Global Indemnity Group, Inc. would be subject to the 30% withholding tax. Such tax may be applied retroactively to all previous years for which the statute of limitations has not expired, with interest and penalties. Such a result may have a material adverse effect on our financial condition and results of operation.

There is a risk that interest income imputed to our Irish affiliates may be subject to 25% Irish income tax.

U.A.I. (Ireland) Limited is a private limited liability company incorporated under the laws of Ireland. The company is a resident taxpayer fully subject to Ireland corporate income tax of 12.5% on trading income and 25.0% on non-trading income, including interest and dividends from foreign companies. The company intends to manage its operations in such a way that there will not be any material taxable income generated in Ireland under Irish law. However, there can be no assurance from the Irish authorities that a law may not be enacted that would impute income to U.A.I. (Ireland) Limited in the future or retroactively arising out of our current operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We lease office space in Bala Cynwyd, Pennsylvania which holds our Insurance Operations principle executive offices and headquarters. In addition, we lease additional office space in California, Georgia, Illinois, Maryland and Texas which serves as office space for our field offices. Some of the office space in California also serves as office space for our claims operations. We also lease office space in Hamilton, Bermuda, which is used by our Reinsurance Operations. We lease office space in Cavan, Ireland which is used to support the operating needs of our Insurance and Reinsurance Operations. We believe the properties listed are suitable and adequate to meet our needs.

Item 3. LEGAL PROCEEDINGS

The Company is, from time to time, involved in various legal proceedings in the ordinary course of business. The Company purchases insurance and reinsurance policies covering 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 the Company s business, results of operations, cash flows, or financial condition.

There is a greater potential for disputes with reinsurers who are in a runoff of their reinsurance operations. Some of the Company s reinsurers reinsurance operations 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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On December 4, 2008, a federal jury in the U.S. District Court for the Eastern District of Pennsylvania (Philadelphia) returned a $24.0 million verdict in favor of United National Insurance Company (United National), an indirect wholly owned subsidiary of the Company, against AON Corp., an insurance and reinsurance broker. On July 24, 2009, a federal judge from the U.S. District Court for the Eastern District of Pennsylvania (Philadelphia) upheld that jury verdict. In doing so, the U.S. District Judge increased the verdict to $32.2 million by adding more than $8.2 million in prejudgment interest. AON filed its Notice of Appeal and a Bond in the amount of $33.0 million. Oral arguments were heard by the Appellate Court on October 26, 2010. In January, 2011, we settled with AON for $16.3 million. We realized approximately $7.5 million in 2011, net of income taxes and attorney s fees.

Item 4. MINE SAFETY DISCLOSURES

None.

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Our Class A Ordinary Shares

Our Class A ordinary shares, par value $0.0001 per share, began trading on the Nasdaq Global Select Market, formerly the Nasdaq National Market, under the symbol UNGL on December 16, 2003. On March 14, 2005 we changed our symbol to INDM. On July 6, 2010, we changed our symbol to GBLI as part of a re-domestication transaction whereby all shares of INDM were replaced with shares of GBLI on a one-for-two basis. The following table sets forth, for the periods indicated, the high and low sales prices of our Class A ordinary shares as reported by the Nasdaq Global Select Market. Prices prior to July 6, 2010 have been adjusted to reflect the impact of the one-for-two share exchange.

	High	Low
Fiscal Year Ended December 31, 2011:		
First Quarter	$ 23.45	$ 18.75
Second Quarter	27.29	20.33
Third Quarter	23.09	15.50
Fourth Quarter	20.78	16.02
Fiscal Year Ended December 31, 2010:		
First Quarter	$ 19.90	$ 13.30
Second Quarter	20.36	14.38
Third Quarter	17.21	10.10
Fourth Quarter	21.25	15.46

There is no established public trading market for our Class B ordinary shares, par value $0.0001 per share.

As of March 6, 2012, there were approximately 1,500 beneficial holders of record of our Class A ordinary shares. As of March 6, 2012, there were 11 holders of record of our Class B ordinary shares, all of whom are affiliates of Fox Paine & Company.

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Performance of Our Class A Ordinary Shares

The following graph represents a five-year comparison of the cumulative total return to shareholders for the Company s Class A ordinary shares and stock of companies included in the NASDAQ Insurance Index and NASDAQ Composite Index, which we believe are the most comparative indexes.

	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Global Indemnity plc	$ 100.0	$ 78.6	$ 50.6	$ 31.3	$ 40.4	$ 39.1
NASDAQ Insurance Index	100.0	99.2	87.6	88.1	101.0	104.1
NASDAQ Composite Index	100.0	109.8	65.3	93.9	109.8	107.9

Note: We completed our Rights Offering on May 5, 2009, which increased our total outstanding Class A ordinary shares by 17.2 million shares. See Note 13 to the consolidated financial statements in Item 8 of Part II of this report for details concerning the Rights Offering.

Note: We completed our re-domestication transaction on July 2, 2010, which resulted in shares of INDM being exchanged for shares of GBLI on a one-for-two basis. Share prices prior to July 6, 2010 have been adjusted to reflect the impact of the one-for-two share exchange. See Note 3 to the consolidated financial statements in Item 8 of Part II of this report for details concerning the re-domestication.

Recent Sales of Unregistered Securities

On May 5, 2009, we completed the Rights Offering in which a total of 17,178,421 Class A ordinary shares and 11,435,244 Class B ordinary shares were issued. The issuance of the Class A ordinary shares included 41,588 Class A ordinary shares issued to an affiliate of Fox Paine & Company in a private placement pursuant to Section 4(2) of the Securities Act, as amended. The affiliate of Fox Paine & Company purchased the 41,588 Class A ordinary shares for $3.50 per share, which was the subscription price at which all Class A common shareholders and Class B common shareholders were entitled to purchase additional shares. All other shares issued in the Rights Offering were issued pursuant to a registration statement. The net proceeds of $91.8 million were used to support our strategic initiatives, enhance liquidity and financial flexibility, and for other general corporate purposes. See Note 13 to the consolidated financial statements in Item 8 of Part II of this report for details concerning the Rights Offering.

Purchases of Our Class A Ordinary Shares

Our Share Incentive Plan allows employees to surrender shares of our Class A ordinary shares as payment for the tax liability incurred upon the vesting of restricted stock that was issued under our Share Incentive Plan. During 2011, we purchased an aggregate of 8,347 of surrendered Class A ordinary shares from our employees for $0.2 million. All shares purchased from employees are held as treasury stock and recorded at cost.

As part of the Rights Offering that was completed in May 2009, we purchased 5,000 Class A ordinary shares for $0.04 million that had been purchased by a former employee with the non-transferable Class A Rights that were distributed to that former employee for Class A ordinary shares held of non-vested restricted stock. Since the restricted stock was not vested, the former employee, upon leaving the Company, had to forfeit those Class A ordinary shares that had been purchased with the non-transferable Class A Rights that were distributed on that restricted stock. See Note 13 to the consolidated financial statements in Item 8 of Part II of this report for details concerning the Rights Offering.

On September 15, 2011, we announced that our Board of Directors authorized us to repurchase up to $100.0 million of our Class A ordinary shares through a share repurchase program. The timing and amount of the repurchase transactions, if any, under this program will depend upon market conditions as well as other factors. All shares repurchased under this program may be retired and are held as treasury stock and recorded at cost. See Note 13 to the consolidated financial statements in Item 8 of Part II of this report for tabular disclosure of our share repurchases by month.

Dividend Policy

We did not declare or pay cash dividends on any class of our ordinary shares in 2011 or 2010. Payment of dividends is subject to future determinations by the Board of Directors based on our results, financial conditions, amounts required to grow our business, and other factors deemed relevant by the Board.

We are a holding company and have no direct operations. Our ability to pay dividends depends, in part, on the ability of Wind River Reinsurance, the Luxembourg Companies, and the U.S. Insurance Subsidiaries to pay dividends. Wind River Reinsurance and the U.S. Insurance Subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends.

See Note 19 of the notes to consolidated financial statements in Item 8 of Part II of this report for the dividends declared and paid by the U.S. Insurance Subsidiaries in 2011 and the maximum amount of distributions that they could pay as dividends in 2012.

For 2012, we believe that Wind River Reinsurance should have sufficient liquidity and solvency to pay dividends. In the future, we anticipate paying dividends from Wind River Reinsurance to fund obligations of Global Indemnity. Wind River Reinsurance is prohibited, without the approval of the 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. Based upon the total statutory capital plus the statutory surplus as set out in its 2011 statutory financial statements that will be filed in 2012, Wind River Reinsurance could pay a dividend of up to $192.6 million without requesting BMA approval. Wind River is dependent on receiving distributions from its subsidiaries in order to pay the full dividend.

Under the Companies Act, Wind River Reinsurance may only declare or pay a dividend if Wind River Reinsurance has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In 2011, profit distributions (not in respect to liquidations) by the Luxembourg Companies were generally subject to Luxembourg dividend withholding tax at a rate of 15%, unless a domestic law exemption or a lower tax treaty rate applies. There were no Luxembourg dividends paid in 2011. Dividends paid by any of the Luxembourg

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Companies to their Luxembourg resident parent company are exempt from Luxembourg dividend withholding tax, provided that at the time of the dividend distribution, the resident parent company has held (or commits itself to continue to hold) 10% or more of the nominal paid up capital of the distributing entity or, in the event of a lower percentage participation, a participation having an acquisition price of Euro 1.2 million or more for a period of at least twelve months.

For a discussion of factors affecting our ability to pay dividends, see Business Regulation in Item 1 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sources and Uses of Funds in Item 7 of Part II, and Note 19 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

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Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated historical financial data for Global Indemnity and should be read together with the consolidated financial statements and accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this report. No cash dividends were declared on common stock in any year presented in the table.

(Dollars in thousands, except shares and per share data)	For the Years Ended December 31, 2011	2010	2009	2008	2007
Consolidated Statements of Operations Data:					
Gross premiums written	$ 307,903	$ 345,763	$ 340,999	$ 378,700	$ 563,112
Net premiums written	280,570	296,504	290,995	309,080	490,535
Net premiums earned	297,854	286,774	301,674	382,508	536,323
Net realized investment gains (losses)	21,473	26,437	15,862	(50,259)	968
Total revenues	384,575	370,487	387,750	400,079	614,632
Impairments of goodwill and intangible assets				(96,449)	
Net income (loss)	(39,628)	84,903	75,437	(141,560)	98,917
Per share data: (1) (3)					
Net income (loss) available to common shareholders	$ (39,628)	$ 84,903	$ 75,437	$ (141,560)	$ 98,917
Basic	(1.31)	2.81	2.92	(7.74)	4.80
Diluted	(1.31)	2.80	2.91	(7.74)	4.76
Weighted-average number of shares outstanding (2)					
Basic	30,246,095	30,237,787	25,856,049	18,278,094	20,629,013
Diluted	30,246,095	30,274,259	25,881,382	18,278,094	20,785,119

(1) In 2011 and 2008, Diluted loss per share is the same as Basic loss per share since there was a net loss for that year.

(2) In May 2009, we issued 17.2 million Class A ordinary shares and 11.4 million Class B ordinary shares in conjunction with the Rights Offering. In computing the basic and diluted weighted share counts, the number of shares outstanding prior to May 5, 2009 (the date that the ordinary shares were issued in conjunction with the Rights Offering) was adjusted by a factor of 1.114 to reflect the impact of a bonus element associated with the Rights Offering in accordance with appropriate accounting guidance. As a result, share counts for the prior periods have been restated.

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

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Consolidated Insurance Operating Ratios based on our GAAP Results: (1)					
Loss ratio **(2) (3)**	93.5	45.4	56.2	79.8	55.8
Expense ratio	41.5	41.2	39.8	37.3	32.5
Combined ratio **(2) (3)**	135.0	86.6	96.0	117.1	88.3
Net / gross premiums written	91.1	85.8	85.3	81.6	87.1
Financial Position as of Last Day of Period:					
Total investments and cash and cash equivalents	$ 1,647,723	$ 1,717,186	$ 1,731,314	$ 1,599,528	$ 1,765,103
Reinsurance receivables, net of allowance	287,986	422,844	543,351	679,277	719,706
Total assets	2,075,517	2,294,683	2,445,780	2,477,059	2,775,172
Senior notes payable	72,000	90,000	90,000	90,000	90,000
Junior subordinated debentures	30,929	30,929	30,929	30,929	46,393
Unpaid losses and loss adjustment expenses	971,377	1,052,743	1,257,741	1,506,429	1,503,237
Total shareholders equity	841,664	928,669	831,976	631,993	836,276

(1) Our insurance operating ratios are non-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. The ratios presented here represent the consolidated results of both our Insurance Operations and Reinsurance Operations.

(2) Our 2011 loss and combined ratios were impacted by a $3.4 million increase of net losses and loss adjustment expenses for prior accident years. Our 2010 loss and combined ratios were impacted by a $54.1 million reduction of net losses and loss adjustment expenses for prior accident years. Our 2009 loss and combined ratios were impacted by a $9.1 million reduction of net losses and loss adjustment expenses for prior accident years. Our 2008 loss and combined ratios were impacted by a $34.9 million increase of net losses and loss adjustment expenses for prior accident years. Our 2007 loss and combined ratios were impacted by a $29.1 million reduction of net losses and loss adjustment expenses for prior accident years. See Results of Operations in Item 7 of Part II of this report for details of these items and their impact on the loss and combined ratios.

(3) Our loss and combined ratios for 2011, 2010, 2009, 2008, and 2007 include $20.6 million, $2.8 million, $5.8 million, $21.5 million, and $1.7 million, respectively, of catastrophic losses from our Insurance Operations. See Results of Operations in Item 7 of Part II of this report for a discussion of the impact of these losses on the loss and combined ratios.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our 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 our 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 7 and Risk Factors in Item 1A above for more information. You should review Risk Factors in Item 1A above 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.

Recent Developments

Share Repurchase Program

On September 15, 2011, the Company s Board of Directors authorized the repurchase of up to $100.0 million of the Company s Class A ordinary shares. Stock repurchases may be made in both open market and privately negotiated transactions, and may include the use of derivative contracts, structured share repurchase agreements and Rule 10b5-1 trading plans. The timing and amount of any repurchase transactions, if any, under this program will depend upon market conditions as well as other factors. We may decide to buy or not buy any of our ordinary shares or discontinue our share repurchase program at any time, any of which may impact our stock price. Important factors that could cause us to discontinue our share repurchases include, among others, market conditions, increases in the market price of our ordinary shares, the nature of other investment opportunities presented to us from time to time, and the availability of funds necessary to continue purchasing common stock. Through March 14, 2012, we have purchased 1,945,023 shares under this program for an aggregate amount of $36.7 million, or $18.87 per share.

Retirement of Michael J. Marchio

On February 24, 2012, we announced that Michael J. Marchio has retired from the Company s Board of Directors effective February 27, 2012.

Overview

Our Insurance Operations distribute property and casualty insurance products through a group of approximately 100 professional general agencies that have limited quoting and binding authority, as well as a number of wholesale insurance brokers who in turn sell our insurance products to insureds through retail insurance brokers. We operate predominantly in the excess and surplus lines marketplace. To manage our operations, we differentiate 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.

Our Reinsurance Operations are comprised of the operations of Wind River Reinsurance, a Bermuda based treaty reinsurer of excess and surplus lines and specialty property and casualty insurance.

We derive our revenues primarily from premiums paid on insurance policies that we write and from income generated by our investment portfolio, net of fees paid for investment management services. The amount of insurance premiums that we receive is a function of the amount and type of policies we write, as well as of prevailing market prices.

Our expenses include losses and loss adjustment expenses, acquisition costs and other underwriting expenses, corporate and other operating expenses, interest, other investment expenses, and income taxes. Losses and loss adjustment expenses are estimated by management and reflect our best estimate of ultimate losses and costs arising during the reporting period and revisions of prior period estimates. We record losses and loss adjustment expenses based on an actuarial analysis of the estimated losses we expect to incur on the insurance policies we write. The ultimate losses and loss adjustment expenses will depend on the actual costs to resolve claims. Acquisition costs consist principally of commissions that are typically a percentage of the premiums on the insurance policies we write, net of ceding commissions earned from reinsurers and allocated internal costs. 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 fees, including accounting fees, directors fees, management fees, salaries and benefits for company personnel whose services relate to the support of corporate activities, and capital duty taxes incurred. Interest expense consists primarily of interest on senior notes payable, junior subordinated debentures, and funds held on behalf of others.

Critical Accounting Estimates and Policies

Our consolidated financial statements are prepared in conformity with GAAP, which requires us 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. See Note 5 of the notes to consolidated financial statements contained in Item 8 of Part II of this report. Actual results could differ from those estimates and assumptions. We believe that of our 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, we believe that the liability for unpaid losses and loss adjustment expenses reflects our best estimate for future amounts needed to pay losses and related loss adjustment expenses and the impact of our reinsurance coverage with respect to insured events.

In developing loss and loss adjustment expense (loss or losses) reserve estimates for our Insurance Operations, our 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 through long-tail. Most of our business can be characterized as medium to 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. Our 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 our insurance operations, we differentiate them by product classifications, which are Penn-America, United National, and Diamond State. For further discussion about our product classifications, see General Our Insurance Operations in Item 1 of Part I of this report. Each of our product classifications contain both long-tail and short-tail exposures. Every reserve category is analyzed by our actuaries each quarter. The analyses generally include reviews of losses gross of reinsurance and net of reinsurance.

In addition to our internal reserve analysis, independent external actuaries perform a full, detailed review of our Insurance Operations reserves during the second and fourth quarters of each fiscal year. Our independent external actuaries also perform a full, detailed review of our Reinsurance Operations reserves on a quarterly basis. We do not rely upon the review by the independent actuaries to develop our reserves; however, the data is used to corroborate the analysis performed by the in-house actuarial staff.

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Loss reserve estimates for our Reinsurance Operations are developed by independent, external actuaries, however 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 our reserves for our Insurance Operations, reserves for our Reinsurance Operations are characterized as short-tail through long-tail. Most of our business can be characterized as medium to long-tail. Long-tail exposures include workers compensation, professional liability, and excess and umbrella liability. Short-tail exposures are primarily catastrophe exposed property accounts. Every treaty is reviewed each quarter, both gross and net of reinsurance.

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.

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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.

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 us, 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, our 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 our 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, we 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 our history includes a sufficient number of years to cover the entire period over which paid and incurred losses are expected to change. However, we 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, we use additional methods tailored to the characteristics of the specific situation. Such reserve categories include losses from construction defects and A&E.

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For construction defect losses, our 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 us, 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 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 during the second quarter of 2008 to reflect its best estimate of A&E exposures. In 2009, one of our insurance companies was dismissed from a lawsuit seeking coverage from it and other unrelated insurance companies. The suit involved issues related to approximately 3,900 existing asbestos related bodily injury claims and future claims. The dismissal was the result of a settlement of a disputed claim related to accident year 1984. The settlement is conditioned upon certain legal events occurring which will trigger financial obligations by the insurance company. Management will continue to monitor the developments of the litigation to determine if any additional financial exposure is present.

Reserve analyses performed by our internal and external actuaries result in actuarial point estimates. The results of the detailed reserve reviews were summarized and discussed with our 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 our pricing and underwriting, and overall pricing and underwriting trends in the insurance market.

Management s best estimate at December 31, 2011 was recorded as the loss reserve. Management s best estimate is as of a particular point in time and is based upon known facts, our actuarial analyses, current law, and our judgment. This resulted in carried gross and net reserves of $971.4 million and $687.7 million, respectively, as of December 31, 2011. A breakout of our gross and net reserves, excluding the effects of our intercompany pooling arrangements and intercompany stop loss and quota share reinsurance agreements, as of December 31, 2011 is as follows:

		Gross Reserves	
(Dollars in thousands)	**Case**	**IBNR (1)**	**Total**
Insurance Operations	$ 298,581	$ 555,800	$ 854,381
Reinsurance Operations	35,730	81,266	116,996
Total	$ 334,311	$ 637,066	$ 971,377

		Net Reserves (2)	
(Dollars in thousands)	**Case**	**IBNR (1)**	**Total**
Insurance Operations	$ 196,835	$ 374,776	$ 571,611
Reinsurance Operations	35,730	80,384	116,114
Total	$ 232,565	$ 455,160	$ 687,725

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

We continually review these estimates and, based on new developments and information, we include 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 our historical experience or that cannot yet be quantified or estimated. We regularly analyze our reserves and review 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 11 to the consolidated financial statements in Item 8 of Part II 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 our internal and external actuaries complete use a variety of generally accepted actuarial methods and techniques to produce a number of estimates of ultimate loss. We determine our 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 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, we review our reserve estimates on a regular basis and make 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 our 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 our identification of information and trends that have caused us to increase or decrease our 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 our 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 us. The length of the loss reporting lag affects our 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.

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 our reserving classes, we believe that frequency can be predicted with greater accuracy than severity. Therefore, we believe management s best estimate is more sensitive to changes in severity than frequency. The following table, which we believe reflects a reasonable range

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of variability around our best estimate based on our historical loss experience and management s judgment, reflects the impact of changes (which could be favorable or unfavorable) in frequency and severity on our current accident year net loss estimate of $275.3 million for claims occurring during the year ended December 31, 2011:

(Dollars in thousands)		Severity Change				
		-10%	-5%	0%	5%	10%
Frequency Change	-5%	$ (39,916)	$ (26,840)	$ (13,764)	$ (688)	$ 12,388
	-3%	(34,961)	(21,610)	(8,258)	5,093	18,444
	-2%	(32,483)	(18,994)	(5,506)	7,983	21,472
	-1%	(30,006)	(16,379)	(2,753)	10,874	24,500
	0%	(27,528)	(13,764)		13,764	27,528
	1%	(25,051)	(11,149)	2,753	16,655	30,556
	2%	(22,573)	(8,534)	5,506	19,545	33,584
	3%	(20,096)	(5,919)	8,258	22,435	36,613
	5%	(15,141)	(688)	13,764	28,216	42,669

Our net reserves for losses and loss expenses of $687.7 million as of December 31, 2011 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

We regularly review the collectability of our reinsurance receivables, and we include 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 we consider 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 our reinsurers dispute a loss or if the reinsurer is unable to pay. If our reinsurers do not pay, we are still legally obligated to pay the loss.

See Note 9 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding our reinsurance receivable balances and collectability as of December 31, 2011 and 2010. For a listing of the ten reinsurers for which we have the largest reinsurance asset amounts as of December 31, 2011, see Reinsurance of Underwriting Risk in Item 1 of Part I of this report.

Investments

The carrying amount of our investments approximates their estimated fair value. We regularly perform 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 our review, we consider 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 we determine 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 5 of the notes to consolidated financial statements in Item 8 of Part II 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.

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For an analysis of our securities with gross unrealized losses as of December 31, 2011 and 2010, and for other than temporary impairment losses that we recorded for the years ended December 31, 2011, 2010, and 2009, please see Note 6 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

Fair Value Measurements

We categorize our assets that are accounted for at fair value in the consolidated statements 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. See Note 7 of the notes to the consolidated financial statements in Item 8 of Part II of this report for further information.

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. 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. Based on the analysis performed in 2011, there was no impairment of goodwill as of December 31, 2011.

Impairment of intangible assets with an indefinite useful life is tested at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. 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. Based on the analysis performed in 2011, there were no impairments of indefinite lived intangible assets as of December 31, 2011.

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. Based on the analysis performed in 2011, there were no impairments of definite lived intangible assets as of December 31, 2011.

See Note 8 of the notes to the consolidated financial statements in Item 8 of Part II of this report for more details concerning our goodwill and intangible assets.

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 primarily related to the 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 shall be recognized if the sum of expected loss and loss adjustment expenses and unamortized acquisition costs exceeds related unearned premium. 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.

As of December 31, 2011, the Company s deferred acquisition costs were $4.8 million lower than they would have been and loss and loss adjustment expense reserves were $4.1 million higher than they would have been due to premium deficiencies. Deferred acquisition costs were deemed to be fully recoverable as of December 31, 2010.

Taxation

We provide for income taxes in accordance with applicable accounting guidance. Our deferred tax assets and liabilities primarily result from temporary differences between the amounts recorded in our consolidated financial statements and the tax basis of our 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 our 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 of December 31, 2011. The deferred tax asset balance is analyzed regularly by management. Based on these analyses, we have determined that our 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, our assumptions and estimates that resulted in our 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 our financial condition, results of operations, and liquidity.

In 2009, we recognized $8.6 million of investment income related to the liquidation of investments in two limited partnerships. Our 2009 tax provision includes federal income tax expense of $3.0 million related to this investment income.

We apply 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. Please see Note 10 of the notes to the consolidated financial statements in Item 8 of Part II of this report for a discussion of our tax uncertainties.

Our Business Segments

We manage our business through two business segments: Insurance Operations and Reinsurance Operations.

We evaluate the performance of our 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 (1) net losses and loss adjustment expenses, (2) acquisition costs, and (3) other underwriting expenses.

See Business Segments in Item 1 of Part I of this report for a description of our segments.

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

(Dollars in thousands)	**Years Ended December 31,**		
	2011	**2010**	**2009**
Insurance Operations premiums written:			
Gross premiums written	$ 229,148	$ 245,481	$ 267,992
Ceded premiums written	26,831	49,416	49,728
Net premiums written	$ 202,317	$ 196,065	$ 218,264
Reinsurance Operations premiums written:			
Gross premiums written	$ 78,755	$ 100,282	$ 73,007
Ceded premiums written	502	(157)	276
Net premiums written	$ 78,253	$ 100,439	$ 72,731
Revenues: **(1)**			
Insurance Operations	$ 228,685	$ 194,820	$ 250,409
Reinsurance Operations	81,305	92,607	51,265
Total revenues	$ 309,990	$ 287,427	$ 301,674
Expenses: **(2)**			
Insurance Operations	$ 285,017**(3)**	$ 162,626**(3)**	$ 252,494**(3)**
Reinsurance Operations	117,142	85,897	36,817
Net expenses	$ 402,159	$ 248,523	$ 289,311
Income (loss) from segments:			
Insurance Operations	$ (56,332)	$ 32,194	$ (2,085)
Reinsurance Operations	(35,837)	6,710	14,448
Total income (loss) from segments	$ (92,169)	$ 38,904	$ 12,363
Insurance combined ratio analysis: **(4)**			
Insurance Operations			
Loss ratio	86.9	36.6	58.4
Expense ratio	44.6	47.1	42.4
Combined ratio	131.5	83.7	100.8
Reinsurance Operations			
Loss ratio	111.1	63.9	45.2
Expense ratio	33.0	28.8	26.6
Combined ratio	144.1	92.7	71.8
Consolidated			
Loss ratio	93.5	45.4	56.2
Expense ratio	41.5	41.2	39.8
Combined ratio	135.0	86.6	96.0

(1) Excludes net investment income and net realized investment gains (losses), which are not allocated to our segments.

(2) Excludes corporate and other operating expenses and interest expense, which are not allocated to our segments.

(3) Includes excise tax of $1,060, $1,021, and $1,342 related to cessions from our U.S. Insurance Companies to Wind River Reinsurance for 2011, 2010, and 2009, respectively.

(4) Our insurance combined ratios are non-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.

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Results of Operations

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

Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010

Insurance Operations

The components of income (loss) from underwriting and underwriting ratios of our Insurance Operations segment are as follows:

			Increase / (Decrease)	
(Dollars in thousands)	**2011**	**2010**	**$**	**%**
Gross premiums written	$ 229,148	$ 245,481	$ (16,333)	(6.7%)
Net premiums written	$ 202,317	$ 196,065	$ 6,252	3.2%
Net premiums earned	$ 216,549	$ 194,167	$ 22,382	11.5%
Other income	12,136	653	11,483	N/M
Total revenues	$ 228,685	$ 194,820	$ 33,865	17.4%
Losses and expenses:				
Net losses and loss adjustment expenses	188,358	71,175	117,183	164.6%
Acquisition costs and other underwriting expenses **(1)**	96,659	91,451	5,208	5.7%
Income (loss) from underwriting	$ (56,332)	$ 32,194	$ (88,526)	(275.0%)
Underwriting Ratios:				
Loss ratio:				
Current accident year	91.4	65.9	25.5	
Prior accident year	(4.5)	(29.3)	24.8	
Calendar year	86.9	36.6	50.3	
Expense ratio	44.6	47.1	(2.5)	
Combined ratio	131.5	83.7	47.8	

N/M Not meaningful

(1) Includes excise tax of $1,060 and $1,021 related to cessions from our U.S. Insurance Companies to Wind River Reinsurance for 2011 and 2010, respectively.

Premiums

Gross premiums written, which represents the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions, was $229.1 million for 2011, compared with $245.5 million for 2010, a decrease of $16.3 million or 6.7%. The decrease was primarily due to declines in our general liability, professional liability and auto lines and price decreases in the aggregate of 1.5%. This decrease was offset partially by increases in certain products within the property and casualty brokerage lines. We are exiting certain unprofitable casualty classes.

Net premiums written, which equals gross premiums written less ceded premiums written, was $202.3 million for 2011, compared with $196.1 million for 2010, an increase of $6.3 million or 3.2%. The increase was primarily due to the cancellation of a property quota share reinsurance treaty effective January 1, 2011 and an increase in retention related to the property excess of loss treaty which renewed January 1, 2011.

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The ratio of net premiums written to gross premiums written was 88.3% for 2011 and 79.9% for 2010, an increase of 8.4 points, which was primarily due to changes in our reinsurance structure on our property business noted above.

Net premiums earned were $216.5 million for 2011, compared with $194.2 million for 2010, an increase of $22.4 million or 11.5%. The increase was primarily due the increases in net premiums written within the previous year. Property net premiums earned for 2011 and 2010 were $97.6 million and $75.2 million, respectively. Casualty net premiums earned for 2011 and 2010 were $118.9 million and $119.0 million, respectively.

Other Income

Other income was $12.1 million and $0.7 million for the years ended December 31, 2011 and 2010, respectively. Other income is comprised of commissions and fee income and in addition, for 2011, $11.5 million received from our settlement with AON, net of attorney s fees. Income from the AON settlement is non-recurring. Please see Note 15 to the consolidated financial statements in Item 8 of Part II of this report for additional details regarding income and related tax expense from this settlement.

Net Losses and Loss Adjustment Expenses

The loss ratio for our Insurance Operations was 86.9% for 2011 compared with 36.6% for 2010. The loss ratio is a non-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 increased 25.5 points in 2011 due to increases in both the property and casualty loss ratios:

- The current accident year property loss ratio increased 16.3 points from 61.2% in 2010 to 77.5% in 2011.
  - The non-catastrophe loss ratio decreased 1.1 points from 57.5% in 2010 to 56.4% in 2011. Non-catastrophe losses were $55.1 million and $43.2 million for the years ended December 31, 2011 and 2010, respectively.
  - The catastrophe loss ratio increased 17.3 points from 3.8% in 2010 to 21.1% in 2011. The increase in the catastrophe loss ratio is primarily due to tornado and severe weather related losses in the Midwest, Alabama and North Carolina, as well as the impact of Hurricane Irene and Tropical Storm Lee. Catastrophe losses were $20.6 million and $2.8 million for the years ended December 31, 2011 and 2010, respectively.
- The current accident year casualty loss ratio increased 34.0 points from 68.9% in 2010 to 102.9% in 2011 primarily due to a professional lines loss in a class of business that we are exiting, loss emergence in our general liability line and an increase to losses related to premium deficiencies. We increased the current accident year expected loss ratio for certain Diamond State classes within our general liability line to 208.6% during 2011, which had a 19.1 point impact on the casualty lines loss ratio during the quarter. On a pro forma basis, excluding the impact of the increase to losses related to premium deficiencies and the general liability line increase noted above, the current year casualty loss ratio increased 11.2 points from 69.2% in 2010 to 80.4% in 2011. We are addressing profitability concerns by exiting certain classes of business within the general liability line. Casualty net premiums earned for the year ended December 31, 2011 and 2010 were $118.9 million and $119.0 million, respectively.

The loss ratio increased by 24.8 points resulting from a decrease of net losses and loss adjustment expenses for prior accident years of $9.7 million in 2011 compared to a decrease of net losses and loss adjustment expenses for prior accident years of $56.8 million in 2010. When analyzing loss reserves and prior year development, we

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consider many factors, including the frequency and severity of claims, loss credit trends, case reserve settlements that may have resulted in significant development, and any other additional or pertinent factors that may impact reserve estimates.

In 2011, we decreased our prior accident year loss reserves by $8.4 million and decreased our allowance for uncollectible reinsurance by $1.3 million. The reduction of our prior accident year loss reserves primarily consisted of a $11.6 million reduction in our general liability lines, a $2.5 million reduction in our property lines, and a $1.7 million reduction in our umbrella lines, offset partially by a $5.7 million increase in our professional liability lines and a $1.8 million increase in our auto liability lines:

General Liability: The reduction in the general liability lines primarily consisted of net reductions of $25.5 million in accident years 2008 and prior due to continued favorable emergence. Incurred losses for these years have developed at a rate lower than the Company s historical averages. We also decreased our reinsurance allowance by $1.3 million in this line due to changes in our reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of $13.9 million in accident years 2009 and 2010 primarily driven by loss emergence primarily within our Diamond State product as well as revised exposure estimates for construction defect liability. Increased estimates for construction defect were primarily the result of a methodology change during the year, with some increases in recent years due to a slight increase in claim frequency in one of our review segments. We are addressing profitability concerns by exiting certain classes of business within this line.

Property: The reduction in the property lines primarily related to accident years 2009 and 2010 related to anticipated subrogation on a large equine mortality claim as well as favorable development on prior year catastrophe claims.

Umbrella: The $1.7 million reduction in the umbrella lines primarily related to accident years 2010 and prior primarily due to continued favorable emergence. Umbrella coverage typically attaches to other coverage lines, so these net decreases follow the decreases in general liability above.

Professional Liability: The increase in the professional liability lines primarily consisted of increases of $19.0 million related to accident years 1998, 2009 and 2010, offset partially by decreases of $13.2 million related to all other accident years. In 2011, we exited certain professional liability classes where the volume of premium was low and loss volatility was high. We are focused on writing business where we expect to realize profit that meets our return on investment thresholds.

Auto Liability: The increase in the auto liability lines is primarily related to accident year 2010 due to higher than expected severity.

The reduction in our allowance for uncollectible reinsurance is primarily due to due to write-offs of receivables deemed to be uncollectible and a decrease in the amount of carried reinsurance receivables.

In 2010, we reduced our prior accident year loss reserves by $56.6 million and reduced our allowance for uncollectible reinsurance by $0.2 million. The reduction of our prior accident year loss reserves primarily consisted of a $43.7 million reduction in our general liability lines, a $5.4 million reduction in our umbrella lines, a $4.9 million reduction in our professional liability lines, and a $2.0 million reduction in our property lines:

General Liability: The reduction in the general liability lines primarily consisted of reductions of $45.4 million related to accident years 2002 through 2009 due to lower than anticipated frequency and severity. Incurred losses for these years have developed at a rate lower than the Company s historical averages. This reduction was partially offset by net increases of $1.8 million related to accident years 2001 and prior where the Company increased the loss and loss adjustment expense estimates related to construction defect claims.

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Umbrella: The $5.4 million reduction in the umbrella lines related to all accident years 2009 and prior due to less than anticipated severity. As these accident years have matured, more weight has been given to experience based methods which continue to develop favorably compared to our initial indications.

Professional Liability: The reduction in the professional liability lines primarily consisted of reductions of $9.9 million related to accident years 2001 through 2008 driven by lower than expected paid and incurred activity during the quarter. This reduction was partially offset by increases of $5.0 million related to accident year 2009 where the Company experienced higher than expected claim frequency and severity.

Property: The reduction in the property lines primarily consisted of reductions of $2.9 million related to accident years 2002 and 2004 through 2008 driven by lower than anticipated severity, partially offset by increases of $0.9 million primarily related to accident year 2009 where the Company experienced higher than expected claim frequency and severity.

The reduction in our allowance for uncollectible reinsurance is primarily due to the decrease in the amount of our carried reinsurance receivables.

Net losses and loss adjustment expenses were $188.4 million for 2011, compared with $71.2 million for 2010, an increase of $117.2 million or 164.6%. Excluding the $9.7 million reduction of net losses and loss adjustment expenses for prior accident years in 2011 and the $56.8 million reduction of net losses and loss adjustment expenses for prior accident years in 2010, the current accident year net losses and loss adjustment expenses were $198.0 million and $128.0 million for 2011 and 2010, respectively. This increase is primarily attributable to an increase to losses related to a premium deficiency in the current year, the impact of an increase in current accident year loss reserves related to our general liability lines, the increase in net premiums earned, and the increase in current accident year severity as described above.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were $96.7 million for 2011, compared with $91.5 million for 2010, an increase of $5.2 million or 5.7%. The increase is due to an $8.6 million increase in acquisition costs offset partially by a $3.4 million decrease in other underwriting expenses.

The increase in acquisition costs is primarily due to a write down of deferred acquisition costs related to premium deficiencies, an increase in commissions and premium taxes resulting mainly from an increase in net earned premiums and a decrease in ceding commissions resulting from an increase in retained business. As of December 31, 2011, deferred acquisition costs were $1.9 million lower than they would have been as a result of premium deficiencies.

The decrease in other underwriting expenses is primarily due to an overall decrease in employee compensation related to the Profit Enhancement Initiative as well as a decrease in share-based compensation related to the forfeiture of unvested restricted shares and options.

Expense and Combined Ratios

The expense ratio for our Insurance Operations was 44.6% for 2011, compared with 47.1% for 2010. The expense ratio is a non-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 a decrease in contingent commissions recorded in the current period compared to the same period last year, a decrease in employee compensation costs related to the Profit Enhancement Initiative, and a decrease in share-based compensation related to the forfeiture of unvested restricted shares and options, partially offset a write down of deferred acquisition costs related to premium deficiencies. Excluding the impact of the write down of deferred acquisition costs, the expense ratio for our Insurance Operations was 43.7% for the year ended December 31, 2011.

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The combined ratio for our Insurance Operations was 131.5% for 2011, compared with 83.7% for 2010. The combined ratio is a non-GAAP financial measure and is the sum of our loss and expense ratios. Excluding the impact of prior accident year adjustments, the combined ratio increased from 111.6% in 2010 to 136.0% in 2011. Excluding the impact of the write down to deferred acquisition costs related to premium deficiencies, the current accident year combined ratio was 133.5% in 2011. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph above for an explanation of this increase.

Income (loss) from underwriting

The factors described above resulted in a loss from underwriting for our Insurance Operations of $56.3 million for 2011, compared with income from underwriting of $32.2 million for 2010, a decrease of $88.5 million.

Reinsurance Operations

The components of income from underwriting and underwriting ratios of our Reinsurance Operations segment are as follows:

			Increase / (Decrease)	
(Dollars in thousands)	**2011**	**2010**	**$**	**%**
Gross premiums written	$ 78,755	$ 100,282	$ (21,527)	(21.5%)
Net premiums written	$ 78,253	$ 100,439	$ (22,186)	(22.1%)
Net premiums earned	$ 81,305	$ 92,607	$ (11,302)	(12.2%)
Losses and expenses:				
Net losses and loss adjustment expenses	90,326	59,184	31,142	52.6%
Acquisition costs and other underwriting expenses	26,816	26,713	103	0.4%
Income (loss) from underwriting	$ (35,837)	$ 6,710	$ (42,547)	(634.1%)
Underwriting Ratios:				
Loss ratio:				
Current accident year	95.0	61.0	34.0	
Prior accident year	16.1	2.9	13.2	
Calendar year loss ratio	111.1	63.9	47.2	
Expense Ratio	33.0	28.8	4.2	
Combined ratio	144.1	92.7	51.4	

Premiums

Gross premiums written, which represents the amount received or to be received for reinsurance agreements written without reduction for reinsurance costs or other deductions, was $78.8 million for 2011, compared with $100.3 million for 2010, a decrease of $21.5 million or 21.5%. The decrease was primarily due to the sale of a company that elected not to renew its treaty with Wind River Reinsurance post-acquisition and non-renewing treaties that did not meet our return hurdles.

Net premiums written, which equals gross premiums written less ceded premiums written, was $78.3 million for 2011, compared with $100.4 million for 2010, a decrease of $22.2 million or 22.1%. The decrease was primarily due to the decrease in gross premiums written as described above. The ratio of net premiums written to gross premiums written was 99.4% for 2011 and 100.2% for 2010, a decrease of 0.8 points.

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Net premiums earned were $81.3 million for 2011, compared with $92.6 million for 2010, a decrease of $11.3 million or 12.2%. The decrease was primarily due to the non-renewal of certain treaties that did not meet our return hurdles throughout 2011. Property net premiums earned for 2011 and 2010 were $32.8 million and $35.3 million, respectively. Casualty net premiums earned for 2011 and 2010 were $48.5 million and $57.3 million, respectively.

Net Losses and Loss Adjustment Expenses

The loss ratio for our Reinsurance Operations was 111.1% for 2011 compared with 63.9% for 2010. The loss ratio is a non-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.

In 2011, the current accident year loss ratio increased 34.0 points from 61.0% in 2010 to 95.0% in 2011.

The current accident year property loss ratio was 94.3% in 2011 compared to 38.2% in 2010. This increase was primarily due to catastrophe losses related to the Japan earthquake and tsunami, New Zealand earthquakes, Australian floods, Alabama tornadoes, Hurricane Irene, Tropical Storm Lee and other U.S. catastrophe events. Current accident year property losses for the year ended December 31, 2011 and 2010 were $31.0 million and $13.5 million, respectively.

The casualty lines loss ratio was 95.5% in 2011 compared to 75.1% in 2010. This increase was primarily due to higher than expected losses on general liability treaties.

The impact of changes to prior accident years is an increase of 13.2 points resulting from an increase of net losses and loss adjustment expenses for prior accident years of $13.1 million in 2011 and an increase of net losses and loss adjustment expenses for prior accident years of $2.7 million in 2010. When analyzing loss reserves and prior year development, we consider many factors, including the frequency and severity of claims, loss credit trends, case reserve settlements that may have resulted in significant development, and any other additional or pertinent factors that may impact reserve estimates.

In 2011, we increased our prior accident year loss reserves by $13.1 million. The increase in our prior accident year loss reserves primarily consisted of a $8.7 million increase in general liability lines, a $3.1 million increase in our automobile liability lines, a $1.5 million increase in property lines, and a $1.0 million increase in our workers compensation lines, offset partially by a decrease of $1.3 million in our professional liability lines:

General Liability: The increase in our general liability lines was primarily related to accident years 2009 and 2010 due to loss estimates that were greater than expected.

Automobile Liability: The increase in the automobile liability lines was primarily related to accident year 2010 resulting from further unexpected development on non-standard auto treaties which were not renewed in 2011.

Property: The increase in the property lines primarily related to accident year 2010 and is primarily related to loss emergence on a worldwide catastrophe treaty.

Workers Compensation: The increase in our workers compensation lines is primarily related to accident years 2009 and 2010 and is the result of expected losses recorded on adjustment premiums recorded in 2011.

Professional Liability: The decrease in professional liability lines are primarily related to accident years 2009 and 2010 and is the result of better than expected development on certain treaties.

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In 2010, we increased our prior accident year loss reserves by $2.7 million. The increase in our prior accident year loss reserves primarily consisted of a $2.6 million increase in our automobile liability lines and a $0.5 million increase in our workers compensation lines, offset partially by a decrease of $0.5 million in our property lines:

Automobile Liability: The increase in the automobile liability lines was primarily due to increases of $2.5 million related to higher frequency within accident year 2009 from a non-standard auto treaty.

Workers Compensation: The increase in our workers compensation lines is related to an accident year 2009 structured excess of loss treaty where we increased our loss estimates based on industry workers compensation results.

Property: The reduction in the property lines primarily consisted of reductions of $0.7 million related to accident year 2009, partially offset by increases of $0.2 million related to accident year 2008. These changes are due to continuing emergence of loss trends on our catastrophe treaty.

Net losses and loss adjustment expenses were $90.3 million for 2011, compared with $59.2 million for 2010, an increase of $31.1 million or 52.6%. Excluding the $13.1 million increase of net losses and loss adjustment expenses for prior accident years in 2011 and the $2.7 million increase of net losses and loss adjustment expenses for prior accident years in 2010, the current accident year net losses and loss adjustment expenses were $77.3 million and $56.5 million for 2011 and 2010, respectively. This increase is primarily attributable to large catastrophe losses incurred during the first nine months of 2011 as discussed above.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were $26.8 million for 2011, compared with $26.7 million for 2010, an increase of $0.1 million or 0.4%. The increase is due to a $1.5 million increase in other underwriting expenses, partially offset by a $1.4 million decrease in acquisition costs.

The $1.5 million increase in other underwriting expenses is primarily due to an increase in compensation related to the hiring of new employees within this business unit.

The $1.4 million decrease in acquisition costs is primarily due to a decrease in contingent commissions resulting from higher than expected current and prior accident year losses discussed above, offset partially by a write down of deferred acquisition costs related to premium deficiencies. As of December 31, 2011, deferred acquisition costs were $2.9 million lower than they would have been as a result of premium deficiencies.

Expense and Combined Ratios

The expense ratio for our Reinsurance Operations was 33.0% for 2011, compared with 28.8% for 2010. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The increase in the expense ratio is primarily due to an increase in compensation related to the hiring of new employees within this business unit and a write down of deferred acquisition costs related to premium deficiencies, offset partially by a decrease in contingent commissions resulting from higher than expected current and prior accident year losses. Excluding the impact of the write down of deferred acquisition costs related to premium deficiencies, the expense ratio for our Reinsurance Operations was 29.4% for the year ended December 31, 2011.

The combined ratio for our Reinsurance Operations was 144.1% for 2011, compared with 92.7% for 2010. The combined ratio is a non-GAAP financial measure and is the sum of our loss and expense ratios. Excluding the impact of prior accident year adjustments, the combined ratio increased from 88.2% in 2010 to 128.0% in 2011. Excluding the impact of the write down of deferred acquisition costs related to premium deficiencies, the current

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accident year combined ratio was 123.6% for the year ended December 31, 2011. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph above for an explanation of this increase.

Income (loss) from underwriting

The factors described above resulted in a loss from underwriting for our Reinsurance Operations of $35.8 million in 2011, compared to income from underwriting of $6.7 million in 2010, a decrease of $42.5 million.

Unallocated Corporate Items

The following items are not allocated to our Insurance Operations or Reinsurance Operations segments:

			Increase / (Decrease)	
(Dollars in thousands)	**2011**	**2010**	**$**	**%**
Net investment income	$ 53,112	$ 56,623	$ (3,511)	(6.2%)
Net realized investment gains	21,473	26,437	(4,964)	(18.8%)
Corporate and other operating expenses	(13,528)	(21,127)	(7,599)	(36.0%)
Interest expense	(6,476)	(7,020)	(544)	(7.7%)
Income tax expense	(2,093)	(8,892)	(6,799)	(76.5%)
Equity in net income (loss) of partnership, net of tax	53	(22)	75	N/M

N/M Not meaningful

Net Investment Income

Net investment income, which is gross investment income less investment expenses, was $53.1 million for 2011, compared with $56.6 million for 2010, a decrease of $3.5 million or 6.2%.

Gross investment income was $57.8 million for 2011, compared with $62.6 million for 2010, a decrease of $4.8 million or 7.6%. The decrease was primarily due to lower yields on fixed maturities when compared to the corresponding period in 2010 as well as a reduction in cash and invested assets. Cash and invested assets, including net receivable for securities sold, decreased to $1,649.2 million as of December 31, 2011 from $1,712.4 million as of December 31, 2010, a decrease of $63.2 million or 3.7%. This decrease was primarily due to the funding of the share repurchase program (see Note 13), debt repayments, and negative operating cash flow.

Investment expenses were $4.7 million for 2011, compared with $6.0 million for 2010, a decrease of $1.3 million or 21.0%. The decrease is primarily due to trust fee reductions in the current period.

The average duration of our fixed maturities portfolio was 1.8 years as of December 31, 2011, compared with 2.2 years as of December 31, 2010. Including cash and short-term investments, the average duration of our fixed maturities portfolio as of December 31, 2011 was 1.6 years compared with 2.1 years as of December 31, 2010. Changes in interest rates can cause principal payments on certain investments to extend or shorten which can impact duration. At December 31, 2011, our book yield on our fixed maturities, not including cash, was 3.58% compared with 3.92% at December 31, 2010. As of December 31, 2011, our investment portfolio held $152.5 million in tax-exempt municipals with a book yield of 3.69% and $53.7 million in taxable municipals with a book yield of 3.31%.

Net Realized Investment Gains

Net realized investment gains were $21.5 million for 2011, compared with $26.4 million for 2010. The net realized investment gains for 2011 consist primarily of net gains of $14.2 million relative to our fixed maturities and $14.7 million relative to our equity securities, offset by mutual fund losses of $0.8 million and other than

temporary impairment losses of $6.6 million. The net realized investment gains for 2010 consist primarily of net gains of $17.4 million relative to our fixed maturities and $9.5 million relative to our equity portfolio, offset by other than temporary impairment losses of $0.5 million.

See Note 6 of the notes to the consolidated financial statements in Item 8 of Part II of this report for an analysis of total investment return on an after-tax basis for the years ended December 31, 2011 and 2010.

Corporate and Other Operating Expenses

Corporate and other operating expenses consist of outside legal fees, other professional fees, development costs, directors fees, management fees, salaries and benefits for holding company personnel, and taxes incurred which are not directly related to operations. Corporate and other operating expenses were $13.5 million for 2011, compared with $21.1 million for 2010, a decrease of $7.6 million or 36.0%. The decrease is primarily due to cost savings resulting from our previously disclosed Profit Enhancement Initiative and a decrease in share-based compensation related to the forfeiture of unvested restricted shares and options, offset partially by an increase in outside legal fees.

Interest Expense

Interest expense was $6.5 million and $7.0 million for 2011 and 2010, respectively. This reduction was primarily due to a principal payment of $18.0 million on our senior notes payable made during July, 2011. See Note 12 of the notes to the consolidated financial statements in Item 8 of Part II of this report for details on our debt.

Income Tax Expense

Income tax expense was $2.1 million for 2011, compared with $8.9 million for 2010. See Note 10 of the notes to the consolidated financial statements in Item 8 of Part II of this report for an analysis of income tax expense between periods.

Equity in Net Earnings (Loss) of Partnerships

Equity in net earnings of partnerships, net of tax was $0.05 million for 2011, compared with equity in net loss of partnerships, net of tax of $0.02 million for 2010, an increase of $0.07 million.

Net Income (Loss)

The factors described above resulted in a net loss of $39.6 million in 2011, compared with net income of $84.9 million in 2010, a decrease of $124.5 million.

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Year Ended December 31, 2010 Compared with the Year Ended December 31, 2009

Insurance Operations

The components of income (loss) from underwriting and underwriting ratios of our Insurance Operations segment are as follows:

(Dollars in thousands)	2010	2009	Increase / (Decrease) $	%
Gross premiums written	$ 245,481	$ 267,992	$ (22,511)	(8.4)%
Net premiums written	$ 196,065	$ 218,264	$ (22,199)	(10.2)%
Net premiums earned	$ 194,167	$ 250,409	$ (56,242)	(22.5)%
Other income	653		653	100.0%
Total revenues	$ 194,820	$ 250,409	$ (55,589)	(22.2)%
Losses and expenses:				
Net losses and loss adjustment expenses	71,175	146,197	(75,022)	(51.3)%
Acquisition costs and other underwriting expenses **(1)**	91,451	106,297	(14,846)	(14.0)%
Income (loss) from underwriting	$ 32,194	$ (2,085)	$ 34,279	1,644.1%
Underwriting Ratios:				
Loss ratio:				
Current accident year	65.9	62.0	3.9	
Prior accident year	(29.3)	(3.6)	(25.7)	
Calendar year	36.6	58.4	(21.8)	
Expense ratio:				
Current accident year	45.7	42.1	3.6	
Prior accident year	1.4	0.3	1.1	
Calendar year	47.1	42.4	4.7	
Combined ratio	83.7	100.8	(17.1)	

(2) Includes excise tax of $1,021 and $1,342 related to cessions from our U.S. Insurance Companies to Wind River Reinsurance for 2010 and 2009, respectively.

Premiums

Gross premiums written, which represents the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions, was $245.5 million for 2010, compared with $268.0 million for 2009, a decrease of $22.5 million or 8.4%. The decrease was primarily due to declines in the Penn-America book of business and price decreases in the aggregate of 3.0%, offset partially by growth in our brokerage operations.

Net premiums written, which equals gross premiums written less ceded premiums written, was $196.1 million for 2010, compared with $218.3 million for 2009, a decrease of $22.2 million or 10.2%. The decrease was primarily due to the reduction of gross premiums written noted above, higher reinsurance costs, and a minimum premium charge of $1.5 million related to the curtailment of our workers compensation initiative. In 2011, we increased retention on our property per risk reinsurance agreement from $1 million to $2 million as well as cancelled our Penn-America property quota share treaty. Please see Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report for more information on our treaty renewals.

The ratio of net premiums written to gross premiums written was 79.9% for 2010 and 81.4% for 2009, a decline of 1.5 points, which was primarily due to increased reinsurance costs and the minimum premium charge noted above. Without the impact of the premium charge, the ratio of net premiums written to gross premiums written was 80.5% in 2010.

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Net premiums earned were $194.2 million for 2010, compared with $250.4 million for 2009, a decrease of $56.2 million or 22.5%. The decrease was primarily due to the reductions in net premiums written in recent years. Property net premiums earned for 2010 and 2009 were $75.2 million and $103.5 million, respectively. Casualty net premiums earned for 2010 and 2009 were $119.0 million and $146.9 million, respectively.

Net Losses and Loss Adjustment Expenses

The loss ratio for our Insurance Operations was 36.6% for 2010 compared with 58.4% for 2009. The loss ratio is a non-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 loss ratio improved 25.7 points resulting from a decrease of net losses and loss adjustment expenses for prior accident years of $56.8 million in 2010 compared to a decrease of net losses and loss adjustment expenses for prior accident years of $9.1 million in 2009. When analyzing loss reserves and prior year development, we consider many factors, including the frequency and severity of claims, loss credit trends, case reserve settlements that may have resulted in significant development, and any other additional or pertinent factors that may impact reserve estimates.

In 2010, we reduced our prior accident year loss reserves by $56.6 million and reduced our allowance for uncollectible reinsurance by $0.2 million. The reduction of our prior accident year loss reserves primarily consisted of a $43.7 million reduction in our general liability lines, a $5.4 million reduction in our umbrella lines, a $4.9 million reduction in our professional liability lines, and a $2.0 million reduction in our property lines:

General Liability: The reduction in the general liability lines primarily consisted of reductions of $45.4 million related to accident years 2002 through 2009 due to lower than anticipated frequency and severity. Incurred losses for these years have developed at a rate lower than the Company s historical averages. This reduction was partially offset by net increases of $1.8 million related to accident years 2001 and prior where the Company increased the loss and loss adjustment expense estimates related to construction defect claims.

Umbrella: The $5.4 million reduction in the umbrella lines related to all accident years 2009 and prior due to less than anticipated severity. As these accident years have matured, more weight has been given to experience based methods which continue to develop favorably compared to our initial indications.

Professional Liability: The reduction in the professional liability lines primarily consisted of reductions of $9.9 million related to accident years 2001 through 2008 driven by lower than expected paid and incurred activity during the quarter. This reduction was partially offset by increases of $5.0 million related to accident year 2009 where the Company experienced higher than expected claim frequency and severity.

Property: The reduction in the property lines primarily consisted of reductions of $2.9 million related to accident years 2002 and 2004 through 2008 driven by lower than anticipated severity, partially offset by increases of $0.9 million primarily related to accident year 2009 where the Company experienced higher than expected claim frequency and severity.

The reduction in our allowance for uncollectible reinsurance is primarily due to the decrease in the amount of our carried reinsurance receivables.

In 2009, we reduced our prior accident year loss reserves by $8.4 million and reduced our allowance for uncollectible reinsurance by $0.7 million. The reduction of our prior accident year loss reserves primarily consisted of a $5.5 million reduction in our property lines, a $2.9 million reduction in our general liability lines, and a $4.7 million reduction in our umbrella lines, offset by a $4.7 million increase in our professional liability lines:

Property: The reduction in the property lines primarily consisted of reductions related to accident year 2006 through 2008 due to better than expected loss emergence in Diamond State brokerage.

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General Liability: The reduction in the general liability lines primarily consisted of net reductions of $13.5 million related to accident years 2006 and prior due to loss emergence that had been consistently lower than expected during those years, partially offset by increases of $10.6 million related to accident years 2007 and 2008 that were driven by a large claim and an increase in our construction defect provisions.

Umbrella: The reduction in the umbrella lines primarily consisted of net reductions of $5.1 million related to accident years 2007 and prior that were driven by loss emergence throughout the year that was consistently better than expected, partially offset by increases of $0.4 million related to accident year 2008.

Professional Liability: The increase to the professional liability lines primarily consisted of increases of $10.1 million related to accident years 2007 and 2008 due to an increase in severity, partially offset by net reductions of $5.4 million primarily related to accident years 2006 and prior.

The reduction in our allowance for uncollectible reinsurance is primarily due to the decrease in the amount of our carried reinsurance receivables.

The current accident year loss ratio increased 3.9 points in 2010 due to increases in both the property and casualty loss ratios:

The current accident year property loss ratio increased 5.9 points from 55.3% in 2009 to 61.2% in 2010, which consisted of a 6.1 point increase in the non-catastrophe loss ratio from 51.4% in 2009 to 57.5% in 2010, offset by a 0.1 point decrease in the catastrophe loss ratio from 3.9% in 2009 to 3.8% in 2010. There was very little significant catastrophe activity during 2010 and 2009. Catastrophe losses were $2.8 million and $4.0 million in 2010 and 2009, respectively. The property loss ratio was impacted by rate decreases of approximately 3.4% as well as higher reinsurance costs in 2010 when compared to 2009. Property net premiums earned for 2010 and 2009 were $75.2 million and $103.5 million, respectively.

The current accident year casualty loss ratio increased 2.1 points from 66.8% in 2009 to 68.9% in 2010 primarily due to rate decreases of approximately 2.7% and higher reinsurance costs in 2010. Casualty net premiums earned for 2010 and 2009 were $119.0 million and $146.9 million, respectively.

Net losses and loss adjustment expenses were $71.2 million for 2010, compared with $146.2 million for 2009, a decrease of $75.0 million or 51.3%. Excluding the $56.8 million reduction of net losses and loss adjustment expenses for prior accident years in 2010 and the $9.1 million reduction of net losses and loss adjustment expenses for prior accident years in 2009, the current accident year net losses and loss adjustment expenses were $128.0 million and $155.3 million for 2010 and 2009, respectively. This decrease is primarily attributable to a decrease in net premiums earned.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were $91.5 million for 2010, compared with $106.3 million for 2009, a decrease of $14.8 million or 14.0%. The decrease is due to a $12.6 million decrease in acquisition costs and a $2.2 million decrease in other underwriting expenses. We incurred $2.8 million in acquisition costs related to prior accident years in 2010, compared with $0.8 million related to prior accident years in 2009, an increase of $2.0 million.

The decrease in acquisition costs is primarily due to a decrease in commissions resulting from a decrease in net premiums earned. The increase in acquisition costs related to prior accident years is primarily due to an increase in contingent commissions related to the prior accident year loss reserve releases noted above.

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The decrease in other underwriting expenses is primarily due to decreases in compensation related expenses and decreases in legal fees, partially offset by one-time charges of $3.9 million related to the Profit Enhancement Initiative. See Note 4 of the notes to the consolidated financial statements in Item 8 of Part II of this report for a discussion on the Profit Enhancement Initiative.

Expense and Combined Ratios

The expense ratio for our Insurance Operations was 47.1% for 2010, compared with 42.4% for 2009. The current accident year expense ratio was 45.7% for 2010, compared with 42.1% for 2009. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The increase in the expense ratio is primarily due to the decrease in net premiums earned noted above, as well as one-time charges related to the Profit Enhancement Initiative of 1.5% or $3.9 million.

The combined ratio for our Insurance Operations was 83.7% for 2010, compared with 100.8% for 2009. The combined ratio is a non-GAAP financial measure and is the sum of our loss and expense ratios. Excluding the impact of prior accident year adjustments, the combined ratio increased from 104.2% in 2009 to 111.6% in 2010. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph above for an explanation of this increase.

Income (loss) from underwriting

The factors described above resulted in income from underwriting for our Insurance Operations of $32.2 million for 2010, compared with a loss from underwriting of $2.1 million for 2009, an increase of $34.3 million.

Reinsurance Operations

The components of income from underwriting and underwriting ratios of our Reinsurance Operations segment are as follows:

			Increase / (Decrease)	
(Dollars in thousands)	**2010**	**2009**	**$**	**%**
Gross premiums written	$ 100,282	$ 73,007	$ 27,275	37.4%
Net premiums written	$ 100,439	$ 72,731	$ 27,708	38.1%
Net premiums earned	$ 92,607	$ 51,265	$ 41,342	80.6%
Losses and expenses:				
Net losses and loss adjustment expenses	59,184	23,185	35,999	155.3%
Acquisition costs and other underwriting expenses	26,713	13,632	13,081	96.0%
Income from underwriting	$ 6,710	$ 14,448	$ (7,738)	(53.6)%
Underwriting Ratios:				
Loss ratio:				
Current accident year	61.0	45.2	15.8	
Prior accident year	2.9		2.9	
Calendar year loss ratio	63.9	45.2	18.7	
Expense ratio:				
Current accident year	27.2	26.6	0.6	
Prior accident year	1.6		1.6	
Calendar year	28.8	26.6	2.2	
Combined ratio	92.7	71.8	20.9	

Premiums

Gross premiums written, which represents the amount received or to be received for reinsurance agreements written without reduction for reinsurance costs or other deductions, was $100.3 million for 2010, compared with $73.0 million for 2009, an increase of $27.3 million or 37.4%. The increase was primarily due to several new reinsurance treaties that were written during 2010.

Net premiums written, which equals gross premiums written less ceded premiums written, was $100.4 million for 2010, compared with $72.7 million for 2009, an increase of $27.7 million or 38.1%. The increase was primarily due to the increase in gross premiums written as described above.

The ratio of net premiums written to gross premiums written was 100.2% for 2010 and 99.6% for 2009.

Net premiums earned were $92.6 million for 2010, compared with $51.3 million for 2009, an increase of $41.3 million or 80.6%. The increase was primarily due to new reinsurance treaties that commenced during 2009 and 2010. Property net premiums earned for 2010 and 2009 were $35.3 million and $23.5 million, respectively. Casualty net premiums earned for 2010 and 2009 were $57.3 million and $27.8 million, respectively.

Net Losses and Loss Adjustment Expenses

The loss ratio for our Reinsurance Operations was 63.9% for 2010 compared with 45.2% for 2009. The loss ratio is a non-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 impact of changes to prior accident years is an increase of 2.9 points resulting from an increase of net losses and loss adjustment expenses for prior accident years of $2.7 million in 2010 and an increase of net losses and loss adjustment expenses for prior accident years of $0.03 million in 2009. When analyzing loss reserves and prior year development, we consider many factors, including the frequency and severity of claims, loss credit trends, case reserve settlements that may have resulted in significant development, and any other additional or pertinent factors that may impact reserve estimates.

In 2010, we increased our prior accident year loss reserves by $2.7 million. The increase in our prior accident year loss reserves primarily consisted of a $2.6 million increase in our automobile liability lines, a $0.5 million increase in our workers compensation lines, offset partially by a decrease of $0.5 million in our property lines:

Automobile Liability: The increase in the automobile liability lines was primarily due to increases of $2.5 million related to higher frequency within accident year 2009 from a non-standard auto treaty.

Workers Compensation: The increase in our workers compensation lines is related to an accident year 2009 structured excess of loss treaty where we increased our loss estimates based on industry workers compensation results.

Property: The reduction in the property lines primarily consisted of reductions of $0.7 million related to accident year 2009, partially offset by increases of $0.2 million related to accident year 2008. These changes are due to continuing emergence of loss trends on our catastrophe treaty.

In 2009, we increased our prior accident year loss reserves by $0.03 million, which primarily consisted of increases in our general liability lines. The increase to the general liability lines was related to accident years 2007 and 2008.

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In 2010, the current accident year loss ratio increased 15.8 points from 45.2% in 2009 to 61.0% in 2010. The casualty lines loss ratio was 75.1% in 2010 compared to 77.1% in 2009. The property lines loss ratio was 38.2% in 2010 compared to 7.5% in 2009. We experienced abnormally low levels of catastrophe losses in 2009. In 2010, we experienced catastrophe losses from New Zealand earthquakes, Perth hail storms, Australian floods and other smaller events.

Net losses and loss adjustment expenses were $59.2 million for 2010, compared with $23.2 million for 2009, an increase of $36.0 million or 155.3%. Excluding the $2.7 million increase of net losses and loss adjustment expenses for prior accident years in 2010 and the $0.03 million increase of net losses and loss adjustment expenses for prior accident years in 2009, the current accident year net losses and loss adjustment expenses were $56.5 million and $23.2 million for 2010 and 2009, respectively. This increase is primarily attributable to an increase in net premiums earned and the factors that caused an increased current accident year loss ratio, as described above.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were $26.7 million for 2010, compared with $13.6 million for 2009, an increase of $13.1 million or 96.0%. We incurred $1.5 million in acquisition costs related to prior accident years in 2010, while we did not make any adjustments to prior accident year acquisition costs in 2009. The entire increase in acquisition costs and other underwriting expenses is due to increases in commissions resulting from the increase in net premiums earned. The increase in acquisition costs related to prior accident years is primarily due to timing of contingent commission expenses incurred.

Expense and Combined Ratios

The expense ratio for our Reinsurance Operations was 28.8% for 2010, compared with 26.6% for 2009. The current accident year expense ratio was 27.2% for 2010, compared with 26.6% for 2009. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The increase in the expense ratio is primarily due to changes in our mix of business.

The combined ratio for our Reinsurance Operations was 92.7% for 2010, compared with 71.8% for 2009. The combined ratio is a non-GAAP financial measure and is the sum of our loss and expense ratios. Excluding the impact of prior accident year adjustments, the combined ratio increased from 71.8% in 2009 to 88.2% in 2010. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph above for an explanation of this increase.

Income from underwriting

The factors described above resulted in income from underwriting for our Reinsurance Operations of $6.7 million in 2010, compared to $14.4 million in 2009, a decrease of $7.7 million.

Unallocated Corporate Items

The following items are not allocated to our Insurance Operations or Reinsurance Operations segments:

(Dollars in thousands)	2010	2009	Increase /(Decrease) $	%
Net investment income	$ 56,623	$ 70,214	$ (13,591)	(19.4%)
Net realized investment gains	26,437	15,862	10,575	66.7%
Corporate and other operating expenses	(21,127)	(16,752)	4,375	26.1%
Interest expense	(7,020)	(7,216)	(196)	(2.7%)
Income tax expense	(8,892)	(4,310)	4,582	106.3%
Equity in net income (loss) of partnership, net of tax	(22)	5,276	(5,298)	(100.4%)

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Net Investment Income

Net investment income, which is gross investment income less investment expenses, was $56.6 million for 2010, compared with $70.2 million for 2009, a decrease of $13.6 million or 19.4%.

Gross investment income was $62.6 million for 2010, compared with $74.9 million for 2009, a decrease of $12.3 million or 16.4%. There was no investment income generated by our limited partnership investments in 2010, but $8.6 million generated from these investments in 2009. Excluding distributions from our limited partnership investments, gross investment income for 2010 decreased $3.6 million or 5.5% compared to 2009. The remaining decrease was primarily due to continuing declines in our yield as interest rates declined throughout 2010. We reduced the average duration of our investment portfolio in 2010 in order to maintain a defensive posture in the current low interest rate environment. We continue to increase our investments in equity securities and corporate loans, which generally have a higher yield than traditional fixed income securities to offset the increased credit risk.

Cash and invested assets, net of payable for securities purchased, increased to $1,712.4 million as of December 31, 2010 from $1,694.1 million as of December 31, 2009, an increase of $18.3 million or 1.1%. This increase was primarily due to timing of purchases and sales of securities.

Investment expenses were $6.0 million for 2010, compared with $4.7 million for 2009, an increase of $1.3 million or 28.2%. The increase was primarily due to additional fees related to our investments in corporate loans.

The average duration of our fixed maturities portfolio was 2.2 years as of December 31, 2010, compared with 2.8 years as of December 31, 2009. Including cash and short-term investments, the average duration of our fixed maturities portfolio as of December 31, 2010 and 2009 was 2.1 years. Changes in interest rates can cause principal payments on certain investments to extend or shorten which can impact duration. At December 31, 2010, our book yield on our fixed maturities, not including cash, was 3.92% compared with 4.34% at December 31, 2009. As of December 31, 2010, our investment portfolio held $180.9 million in tax-exempt municipals with a book yield of 3.68% and $64.1 million in taxable municipals with a book yield of 2.99%.

Net Realized Investment Gains

Net realized investment gains were $26.4 million for 2010, compared with $15.9 million for 2009. The net realized investment gains for 2010 consist primarily of net gains of $17.4 million relative to our fixed maturities and $9.5 relative to our equity securities, offset by other than temporary impairment losses of $0.5 million. The net realized investment gains for 2009 consist primarily of net gains of $5.4 million relative to market value changes in our convertible portfolio and net gains of $16.1 million relative to our fixed maturities and equity portfolios, offset by other than temporary impairment losses of $5.6 million.

See Note 6 of the notes to the consolidated financial statements in Item 8 of Part II of this report for an analysis of total investment return on an after-tax basis for the years ended December 31, 2010 and 2009.

Corporate and Other Operating Expenses

Corporate and other operating expenses consist of outside legal fees, other professional fees, development costs, directors fees, management fees, salaries and benefits for holding company personnel, and taxes incurred which are not directly related to operations. Corporate and other operating expenses were $21.1 million for 2010, compared with $16.8 million for 2009, an increase of $4.4 million or 26.1%. This increase was primarily due to one-time charges related to the Profit Enhancement Initiative and infrastructure costs related to IT upgrades, offset by decreases in professional service fees.

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Interest Expense

Interest expense was $7.0 million and $7.2 million for 2010 and 2009, respectively. The reduction was due to decreases in LIBOR rates during 2010, which is the basis for interest paid on the trust preferred debt. See Note 12 of the notes to the consolidated financial statements in Item 8 of Part II of this report for details on our debt.

Income Tax Expense

Income tax expense was $8.9 million for 2010, compared with $4.3 million for 2009. See Note 10 of the notes to the consolidated financial statements in Item 8 of Part II of this report for an analysis of income tax expense between periods.

Equity in Net Earnings (Loss) of Partnerships

Equity in net loss of partnerships, net of tax was $0.02 million for 2010, compared with equity in net earnings of partnerships, net of tax of $5.3 million for 2009, a decrease of $5.3 million. The income in 2009 was due to the performances of limited partnership investments which invest mainly in high yield bonds and corporate loans. All but the remaining value of $1.1 million of the partnership interests that generated income in 2009 was redeemed as of December 31, 2009. The Company s remaining interest of $1.1 million was liquidated in February, 2011.

Net Income

The factors described above resulted in net income of $84.9 million in 2010, compared with $75.4 million in 2009, an increase of $9.5 million.

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 insurance subsidiaries, including United National Insurance Company, Diamond State Insurance Company, United National Specialty Insurance Company, United National Casualty Insurance Company, Wind River Reinsurance, Penn-America Insurance Company, Penn-Star Insurance Company, and Penn-Patriot Insurance Company.

The principal source of cash that Global Indemnity needs to meet its short term and long term liquidity needs, including the payment of corporate expenses, includes dividends and other permitted disbursements from its direct and indirect subsidiaries and reimbursement for equity awards granted to employees. 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, 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. Currently, Global Indemnity has no planned capital expenditures that could have a material impact on its short-term or long-term liquidity needs.

In May 2009, we received gross proceeds of $100.1 million from the issuance of 17.2 million and 11.4 million of our Class A and Class B ordinary shares, respectively, in conjunction with the Rights Offering that was announced in March 2009. The net proceeds of $91.8 million were used to support strategic initiatives, enhance liquidity and financial flexibility, and for other general corporate purposes. See Note 13 to the consolidated financial statements in Item 8 of Part II of this report for details concerning the Rights Offering.

The 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 the state laws are based on the statutory financial results of each company within our 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. Key differences relate to among other items, deferred acquisition costs, limitations on deferred income taxes, reserve calculation assumptions and surplus notes.

Under Indiana law, Diamond State Insurance Company and United National Casualty Insurance Company may not pay any dividend or make any distribution of cash or other property, the fair market value of which, together with that of any other dividends or distributions made within the 12 consecutive months ending on the date on which the proposed dividend or distribution is scheduled to be made, exceeds the greater of (1) 10% of its surplus as of the 31st day of December of the last preceding year, or (2) its net income for the 12 month period ending on the 31st day of December of the last preceding year, unless the commissioner approves the proposed payment or fails to disapprove such payment within 30 days after receiving notice of such payment. An additional limitation is that Indiana does not permit a domestic insurer to declare or pay a dividend except out of earned surplus unless otherwise approved by the commissioner before the dividend is paid. See Note 19 of the notes to consolidated financial statements in Item 8 of Part II of this report for the dividends declared and paid by the U.S. Insurance Subsidiaries in 2011.

Under Pennsylvania law, United National Insurance Company, Penn-America Insurance Company, and Penn-Star Insurance Company may not pay any dividend or make any distribution that, together with other dividends or distributions made within the preceding 12 consecutive months, exceeds the greater of (1) 10% of its surplus as shown on its last annual statement on file with the commissioner or (2) its net income for the period covered by such statement, not including pro rata distributions of any class of its own securities, unless the commissioner has received notice from the insurer of the declaration of the dividend and the commissioner approves the proposed payment or fails to disapprove such payment within 30 days after receiving notice of such payment. An additional limitation is that Pennsylvania does not permit a domestic insurer to declare or pay a dividend except out of unassigned funds (surplus) unless otherwise approved by the commissioner before the dividend is paid. Furthermore, no dividend or other distribution may be declared or paid by a Pennsylvania insurance company that would reduce its total capital and surplus to an amount that is less than the amount required by the Insurance Department for the kind or kinds of business that it is authorized to transact.

Under Virginia law, Penn-Patriot Insurance Company may not pay any dividend or make any distribution of cash or other property, the fair market value of which, together with that of any other dividends or distributions made within the preceding 12 consecutive months exceeds the lesser of either (1) 10% of its surplus as of the 31st day of December of the last preceding year, or (2) its net income, not including net realized capital gains, for the 12 month period ending on the 31st day of December of the last preceding year, not including pro rata distributions of any class of its securities, unless the commissioner approves the proposed payment or fails to disapprove such payment within 30 days after receiving notice of such payment. In determining whether the dividend must be approved, undistributed net income from the second and third preceding years, not including net realized capital gains, may be carried forward.

Under Wisconsin law, United National Specialty Insurance Company may not pay any dividend or make any distribution of cash or other property, other than a proportional distribution of its stock, the fair market value of which, together with that of other dividends paid or credited and distributions made within the preceding 12 months, exceeds the lesser of (1) 10% of its surplus as of the preceding 31st day of December, or (2) the greater of (a) its net income for the calendar year preceding the date of the dividend or distribution, minus realized capital gains for that calendar year or (b) the aggregate of its net income for the three calendar years preceding the date of the dividend or distribution, minus realized capital gains for those calendar years and minus dividends paid or credited and distributions made within the first two of the preceding three calendar years, unless it reports the extraordinary dividend to the commissioner at least 30 days before payment and the commissioner does not

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disapprove the extraordinary dividend within that period. Additionally, under Wisconsin law, all authorizations of distributions to shareholders, other than stock dividends, shall be reported to the commissioner in writing and no payment may be made until at least 30 days after such report.

See Note 19 of the notes to consolidated financial statements in Item 8 of Part II of this report for the dividends declared and paid by the U.S. Insurance Companies in 2011 and the maximum amount of distributions that they could pay as dividends in 2012.

Wind River Reinsurance is prohibited, without the approval of the 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. Based upon the total statutory capital plus the statutory surplus as set out in its 2011 statutory financial statements that will be filed in 2012, we believe Wind River Reinsurance could pay a dividend of up to $192.6 million without requesting BMA approval.

Surplus Levels

Our U.S. Insurance Companies are required by law to maintain a certain minimum level of policyholders surplus on a statutory basis. Policyholders surplus is calculated by subtracting total liabilities from total assets. The NAIC adopted risk-based capital standards that are designed to identify property and casualty insurers that may be inadequately capitalized based on the inherent risks of each insurer s assets and liabilities and mix of net premiums written. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action. Based on the standards currently adopted, the policyholders surplus of each of our U.S. Insurance Companies is in excess of the prescribed minimum company action level risk-based capital requirements.

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.

Our reconciliation of net income to cash provided from operations is generally influenced by the following:

- the fact that we collect premiums, net of commission, in advance of losses paid;
- the timing of our settlements with our reinsurers; and
- the timing of our loss payments.

Net cash was used for operating activities in 2011, 2010, and 2009 was $7.7 million, $1.0 million and $52.6 million, respectively.

In 2011, the decrease in operating cash flows of approximately $6.7 million from the prior year was primarily a net result of the following items:

	2011	2010	Change
Net premiums collected	$ 284,297	$ 300,175	$ (15,878)
Net losses paid	(225,192)	(214,850)	(10,342)
Acquisition costs and other underwriting expenses	(116,975)	(139,906)	22,931
Net investment income	61,058	61,765	(707)
Net federal income taxes recovered (paid)	(4,895)	(1,832)	(3,063)
Interest paid	(6,900)	(6,961)	61
Other	869	583	286
Net cash used for operating activities	$ (7,738)	$ (1,026)	$ (6,712)

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In 2010, the increase in operating cash flows of approximately $51.6 million from the prior year was primarily a net result of the following items:

	2010	2009	Change
Net premiums collected	$ 300,175	$ 270,512	$ 29,663
Net losses paid	(214,850)	(282,144)**(1)**	67,294
Acquisition costs and other underwriting expenses	(139,906)	(128,725)	(11,181)
Net investment income	61,765	76,791	(15,026)
Net federal income taxes recovered (paid)	(1,832)	18,311	(20,143)
Interest paid	(6,961)	(7,292)	331
Other	583	(96)	679
Net cash used for operating activities	$ (1,026)	$ (52,643)	$ 51,617

(1) Includes an out-of-period adjustment of $(18.6) million. See Note 4 in Item 8 of Part II of this report for details concerning this adjustment.
See the consolidated statement of cash flows in the financial statements in Item 8 of Part II of this report for details concerning our investing and financing activities.

Liquidity

Currently, we believe each company in our Insurance Operations and Reinsurance Operations maintains sufficient liquidity to pay claims through cash generated by operations and investments in liquid investments. Our holding companies also maintain sufficient liquidity to meet their obligations. At December 31, 2011, Global Indemnity had cash and cash equivalents of $175.9 million.

Stop Loss Agreement, Quota Share Arrangements and Intercompany Pooling Arrangement

The U.S. Insurance Companies and Wind River Reinsurance participate in a stop loss agreement that provides protection to the U.S. Insurance Companies in a loss corridor from 70% to 90%.

The U.S. Insurance Companies participate in quota share reinsurance agreements with Wind River Reinsurance. The U.S. Insurance Companies have agreed to cede 50% of their net unearned premiums as of December 31, 2006, plus 50% of the net retained insurance liability of all new and renewal business bound on or after January 1, 2007 to Wind River Reinsurance. Wind River Reinsurance is an unauthorized reinsurer. As a result, any losses and unearned premium that are ceded to Wind River Reinsurance by the U.S. Insurance Companies must be collateralized. To satisfy this requirement, Wind River Reinsurance has set up custodial trust accounts on behalf of the U.S. Insurance Companies.

Wind River Reinsurance has established independent reinsurance trust accounts for the benefit of each of the U.S. Insurance Companies. Wind River also has established trust accounts to collateralize exposure it has to third party ceding companies. We invest the funds in securities that have durations that closely match the expected duration of the liabilities assumed. We believe that Wind River Reinsurance will have sufficient liquidity to pay claims prospectively.

The U.S. Insurance Companies participate in an intercompany pooling arrangement whereby premiums, losses, and expenses are shared pro rata amongst the U.S. Insurance Companies. United National Insurance Company is not an authorized reinsurer in all states. As a result, any losses and unearned premiums that are ceded to United National Insurance Company are collateralized. The state insurance departments that regulate the parties to the intercompany pooling agreements require United National Insurance Company to place assets on deposit subject to trust agreements for the protection of the other members of the U.S. Insurance Companies.

All trusts that we are required to maintain as a result of the above mentioned pooling agreements and quota share arrangements are adequately funded.

In 2012, we expect that, in the aggregate, our Insurance Operations and Reinsurance Operations will have sufficient liquidity to pay claims. We monitor our portfolios to assure liability and investment durations are closely matched.

Prospectively, as fixed income investments mature and new cash is obtained, the cash available to invest will be invested in accordance with our investment policy. Our investment policy allows us to invest in taxable and tax-exempt fixed income investments as well as publicly traded and private equity investments. With respect to bonds, our credit exposure limit for each issuer varies with the issuer s credit quality. The allocation between taxable and tax-exempt bonds is determined based on market conditions and tax considerations. During 2011, we decreased the average duration on our investment portfolio in order to defensively position ourselves during the current low interest rate environment.

We have access to various capital sources including dividends from insurance subsidiaries, invested assets in our Non-U.S. Subsidiaries, and access to the debt and equity capital markets. We believe we have sufficient liquidity to meet our capital needs. See Note 19 of the notes to the consolidated financial statements in Item 8 of Part II of this report for a discussion of our dividend capacity.

Capital Resources

In July 2005, we sold $90.0 million of guaranteed senior notes, due July 20, 2015. These senior notes have an interest rate of 6.22%, payable semi-annually. In accordance with the agreement, on July 20, 2011, we prepaid $18.0 million of the principal amount of the guaranteed senior notes. As of December 31, 2011, we owe $72.0 million under these agreements. On July 20, 2012 and on each anniversary thereafter to and including July 20, 2014, we are required to prepay $18.0 million of the principal amount. On July 20, 2015, we are required to pay any remaining outstanding principal amount on the notes. We are dependent on dividends received from our Insurance Operations to fund this debt service. The notes are guaranteed by Global Indemnity (Cayman) Ltd. In the event that debt service obligations were not satisfied, Global Indemnity Group would be precluded from paying dividends to U.A.I. (Luxembourg) Investment S.à.r.l., its parent company.

On January 18, 2006, U.A.I. (Luxembourg) Investment S.à.r.l. loaned $6.0 million to United America Indemnity, Ltd. The loan has been used to pay operating expenses that arise in the normal course of business. The loan is a demand loan and bears interest at 4.38%. At December 31, 2011, there was $1.6 million of accrued interest on the loan. United America Indemnity, Ltd. is dependent on its subsidiaries to pay its dividends and operating expenses.

On November 12, 2007, Wind River Reinsurance issued a $50.0 million demand line of credit to United America Indemnity, Ltd. which bears interest at 5.25%. The proceeds of the line were used to fund the purchases of our Class A ordinary shares as part of two $50.0 million share buyback programs that were initiated in November 2007 and February 2008, respectively. On February 13, 2008, the demand line of credit was amended. The interest rate was decreased to 3.75% per annum, and the loan amount was increased to $100.0 million. In June 2008, Wind River Reinsurance declared and paid a dividend of $50.0 million to United America Indemnity, Ltd. United America Indemnity, Ltd. used proceeds from the dividend to repay a portion of the line of credit. In February, 2010 the line of credit was converted to a non-interest bearing note payable for the full amount of principle and accrued interest to date. As of December 31, 2011, there was $53.0 million outstanding on the note payable.

U.A.I. (Luxembourg) Investment S.à.r.l. holds promissory notes of $175.0 million and $110.0 million from Global Indemnity Group which have interest rates of 6.64% and 6.20%, respectively, and mature in 2018 and 2020, respectively. Interest on these notes is paid annually. Global Indemnity Group has no income producing operations. The ability of Global Indemnity Group to generate cash to repay the notes is dependent on dividends that it receives from its subsidiaries.

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In November, 2011, U.A.I. (Luxembourg) Investment S.à.r.l. issued a $100.0 million demand line of credit to Global Indemnity (Cayman) Ltd. which bears interest at 1.2%. The proceeds of the line are being loaned from Global Indemnity (Cayman) Ltd. to Global Indemnity plc, bearing interest at 1.2%, to fund purchases of our Class A ordinary shares as part of our $100.0 million share repurchase program announced in September, 2011. As of December 31, 2011, there was $39.1 million outstanding on the line of credit, with accrued interest of $0.03 million.

AIS owes $30.9 million to affiliated parties in junior subordinated debentures which are due in 2033. Interest is payable quarterly. See Note 12 of the notes to consolidated financial statements in Item 8 of Part II of this report for the terms of these notes. In the event that debt service obligations were not satisfied, AIS would be precluded from paying dividends to Global Indemnity Group, its parent company.

Our business trust subsidiaries have issued floating rate capital and floating rate common securities (Trust Preferred Securities). A summary of the terms related to these securities is as follows:

Issuer	Amount	Maturity	Interest Rate	Call Provisions
AIS through its wholly owned subsidiary United National Group Capital Trust I (UNG Trust I)	$10.0 million issued September 30, 2003	September 30, 2033	Payable quarterly at the three month London Interbank Offered Rate (LIBOR) plus 4.05%	At par after September 30, 2008
AIS through its wholly owned subsidiary United National Group Capital Statutory Trust II (UNG Trust II)	$20.0 million issued October 29, 2003	October 29, 2033	Payable quarterly at the three month LIBOR plus 3.85%	At par after October 29, 2008

We have the ability to call these floating rate capital and floating rate common securities on a quarterly basis anytime between now and maturity.

The proceeds from the above offerings were used to purchase junior subordinated interest notes and to support business growth in the insurance subsidiaries and general business needs.

Distributions on the above securities can be deferred up to five years, but in the event of such deferral, we may not declare or pay cash dividends on the common stock of the applicable subsidiary.

Our wholly owned business trust subsidiaries, UNG Trust I and UNG Trust II, are not consolidated pursuant to applicable accounting guidance. Our business trust subsidiaries have issued $30.0 million in floating rate capital securities and $0.9 million of floating rate common securities. The sole assets of the business trust subsidiaries are $30.9 million of our junior subordinated debentures, which have the same terms with respect to maturity, payments, and distributions as the floating rate capital securities and the floating rate common securities.

We are party to a management agreement with Fox Paine & Company, LLC, whereby in connection with certain management services provided to us by Fox Paine & Company, LLC, Global Indemnity (Cayman), Ltd. agreed to pay an annual management fee of $1.5 million to Fox Paine & Company, LLC.

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Contractual Obligations

We have commitments in the form of operating leases, a revolving line of credit, senior notes payable, junior subordinated debentures and unpaid losses and loss expense obligations. As of December 31, 2011, contractual obligations related to Global Indemnity s commitments, including any principal and interest payments, were as follows:

		Payment Due by Period			
(Dollars in thousands)	Total	1 Year 1/1/12 12/31/12	2 to 3 Years 1/1/13 12/31/14	4 to 5 Years 1/1/15 12/31/16	6 Years and Later
Operating leases **(1)**	$ 7,530	$ 3,058	$ 3,803	$ 346	$ 323
Commitments to fund limited partnerships	2,520	2,520			
Senior notes **(2)**	83,196	22,478	41,598	19,120	
Junior subordinated debentures **(3)**	61,258	1,384	2,768	2,768	54,338
Term Loans	71	71			
Unpaid losses and loss adjustment expenses obligations **(4)**	971,377	242,920	288,555	149,882	290,020
Total	$ 1,125,952	$ 272,431	$ 336,724	$ 172,116	$ 344,681

(1) We lease office space and equipment as part of our normal operations. The amounts shown above represent future commitments under such operating leases, net of expected sub-lease income from abandoned space. As part of our Profit Enhancement Initiative, we incurred charges in 2011 and 2010 resulting from future minimum lease commitments related to unused space. Cash payment on leases related to unused space will be paid in future periods and are included in this table.

(2) On July 20, 2005, we sold $90.0 million of guaranteed senior notes, due July 20, 2015. These notes have an interest rate of 6.22%, payable semi-annually. In accordance with the agreement, on July 20, 2011, we prepaid $18.0 million of the principle amount of the guaranteed senior notes. On July 20, 2012 and on each anniversary thereafter to and including July 20, 2014, we are required to prepay $18.0 million of the principal amount. On July 20, 2015, we are required to pay any remaining outstanding principal amount on the notes. The notes are guaranteed by Global Indemnity (Cayman), Ltd. Proceeds from the notes were used to prepay $72.8 million in principal together with related interest due as of July 20, 2005 under senior notes issued by Wind River to the Ball family trusts in September 2003.

(3) See discussion in Capital Resources.

(4) These amounts represent the gross future amounts needed to pay losses and related loss adjustment expenses and do not reflect amounts that are expected to be recovered from our reinsurers. See discussion in Liability for Unpaid Losses and Loss Adjustment Expenses for more details.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements other than the Trust Preferred Securities and floating rate common securities discussed in the Capital Resources section of Liquidity and Capital Resources.

Inflation

Property and casualty insurance premiums are established before we know the amount of losses and loss adjustment expenses or the extent to which inflation may affect such amounts. We attempt to anticipate the potential impact of inflation in establishing our reserves.

Future increases in inflation could result in future increases in interest rates, which in turn are likely to result in a decline in the market value of the investment portfolio and resulting in unrealized losses and reductions in shareholders equity.

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Cautionary Note Regarding Forward-Looking Statements

Some of the statements under Business, Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report may include forward-looking statements that reflect our 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 the negative thereof or com terminology, and include discussions of strategy, financial projections and estimates and their underlying assumptions, statements regarding plans, objectives, expectations or consequences of identified transactions, and statements about the future performance, operations, products and services of the companies, including statements regarding projected annual savings and costs resulting from the Profit Enhancement Initiative.

Our 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 our 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 our underwriting, reserving or investment practices have anticipated; (4) decreased level of demand for our 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 our insurance subsidiaries; (7) uncertainties arising from the cyclical nature of our business; (8) changes in our relationships with, and the capacity of, our general agents, brokers, insurance companies and reinsurance companies from which we derive our business; (9) the risk that our reinsurers may not be able to fulfill obligations; (10) investment performance and credit risk; (11) risks associated with our completed re-domestication to Ireland, which may include encountering difficulties moving jurisdictions and opening new offices and functions, tax and financial expectations and advantages not materializing or changing, our stock price could decline, and Irish corporate governance and regulatory schemes could prove different or more challenging than currently expected; (12) new tax legislation or interpretations that could lead to an increase in our tax burden; (13) uncertainties relating to governmental and regulatory policies, both domestically and internationally; (14) foreign currency fluctuations; (15) impact of catastrophic events; (16) estimates of the projected annual savings and costs for the Profit Enhancement Initiative, which we made based on information available at the time the charges were recorded; (17) our subsidiaries ability to pay dividends; (18) risks and uncertainties relating to our share repurchase program; and (19) 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 this Annual Report on Form 10-K. Our forward-looking statements speak only as of the date of this report or as of the date they were made. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in interest rates, equity prices, credit risk, illiquidity, foreign exchange rates and commodity prices. Our consolidated balance sheet includes the estimated fair values of assets that are subject to market risk. Our primary market risks are interest rate risk and credit risks associated with investments in fixed maturities, equity price risk associated with investments in equity securities, and foreign exchange risk associated with premium received that is denominated in foreign currencies. Each of these risks is discussed in more detail below. We have no commodity risk.

Interest Rate Risk

Our primary market risk exposure is to changes in interest rates. Our fixed income investments are exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, the market value of our fixed income investments fall, and the converse is also true. We seek to manage interest rate risk through an active portfolio management strategy that involves the selection, by our managers, of investments with appropriate characteristics, such as duration, yield, currency, and liquidity that are tailored to the anticipated cash outflow characteristics of our liabilities. Our strategy for managing interest rate risk also includes maintaining a high quality bond portfolio with a relatively short duration to reduce the effect of interest rate changes on book value. A significant portion of our investment portfolio matures each year, allowing for reinvestment at current market rates.

As of December 31, 2011, assuming identical shifts in interest rates for securities of all maturities, the table below illustrates the sensitivity of market value in Global Indemnity s bonds to selected hypothetical changes in basis point increases and decreases:

(Dollars in thousands)		Change in Market Value	
Basis Point Change	**Market Value**	**$**	**%**
(200)	$ 1,312,707	$ 15,822	1.2%
(100)	1,309,984	13,099	1.0%
No change	1,296,885		0.0%
100	1,271,207	(25,678)	(2.0%)
200	1,245,139	(51,746)	(4.0%)

Credit Risk

We have exposure to credit risk primarily as a holder of fixed income investments as well as corporate loans. With the exception of corporate loans, our investment policy requires that we invest in debt instruments of high credit quality issuers and limits the amount of credit exposure to any one issuer based upon the rating of the security.

Our corporate loan portfolio is subject to default risk since these investments are typically below investment grade. To mitigate this risk, our investment managers perform an in-depth structural analysis. As part of this analysis, they focus on the strength of any security granted to the lenders, the position of the loan in the company s capital structure and the appropriate covenant protection. In addition, as part of our risk control, our investment managers maintain appropriate portfolio diversification by limiting issuer and industry exposure.

As of December 31, 2011, we had approximately $2.3 million worth of investment exposure to subprime and Alt-A investments. As of December 31, 2011, approximately $0.3 million of those investments have been rated BBB- to A by Standard & Poor s and $2.0 million were rated below investment grade. As of December 31, 2010, the Company had approximately $3.0 million worth of investment exposure to subprime and Alt-A investments. Of that amount, approximately $0.2 million have been rated AAA by Standard & Poor s, $0.2 million were rated BBB- to AA, and $2.6 million were rated below investment grade. There were no impairments on these investments during the year ended December 31, 2011. Impairments on these investments were $0.04 million during the year ended December 31, 2010.

In addition, we have credit risk exposure to our general agencies and reinsurers. We seek to mitigate and control our risks to producers by typically requiring our general agencies to render payments within no more than 45 days after the month in which a policy is effective and including provisions within our general agency contracts that allow us to terminate a general agency s authority in the event of non-payment.

With respect to our credit exposure to reinsurers, we seek to mitigate and control our risk by ceding business to only those reinsurers having adequate financial strength and sufficient capital to fund their obligation. In addition, we seek to mitigate credit risk to reinsurers through the use of trusts and letters of credit for collateral.

Equity Price Risk

In 2011, the strategy for our equity portfolio followed a large cap value approach. This investment style will place primary emphasis on selecting the best relative values from those issues having a projected normalized price-earnings ratio at a discount to the market multiple.

We compare the results of our equity portfolio to a customized benchmark. Effective July, 2011, the custom benchmark is the S&P 500 Value excluding financials. Prior to July, 2011, the custom benchmark was the S&P 500/Citigroup excluding P&C Insurers, Multi-line insurers and Investment Banks/Brokers Index. To protect against equity price risk, the sector exposures within our equity portfolio closely correlate to the sector exposures within the custom benchmark index. In 2011, our common stock portfolio had a return of (0.9) %, not including investment advisor fees, compared to the benchmark return of 4.2%.

The carrying values of investments subject to equity price risk are based on quoted market prices as of the balance sheet dates. Market prices are subject to fluctuation and thus the amount realized in the subsequent sale of an investment may differ from the reported market value. Fluctuation in the market price of an equity security results from perceived changes in the underlying economic makeup of a stock, the price of alternative investments and overall market conditions.

We attempt to mitigate our unsystematic risk, which is the risk that is associated with holding a particular security, by holding a large number of securities in that market. At year end, no security represented more than 5.2% of the market value of the equity portfolio. We continue to have systematic risk, which is the risk inherent in the general market due to broad macroeconomic factors that affect all companies in the market.

As of December 31, 2011, the table below summarizes our equity price risk and reflects the effect of a hypothetical 10% and 20% increase or decrease in market prices. The selected hypothetical changes do not indicate what could be the potential best or worst scenarios.

Hypothetical Price Change	(Dollars in thousands) Estimated Fair Value after Hypothetical Change in Prices	Hypothetical Percentage Increase (Decrease) in Shareholders Equity (1)
(20%)	$ 134,689	(2.6%)
(10%)	151,525	(1.3%)
No change	168,361	
10%	185,197	1.3%
20%	202,033	2.6%

(1) Net of 35% tax

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Foreign Currency Exchange Risk

We have foreign currency exchange risk associated with a portion of the business written at Wind River Reinsurance, as well as a small portion of expenses related to corporate overhead in our Ireland office. We also maintain investments in foreign denominated securities and cash accounts in foreign currencies in order to pay expenses in foreign countries. At period-end, we re-measure those non-U.S. currency financial assets to their current U.S. dollar equivalent. Financial liabilities, if any, are generally adjusted within the reserving process. However, for known losses on claims to be paid in foreign currencies, we re-measure the liabilities to their current U.S. dollar equivalent each period end.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

GLOBAL INDEMNITY PLC

Index to Financial Statements

Index to Financial Statement Schedules

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Shareholders of Global Indemnity plc:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Global Indemnity plc and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

March 14, 2012

GLOBAL INDEMNITY PLC

Consolidated Balance Sheets

(In thousands, except share amounts)

	December 31, 2011	December 31, 2010
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,258,533 and $1,393,655)	$ 1,296,885	$ 1,444,392
Equity securities:		
Available for sale, at fair value (cost: $155,390 and $121,604)	168,361	147,526
Other invested assets:		
Available for sale, at fair value (cost: $4,150 and $4,255)	6,617	4,268
Securities classified as trading, at fair value (cost: $0 and $1,112)		1,112
Total investments	1,471,863	1,597,298
Cash and cash equivalents	175,860	119,888
Premiums receivable, net	47,844	56,657
Reinsurance receivables	287,986	422,844
Federal income taxes receivable	2,223	
Deferred federal income taxes	13,242	6,926
Deferred acquisition costs	25,565	35,344
Intangible assets	18,704	19,082
Goodwill	4,820	4,820
Prepaid reinsurance premiums	6,555	11,104
Receivable for securities sold	1,484	
Other assets	19,371	20,720
Total assets	$ 2,075,517	$ 2,294,683
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 971,377	$ 1,052,743
Unearned premiums	114,041	135,872
Ceded balances payable	8,887	12,376
Contingent commissions	7,473	9,260
Payable for securities purchased		4,768
Federal income taxes payable		55
Notes and debentures payable	103,000	121,285
Other liabilities	29,075	29,655
Total liabilities	1,233,853	1,366,014
Commitments and contingencies (Note 15)		
Shareholders equity:		
Ordinary shares, $0.0001 par value, 900,000,000 ordinary shares authorized; Class A ordinary shares issued: 21,429,683 and 21,340,821, respectively; Class A ordinary shares outstanding: 16,810,678 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	621,917	622,725
Accumulated other comprehensive income, net of taxes	40,174	57,211
Retained earnings	310,014	349,642

Class A ordinary shares in treasury, at cost: 4,619,005 and 3,040,277 shares, respectively	(130,444)	(100,912)
Total shareholders equity	841,664	928,669
Total liabilities and shareholders equity	$ 2,075,517	$ 2,294,683

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Operations

(In thousands, except shares and per share data)

	Years Ended December 31, 2011	2010	2009
Revenues:			
Gross premiums written	$ 307,903	$ 345,763	$ 340,999
Net premiums written	$ 280,570	$ 296,504	$ 290,995
Net premiums earned	$ 297,854	$ 286,774	$ 301,674
Net investment income	53,112	56,623	70,214
Net realized investment gains:			
Other than temporary impairment losses on investments	(6,628)	(511)	(5,689)
Other than temporary impairment losses on investments recognized in other comprehensive income		43	115
Other net realized investment gains	28,101	26,905	21,436
Total net realized investment gains	21,473	26,437	15,862
Other income	12,136	653	
Total revenues	384,575	370,487	387,750
Losses and Expenses:			
Net losses and loss adjustment expenses	278,684	130,359	169,382
Acquisition costs and other underwriting expenses	123,475	118,164	119,929
Corporate and other operating expenses	13,528	21,127	16,752
Interest expense	6,476	7,020	7,216
Income (loss) before income taxes	(37,588)	93,817	74,471
Income tax expense	2,093	8,892	4,310
Income (loss) before equity in net income (loss) of partnerships	(39,681)	84,925	70,161
Equity in net income (loss) of partnerships, net of taxes	53	(22)	5,276
Net income (loss)	$ (39,628)	$ 84,903	$ 75,437
Per share data (1) (2) (3) :			
Net income (loss)			
Basic	$ (1.31)	$ 2.81	$ 2.92
Diluted	$ (1.31)	$ 2.80	$ 2.91
Weighted-average number of shares outstanding			
Basic	30,246,095	30,237,787	25,856,049
Diluted	30,246,095	30,274,259	25,881,382

(1) In computing the basic and diluted weighted share counts the number of shares outstanding prior to May 5, 2009 (the date that the ordinary stock was issued in conjunction with the Stockholders Rights Offering) was adjusted by a factor of 1.114 to reflect the impact of a bonus element associated with the Stockholders Rights Offering in accordance with GAAP.

(2) Shares outstanding and per share amounts for 2009 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.

(3) For the year ended December 31, 2011, diluted loss per share is the same as basic loss per share since there was a net loss for each period.

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Comprehensive Income

(In thousands)

	Years Ended December 31,		
	2011	**2010**	**2009**
Net income (loss)	$ (39,628)	$ 84,903	$ 75,437
Other comprehensive income (loss), net of taxes:			
Unrealized holding gains (losses) arising during the period	(2,195)	28,085	40,532
Portion of other than temporary impairment losses recognized in other comprehensive income (loss), net of taxes	(31)	88	150
Recognition of previously unrealized holding gains	(14,811)	(19,400)	(11,129)
Unrealized foreign currency translation gains (losses)		(43)	140
Other comprehensive income (loss), net of tax	(17,037)	8,730	29,693
Comprehensive income (loss), net of tax	$ (56,665)	$ 93,633	$ 105,130

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)

	Years Ended December 31,		
	2011	**2010**	**2009**
Number of Class A ordinary shares issued:			
Number at beginning of period	21,340,821	21,243,345	12,516,309
Ordinary shares issued under share incentive plan	47,682	20,828	36,064
Ordinary shares issued to Directors	41,180	76,648	101,762
Ordinary shares issued under Rights Offering			8,589,210
Number at end of period	21,429,683	21,340,821	21,243,345
Number of Class B ordinary shares issued:			
Number at beginning of period	12,061,370	12,061,370	6,343,750
Ordinary shares issued under Rights Offering			5,717,620
Number at end of period	12,061,370	12,061,370	12,061,370