Global Indemnity plc
Form 10-Q
November 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2016

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	**(I.R.S. Employer**
of incorporation or organization)	**Identification No.)**

25/28 NORTH WALL QUAY

DUBLIN 1

IRELAND

(Address of principal executive office, including zip code)

353 (0) 49 4891407

(Registrant s telephone number, including area code)

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

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

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

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

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

As of October 28, 2016, the registrant had outstanding 13,429,780 A Ordinary Shares and 4,133,366 B Ordinary Shares.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL INDEMNITY PLC

Consolidated Balance Sheets

(In thousands, except share amounts)

	(Unaudited) September 30, 2016	December 31, 2015
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,297,465 and $1,308,333)	$ 1,310,957	$ 1,306,149
Equity securities:		
Available for sale, at fair value (cost: $102,899 and $100,157)	122,779	110,315
Other invested assets	32,635	32,592
Total investments	1,466,371	1,449,056
Cash and cash equivalents	63,779	67,037
Premiums receivable, net	86,469	89,245
Reinsurance receivables, net	108,452	115,594
Funds held by ceding insurers	19,356	16,037
Federal income taxes receivable	4,656	4,828
Deferred federal income taxes	39,337	34,687
Deferred acquisition costs	55,141	56,517
Intangible assets	23,211	23,607
Goodwill	6,521	6,521
Prepaid reinsurance premiums	38,401	44,363
Receivable for securities sold		172
Other assets	70,121	49,630
Total assets	$ 1,981,815	$ 1,957,294
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 664,382	$ 680,047
Unearned premiums	278,561	286,285
Ceded balances payable	11,718	4,589
Payable for securities purchased	1,921	
Contingent commissions	9,392	11,069
Debt	173,162	172,034
Other liabilities	60,236	53,344

Total liabilities		1,199,372	$	1,207,368
Commitments and contingencies (Note 9)				
Shareholders equity:				
Ordinary shares, $0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 16,568,674 and 16,424,546, respectively; A ordinary shares outstanding: 13,429,780 and 13,313,751, respectively; B ordinary shares issued and outstanding: 4,133,366 and 4,133,366, respectively		3		3
Additional paid-in capital		532,498		529,872
Accumulated other comprehensive income, net of taxes		23,279		4,078
Retained earnings		329,911		318,416
A ordinary shares in treasury, at cost: 3,138,894 and 3,110,795 shares, respectively		(103,248)		(102,443)
Total shareholders equity		782,443		749,926
Total liabilities and shareholders equity	$	1,981,815	$	1,957,294

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)

	(Unaudited) Quarters Ended September 30, 2016	(Unaudited) Quarters Ended September 30, 2015	(Unaudited) Nine Months Ended September 30, 2016	(Unaudited) Nine Months Ended September 30, 2015
Revenues:				
Gross premiums written	$ 133,569	$ 150,148	$ 429,254	$ 459,532
Net premiums written	$ 115,051	$ 122,497	$ 357,233	$ 394,606
Net premiums earned	$ 119,553	$ 124,707	$ 358,993	$ 380,921
Net investment income	8,795	8,852	25,103	26,234
Net realized investment gains (losses):				
Other than temporary impairment losses on investments	(2,214)	(4,641)	(4,481)	(6,879)
Other net realized investment gains (losses)	4,142	(6,137)	(4,576)	(337)
Total net realized investment gains (losses)	1,928	(10,778)	(9,057)	(7,216)
Other income	7,852	1,279	9,603	2,408
Total revenues	138,128	124,060	384,642	402,347
Losses and Expenses:				
Net losses and loss adjustment expenses	72,162	77,691	215,057	226,870
Acquisition costs and other underwriting expenses	48,129	50,934	148,761	150,118
Corporate and other operating expenses	5,006	3,567	13,064	19,441
Interest expense	2,233	1,595	6,677	2,635
Income (loss) before income taxes	10,598	(9,727)	1,083	3,283
Income tax expense (benefit)	1,063	(5,981)	(10,412)	(10,882)
Net income (loss)	$ 9,535	$ (3,746)	$ 11,495	$ 14,165
Per share data:				
Net income (loss) **(1)**				
Basic	$ 0.55	$ (0.15)	$ 0.67	$ 0.56
Diluted	$ 0.54	$ (0.15)	$ 0.66	$ 0.55

Weighted-average number of shares outstanding				
Basic	17,254,843	25,463,994	17,241,040	25,452,991
Diluted	17,540,060	25,463,994	17,515,854	25,684,931

(1) For the quarter ended September 30, 2015, diluted loss per share is the same as basic loss per share due to a net loss for the period.

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Comprehensive Income

(In thousands)

	(Unaudited) Quarters Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	$ 9,535	$ (3,746)	$ 11,495	$ 14,165
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses)	2,076	(9,078)	22,081	(9,808)
Portion of other-than-temporary impairment losses recognized in other comprehensive income (loss)	(3)	(1)	(4)	(1)
Reclassification adjustment for (gains) losses included in net income (loss)	(781)	2,199	(2,474)	(517)
Unrealized foreign currency translation gains (losses)	(89)	23	(402)	187
Other comprehensive income (loss), net of tax	1,203	(6,857)	19,201	(10,139)
Comprehensive income (loss), net of tax	$ 10,738	$ (10,603)	$ 30,696	$ 4,026

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Changes in Shareholders Equity

(In thousands, except share amounts)

	(Unaudited) Nine Months Ended September 30, 2016		Year Ended December 31, 2015	
Number of A ordinary shares issued:				
Number at beginning of period		16,424,546		16,331,577
Ordinary shares issued under share incentive plans		115,712		121,812
Ordinary shares issued to directors		28,416		36,321
B ordinary shares converted to A ordinary shares				7,928,004
Ordinary shares redeemed				(8,260,870)
Ordinary shares issued in connection with American Reliable acquisition				267,702
Number at end of period		16,568,674		16,424,546
Number of B ordinary shares issued:				
Number at beginning and end of period		4,133,366		12,061,370
B Ordinary shares converted to A ordinary shares				(7,928,004)
Number at end of period		4,133,366		4,133,366
Par value of A ordinary shares:				
Balance at beginning and end of period	$	2	$	2
Par value of B ordinary shares:				
Balance at beginning and end of period	$	1	$	1
Additional paid-in capital:				
Balance at beginning of period	$	529,872	$	519,590
Share compensation plans		2,499		10,272
Tax benefit on share-based compensation expense		127		10
Balance at end of period	$	532,498	$	529,872
Accumulated other comprehensive income, net of deferred income tax:				
Balance at beginning of period	$	4,078	$	23,384
Other comprehensive income (loss):				

Change in unrealized holding gains (losses)		19,607		(19,436)
Change in other than temporary impairment losses recognized in other comprehensive income		(4)		(10)
Unrealized foreign currency translation gains (losses)		(402)		140
Other comprehensive income (loss)		19,201		(19,306)
Balance at end of period	$	23,279	$	4,078
Retained earnings:				
Balance at beginning of period	$	318,416	$	466,717
Ordinary shares redeemed				(189,770)
Net income		11,495		41,469
Balance at end of period	$	329,911	$	318,416
Number of treasury shares:				
Number at beginning of period		3,110,795		3,064,815
A ordinary shares purchased		28,099		11,895
Elimination of shares indirectly owned by subsidiary				34,085
Number at end of period		3,138,894		3,110,795
Treasury shares, at cost:				
Balance at beginning of period	$	(102,443)	$	(101,404)
A ordinary shares purchased, at cost		(805)		(333)
Elimination of shares indirectly owned by subsidiary				(706)
Balance at end of period	$	(103,248)	$	(102,443)
Total shareholders equity	$	782,443	$	749,926

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited) Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$ 11,495	$ 14,165
Adjustments to reconcile net income to net cash used for operating activities:		
Amortization of the value of business acquired		22,823
Amortization and depreciation	4,757	3,761
Amortization of debt issuance costs	92	16
Restricted stock and stock option expense	2,499	9,671
Deferred federal income taxes	(10,847)	(8,984)
Amortization of bond premium and discount, net	7,398	10,557
Net realized investment losses	9,057	7,216
Gain on disposition of subsidiary	(6,872)	
Equity in the earnings of equity method limited liability investments	(3,749)	(1,448)
Changes in:		
Premiums receivable, net	2,776	18,971
Reinsurance receivables, net	7,142	5,373
Funds held by ceding insurers	(3,319)	661
Unpaid losses and loss adjustment expenses	(15,665)	(35,452)
Unearned premiums	(7,724)	4,608
Ceded balances payable	7,129	(11,909)
Other assets and liabilities, net	(19,348)	(13,199)
Contingent commissions	(1,677)	(2,909)
Federal income tax receivable/payable	172	(2,048)
Deferred acquisition costs, net	1,376	(32,160)
Prepaid reinsurance premiums	5,962	9,081
Net cash used for operating activities	(9,346)	(1,206)
Cash flows from investing activities:		
Cash release from escrow for business acquisition		113,696
Acquisition of business, net of cash acquired		(92,336)
Proceeds from sale of fixed maturities	279,659	290,580
Proceeds from sale of equity securities	34,976	34,161
Proceeds from sale of preferred stock		1,540
Proceeds from maturity of fixed maturities	61,437	146,870
Proceeds from limited partnership distribution	6,350	4,287

Proceeds from disposition of subsidiary, net of cash and cash equivalents disposed of $1,269	16,937	
Amounts paid in connection with derivatives	(11,527)	(7,072)
Purchases of fixed maturities	(344,514)	(485,153)
Purchases of equity securities	(34,945)	(32,434)
Purchases of other invested assets	(2,643)	(2,250)
Net cash provided by (used for) investing activities	5,730	(28,111)
Cash flows from financing activities:		
Net borrowings under margin borrowing facilities	1,050	21,114
Proceeds from issuance of subordinated notes		100,000
Debt issuance cost	(14)	(3,659)
Tax benefit on share-based compensation expense	127	58
Purchase of A ordinary shares	(805)	(333)
Net cash provided by financing activities	358	117,180
Net change in cash and cash equivalents	(3,258)	87,863
Cash and cash equivalents at beginning of period	67,037	58,823
Cash and cash equivalents at end of period	$ 63,779	$ 146,686

See accompanying notes to consolidated financial statements.

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1. Principles of Consolidation and Basis of Presentation

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

The Company manages its business through three business segments: Commercial Lines, Personal Lines, and Reinsurance Operations. The Company s Commercial Lines, managed in Bala Cynwyd, Pennsylvania, offers specialty property and casualty insurance products in the excess and surplus lines marketplace. The Company manages its Commercial Lines by differentiating them into three product classifications: Penn-America, which markets property and general liability products to small commercial businesses through a select network of wholesale general agents with specific binding authority; United National, which markets insurance products for targeted insured segments, including specialty products, such as property, general liability, and professional lines through program administrators with specific binding authority; and Diamond State, which markets property, casualty, and professional lines products, which are developed by the Company s underwriting department by individuals with expertise in those lines of business, through wholesale brokers and also markets through program administrators having specific binding authority. These product classifications comprise the Company s Commercial Lines business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage. The Company s Personal Lines segment, via the American Reliable Insurance Company (American Reliable) product classification, offers specialty personal lines and agricultural coverage through general and specialty agents with specific binding authority on an admitted basis and is managed in Scottsdale, Arizona. Collectively, the Company s U.S. insurance subsidiaries are licensed in all 50 states and the District of Columbia. The Company s Reinsurance Operations consist solely of the operations of its Bermuda-based wholly-owned subsidiary, Global Indemnity Reinsurance Company, Ltd. (Global Indemnity Reinsurance). Global Indemnity Reinsurance is a treaty reinsurer of specialty property and casualty insurance and reinsurance companies. The Company s Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies. The Commercial Lines and Personal Lines segments comprise the Company s U.S. Insurance Operations (Insurance Operations). See Note 12 for additional information regarding segments.

On September 30, 2016, Diamond State Insurance Company sold all the outstanding shares of capital stock of one of its wholly owned subsidiaries, United National Specialty Insurance Company, to an unrelated party. Diamond State Insurance Company received a one-time payment of $18.7 million and recognized a pretax gain of $6.9 million which is reflected in other income (loss). This transaction will not have an impact on the Company s ongoing business operations. Going forward, any business previously written by United National Specialty Insurance Company has been and will be written by other companies within the Company s U.S. Insurance Operations.

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

The unaudited consolidated financial statements include all adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair statement of results for the interim periods. Results of operations for the quarters and nine months ended September 30, 2016 and 2015 are not necessarily indicative of the results of a full year. The accompanying notes to the unaudited consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company s 2015 Annual Report on Form 10-K.

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

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2. Investments

The amortized cost and estimated fair value of investments were as follows as of September 30, 2016 and December 31, 2015:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of September 30, 2016					
Fixed maturities:					
U.S. treasury and agency obligations	$ 79,290	$ 1,549	$	$ 80,839	$
Obligations of states and political subdivisions	167,430	3,315	(49)	170,696	
Mortgage-backed securities	104,222	2,765	(38)	106,949	
Asset-backed securities	250,766	1,731	(297)	252,200	(6)
Commercial mortgage-backed securities	175,469	372	(1,188)	174,653	
Corporate bonds and debt	391,277	5,073	(695)	395,655	
Foreign corporate bonds	129,011	982	(28)	129,965	
Total fixed maturities	1,297,465	15,787	(2,295)	1,310,957	(6)
Common stock	102,899	22,225	(2,345)	122,779	
Other invested assets	32,635			32,635	
Total	$ 1,432,999	$ 38,012	$ (4,640)	$ 1,466,371	$ (6)

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of December 31, 2015					

Fixed maturities:					
U.S. treasury and agency obligations	$ 106,303	$ 1,140	$ (321)	$ 107,122	$
Obligations of states and political subdivisions	203,121	2,576	(457)	205,240	
Mortgage-backed securities	157,753	2,113	(743)	159,123	
Asset-backed securities	261,008	435	(1,421)	260,022	(9)
Commercial mortgage-backed securities	142,742		(2,352)	140,390	
Corporate bonds	334,720	685	(3,294)	332,111	
Foreign corporate bonds	102,686	194	(739)	102,141	
Total fixed maturities	1,308,333	7,143	(9,327)	1,306,149	(9)
Common stock	100,157	16,118	(5,960)	110,315	
Other invested assets	32,592			32,592	
Total	$ 1,441,082	$ 23,261	$ (15,287)	$ 1,449,056	$ (9)

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

Excluding U.S. treasuries and agency bonds, the Company did not hold any debt or equity investments in a single issuer that was in excess of 4% and 5% of shareholders equity at September 30, 2016 and December 31, 2015, respectively.

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The amortized cost and estimated fair value of the Company s fixed maturities portfolio classified as available for sale at September 30, 2016, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 81,811	$ 82,130
Due after one year through five years	633,977	642,829
Due after five years through ten years	47,779	48,727
Due after ten years through fifteen years		
Due after fifteen years	3,441	3,469
Mortgage-backed securities	104,222	106,949
Asset-backed securities	250,766	252,200
Commercial mortgage-backed securities	175,469	174,653
Total	$ 1,297,465	$ 1,310,957

The following table contains an analysis of the Company s securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of September 30, 2016:

	Less than 12 months		12 months or longer (1)		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
Obligations of states and political subdivisions	$ 17,372	$ (44)	$ 677	$ (5)	$ 18,049	$ (49)
Mortgage-backed securities	3,123	(27)	309	(11)	3,432	(38)
Asset-backed securities	52,109	(185)	19,260	(112)	71,369	(297)
Commercial mortgage-backed securities	82,291	(571)	57,970	(617)	140,261	(1,188)
Corporate bonds and debt	43,156	(626)	6,507	(69)	49,663	(695)
Foreign corporate bonds	19,869	(28)			19,869	(28)
Total fixed maturities	218,520	(1,481)	84,723	(814)	303,243	(2,295)
Common stock	24,387	(2,079)	2,027	(266)	26,414	(2,345)
Total	$ 242,907	$ (3,560)	$ 86,750	$ (1,080)	$ 329,657	$ (4,640)

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

The following table contains an analysis of the Company s securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of December 31, 2015:

(Dollars in thousands)	**Less than 12 months Fair Value**	**Less than 12 months Gross Unrealized Losses**	**12 months or longer (1) Fair Value**	**12 months or longer (1) Gross Unrealized Losses**	**Total Fair Value**	**Total Gross Unrealized Losses**
Fixed maturities:						
U.S. treasury and agency obligations	$ 79,496	$ (321)	$	$	$ 79,496	$ (321)
Obligations of states and political subdivisions	49,708	(373)	7,732	(84)	57,440	(457)
Mortgage-backed securities	63,759	(743)			63,759	(743)
Asset-backed securities	203,381	(1,404)	4,843	(17)	208,224	(1,421)
Commercial mortgage-backed securities	118,813	(2,005)	21,577	(347)	140,390	(2,352)
Corporate bonds	211,364	(3,269)	2,120	(25)	213,484	(3,294)
Foreign corporate bonds	63,860	(697)	5,129	(42)	68,989	(739)
Total fixed maturities	790,381	(8,812)	41,401	(515)	831,782	(9,327)
Common stock	36,798	(5,960)			36,798	(5,960)
Total	$ 827,179	$ (14,772)	$ 41,401	$ (515)	$ 868,580	$ (15,287)

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

The Company regularly performs various analytical valuation procedures with respect to its investments, including reviewing

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

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

(1) the issuer is in financial distress;

(2) the investment is secured;

(3) a significant credit rating action occurred;

(4) scheduled interest payments were delayed or missed;

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

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

(7) the investment failed cash flow projection testing to determine if anticipated principal and interest payments will be realized.

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

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

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

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

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

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

Obligations of states and political subdivisions As of September 30, 2016, gross unrealized losses related to obligations of states and political subdivisions were $0.049 million. Of this amount, $0.005 million have been in an unrealized loss position for twelve months or greater and are rated A. All factors that influence performance of the municipal bond market are considered in evaluating these securities. The aforementioned factors include investor expectations, supply and demand patterns, and current versus historical yield and spread relationships. The analysis relies on the output of fixed income credit analysts, as well as dedicated municipal bond analysts who perform extensive in-house fundamental analysis on each issuer, regardless of their rating by the major agencies.

Mortgage-backed securities (MBS) As of September 30, 2016, gross unrealized losses related to mortgage-backed

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securities were $0.038 million. Of this amount, $0.011 million have been in an unrealized loss position for twelve months or greater and are rated investment grade. Mortgage-backed securities are modeled to project principal losses under downside, base, and upside scenarios for the economy and home prices. The primary assumption that drives the security and loan level modeling is the Home Price Index (HPI) projection. The model first projects HPI at the national level, then at the zip-code level based on the historical relationship between the individual zip code HPI and the national HPI. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and current loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs. The model also includes the explicit treatment of silent second liens, utilization of loan modification history, and the application of roll rate adjustments.

Asset-backed securities (ABS) - As of September 30, 2016, gross unrealized losses related to asset backed securities were $0.297 million. Of this amount, $0.112 million have been in an unrealized loss position for twelve months or greater and are rated AA or better. The weighted average credit enhancement for the Company s asset backed portfolio is 23.3. This represents the percentage of pool losses that can occur before an asset backed security will incur its first dollar of principal losses. Every ABS transaction is analyzed on a stand-alone basis. This analysis involves a thorough review of the collateral, prepayment, and structural risk in each transaction. Additionally, the analysis includes an in-depth credit analysis of the originator and servicer of the collateral. The analysis projects an expected loss for a deal given a set of assumptions specific to the asset type. These assumptions are used to calculate at what level of losses the deal will incur its first dollar of principal loss. The major assumptions used to calculate this ratio are loss severities, recovery lags, and no advances on principal and interest.

Commercial mortgage-backed securities (CMBS) - As of September 30, 2016, gross unrealized losses related to the CMBS portfolio were $1.188 million. Of this amount, $0.617 million have been in an unrealized loss position for twelve months or greater and are rated A+ or better. The weighted average credit enhancement for the Company s CMBS portfolio is 29.4. This represents the percentage of pool losses that can occur before a mortgage-backed security will incur its first dollar of principal loss. For the Company s CMBS portfolio, a loan level analysis is utilized where every underlying CMBS loan is re-underwritten based on a set of assumptions reflecting expectations for the future path of the economy. In the analysis, the focus is centered on stressing the significant variables that influence commercial loan defaults and collateral losses in CMBS deals. These variables include: (1) a projected drop in occupancies; (2) capitalization rates that vary by property type and are forecasted to return to more normalized levels as the capital markets repair and capital begins to flow again; and (3) property value stress testing using projected property performance and projected capitalization rates. Term risk is triggered if the projected debt service coverage rate falls below 1x. Balloon risk is triggered if a property s projected performance does not satisfy new tighter mortgage standards.

Corporate bonds and debt - As of September 30, 2016, gross unrealized losses related to corporate bonds was $0.695 million. Of this amount, $0.069 million have been in an unrealized loss position for twelve months or greater and are rated investment grade. The analysis for this sector includes maintaining detailed financial models that include a projection of each issuer s future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, the issuer s current competitive position, its vulnerability to changes in the competitive and regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

Foreign bonds As of September 30, 2016, gross unrealized losses related to foreign bonds were $0.028 million. All unrealized losses have been in an unrealized loss position for less than twelve months. For this sector, detailed financial models are maintained that include a projection of each issuer s future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, the issuer s current competitive position, its vulnerability to changes in the competitive and regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

Common stock As of September 30, 2016, gross unrealized losses related to common stock were $2.345 million. Of this amount, $0.266 million have been in an unrealized loss position for twelve months or greater. To determine if an other than

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temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

The Company recorded the following other than temporary impairments (OTTI) on its investment portfolio for the quarters and nine months ended September 30, 2016 and 2015:

(Dollars in thousands)	Quarters Ended September 30, 2016	Quarters Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Fixed maturities:				
OTTI losses, gross	$ (108)	$	$ (201)	$ (23)
Portion of loss recognized in other comprehensive income (pre-tax)				
Net impairment losses on fixed maturities recognized in earnings	(108)		(201)	(23)
Equity securities	(2,106)	(4,641)	(4,280)	(6,856)
Total	$ (2,214)	$ (4,641)	$ (4,481)	$ (6,879)

The following table is an analysis of the credit losses recognized in earnings on fixed maturities held by the Company for the quarters and nine months ended September 30, 2016 and 2015 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	Quarters Ended September 30, 2016	Quarters Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Balance at beginning of period	$ 31	$ 31	$ 31	$ 50
Additions where no OTTI was previously recorded				
Additions where an OTTI was previously recorded				
Reductions for securities for which the company intends to sell or more likely than not will be required to sell before recovery				
Reductions reflecting increases in expected cash flows to be collected				
Reductions for securities sold during the period				(19)
Balance at end of period	$ 31	$ 31	$ 31	$ 31

Accumulated Other Comprehensive Income, Net of Tax

Accumulated other comprehensive income, net of tax, as of September 30, 2016 and December 31, 2015 was as follows:

(Dollars in thousands)	**September 30, 2016**	**December 31, 2015**
Net unrealized gains (losses) from:		
Fixed maturities	$ 13,492	$ (2,184)
Common stock	19,880	10,158
Deferred taxes	(10,093)	(3,896)
Accumulated other comprehensive income, net of tax	$ 23,279	$ 4,078

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The following tables present the changes in accumulated other comprehensive income, net of tax, by component for the quarters and nine months ended September 30, 2016 and 2015:

Quarter Ended September 30, 2016 (Dollars in thousands)	**Unrealized Gains and Losses on Available for Sale Securities, Net of Tax**	**Foreign Currency Items, Net of Tax**	**Accumulated Other Comprehensive Income, Net of Tax**
Beginning balance	$ 22,511	$ (435)	$ 22,076
Other comprehensive income (loss) before reclassification	2,073	(89)	1,984
Amounts reclassified from accumulated other comprehensive (loss)	(781)		(781)
Other comprehensive income (loss)	1,292	(89)	1,203
Ending balance	$ 23,803	$ (524)	$ 23,279

Quarter Ended September 30, 2015 (Dollars in thousands)	**Unrealized Gains and Losses on Available for Sale Securities, Net of Tax**	**Foreign Currency Items, Net of Tax**	**Accumulated Other Comprehensive Income, Net of Tax**
Beginning balance	$ 20,201	$ (99)	$ 20,102
Other comprehensive (loss) before reclassification	(9,009)	(47)	(9,056)
Amounts reclassified from accumulated other comprehensive income	2,129	70	2,199
Other comprehensive income (loss)	(6,880)	23	(6,857)
Ending balance	$ 13,321	$ (76)	$ 13,245

Nine Months Ended September 30, 2016	**Unrealized Gains**	**Foreign Currency**	**Accumulated Other**

(Dollars in thousands)	and Losses on Available for Sale Securities, Net of Tax	Items, Net of Tax	Comprehensive Income, Net of Tax
Beginning balance	$ 4,200	$ (122)	$ 4,078
Other comprehensive income (loss) before reclassification	22,075	(400)	21,675
Amounts reclassified from accumulated other comprehensive (loss)	(2,472)	(2)	(2,474)
Other comprehensive income (loss)	19,603	(402)	19,201
Ending balance	$ 23,803	$ (524)	$ 23,279

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Nine Months Ended September 30, 2015 (Dollars in thousands)	Unrealized Gains and Losses on Available for Sale Securities, Net of Tax	Foreign Currency Items, Net of Tax	Accumulated Other Comprehensive Income, Net of Tax
Beginning balance	$ 23,647	$ (263)	$ 23,384
Other comprehensive (loss) before reclassification	(9,413)	(209)	(9,622)
Amounts reclassified from accumulated other comprehensive income (loss)	(913)	396	(517)
Other comprehensive income (loss)	(10,326)	187	(10,139)
Ending balance	$ 13,321	$ (76)	$ 13,245

The reclassifications out of accumulated other comprehensive income for the quarters and nine months ended September 30, 2016 and 2015 were as follows:

(Dollars in thousands) Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	Amounts Reclassified from Accumulated Other Comprehensive Income Quarters Ended September 30, 2016	2015
Unrealized gains and losses on available for sale securities	Other net realized investment (gains)	$ (3,384)	$ (2,042)
	Other than temporary impairment losses on investments	2,214	4,641
	Total before tax	(1,170)	2,599
	Income tax expense (benefit)	389	(470)
	Unrealized gains on available for sale securities, net of tax	$ (781)	$ 2,129
Foreign currency items	Other net realized investment losses	$	$ 108
	Income tax (benefit)		(38)
	Foreign currency items, net of tax	$	$ 70

Total reclassifications	Total reclassifications, net of tax	$	(781)	$	2,199

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(Dollars in thousands) Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	Amounts Reclassified from Accumulated Other Comprehensive Income Nine Months Ended September 30, 2016	2015
Unrealized gains and losses on available for sale securities	Other net realized investment (gains)	$ (8,214)	$ (9,168)
	Other than temporary impairment losses on investments	4,481	6,879
	Total before tax	(3,733)	(2,289)
	Income tax expense	1,261	1,376
	Unrealized gains and losses on available for sale securities, net of tax	$ (2,472)	$ (913)
Foreign currency items	Other net realized investment (gains) losses	$ (4)	$ 609
	Income tax expense (benefit)	2	(213)
	Foreign currency items, net of tax	$ (2)	$ 396
Total reclassifications	Total reclassifications, net of tax	$ (2,474)	$ (517)

Net Realized Investment Gains (Losses)

The components of net realized investment gains (losses) for the quarters and nine months ended September 30, 2016 and 2015 were as follows:

(Dollars in thousands)	Quarters Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Fixed maturities:				
Gross realized gains	$ 434	$ 110	$ 1,252	$ 1,589
Gross realized losses	(147)	(1,451)	(291)	(1,692)
Net realized gains	287	(1,341)	961	(103)

Common stock:				
Gross realized gains	3,345	3,494	8,068	9,418
Gross realized losses	(2,462)	(4,860)	(5,292)	(7,731)
Net realized gains	883	(1,366)	2,776	1,687
Preferred stock:				
Gross realized gains				96
Gross realized losses				
Net realized gains				96
Derivatives:				
Gross realized gains	1,955			
Gross realized losses	(1,197)	(8,071)	(12,794)	(8,896)
Net realized gains (losses)	758	(8,071)	(12,794)	(8,896)
Total net realized investment gains (losses)	$ 1,928	$ (10,778)	$ (9,057)	$ (7,216)

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The proceeds from sales of available-for-sale securities resulting in net realized investment gains for the nine months ended September 30, 2016 and 2015 were as follows:

(Dollars in thousands)	Nine Months Ended September 30, 2016	2015
Fixed maturities	$ 279,659	$ 290,580
Equity securities	$ 34,976	$ 34,161
Preferred stock	$	$ 1,540

Net Investment Income

The sources of net investment income for the quarters and nine months ended September 30, 2016 and 2015 were as follows:

(Dollars in thousands)	Quarters Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Fixed maturities	$ 8,131	$ 8,673	$ 22,729	$ 24,709
Equity securities	698	703	2,647	2,419
Cash and cash equivalents	44	32	111	59
Other invested assets	909	193	3,806	1,535
Total investment income	9,782	9,601	29,293	28,722
Investment expense **(1)**	(987)	(749)	(4,190)	(2,488)
Net investment income	$ 8,795	$ 8,852	$ 25,103	$ 26,234

(1) Investment expense for the nine months ended September 30, 2016 includes $1.5 million in upfront fees necessary to enter into a new investment. See Note 9 for additional information on the Company s $40 million commitment related to this new investment.

The Company s total investment return on a pre-tax basis for the quarters and nine months ended September 30, 2016 and 2015 were as follows:

(Dollars in thousands)	Quarters Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Net investment income	$ 8,795	$ 8,852	$ 25,103	$ 26,234
Net realized investment gains (losses)	1,928	(10,778)	(9,057)	(7,216)

Change in unrealized holding gains and (losses)	2,061	(10,420)	25,398	(15,575)
Net realized and unrealized investment returns	3,989	(21,198)	16,341	(22,791)
Total investment return	$ 12,784	$ (12,346)	$ 41,444	$ 3,443
Total investment return % **(1)**	0.8%	(0.7%)	2.7%	0.2%
Average investment portfolio **(2)**	$ 1,530,599	$ 1,800,993	$ 1,522,247	$ 1,788,777

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

Insurance Enhanced Asset Backed and Credit Securities

As of September 30, 2016, the Company held insurance enhanced asset backed and credit securities with a market value of approximately $33.1 million. Approximately $13.7 million of these securities were tax free municipal bonds, which represented approximately 0.9% of the Company s total cash and invested assets, net of payable/receivable for securities purchased and sold. These securities had an average rating of A+. Approximately $5.4 million of these bonds are pre-refunded with U.S. treasury securities, of which $0.5 million are backed by financial guarantors, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond. Of the remaining $8.3 million of tax free insurance enhanced municipal bonds, $0.5 million would have carried a lower credit rating had they not been insured. The following table provides a breakdown of the ratings for these municipal bonds with and without insurance.

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(Dollars in thousands) Rating	Ratings with Insurance	Ratings without Insurance
AA	$ 509	$
A		509
Total	$ 509	$ 509

A summary of the Company s insurance enhanced municipal bonds that are backed by financial guarantors, including the pre-refunded bonds that are escrowed in U.S. government obligations, as of September 30, 2016, is as follows:

(Dollars in thousands) Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	Exposure Net of Pre-refunded & Government Guaranteed Securities
Ambac Financial Group	$ 1,512	$ 455	$	$ 1,057
Assured Guaranty Corporation	3,500			3,500
Municipal Bond Insurance Association	3,229			3,229
Gov t National Housing Association	498		498	
Total backed by financial guarantors	8,739	455	498	7,786
Other credit enhanced municipal bonds	4,923	4,923		
Total	$ 13,662	$ 5,378	$ 498	$ 7,786

In addition to the tax-free municipal bonds, the Company held $19.4 million of insurance enhanced bonds that are comprised of $18.3 million of taxable municipal bonds and $1.1 million of asset-backed securities, which represented approximately 1.3% of the Company s total invested assets, net of receivable/payable for securities purchased and sold. The financial guarantors of the Company s $19.4 million of insurance enhanced asset-backed and taxable municipal securities include Municipal Bond Insurance Association ($3.8 million), Ambac Financial Group ($0.9 million), Assured Guaranty Corporation ($14.6 million), and Financial Guaranty Insurance Group ($0.1 million).

The Company had no direct investments in the entities that have provided financial guarantees or other credit support to any security held by the Company at September 30, 2016.

Bonds Held on Deposit

Certain cash balances, cash equivalents, equity securities, and bonds available for sale were deposited with various governmental authorities in accordance with statutory requirements, were held as collateral pursuant to borrowing arrangements, or were held in trust pursuant to intercompany reinsurance agreements. The fair values were as follows as of September 30, 2016 and December 31, 2015:

	Estimated Fair Value	
(Dollars in thousands)	**September 30, 2016**	**December 31, 2015**
On deposit with governmental authorities	$ 26,203	$ 38,815
Intercompany trusts held for the benefit of U.S. policyholders	601,052	643,216
Held in trust pursuant to third party requirements	67,924	66,544
Letter of credit held for third party requirements	4,292	5,598
Securities held as collateral for borrowing arrangements (1)	97,638	95,647
Total	$ 797,109	$ 849,820

(1) Amount required to collateralize margin borrowing facilities.

Variable Interest Entities

A Variable Interest Entity (VIE) refers to an investment in which an investor holds a controlling interest that is not based on the majority of voting rights. Under the VIE model, the party that has the power to exercise significant management

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influence and maintain a controlling financial interest in the entity s economics is said to be the primary beneficiary, and is required to consolidate the entity within their results. Other entities that participate in a VIE, for which their financial interests fluctuate with changes in the fair value of the investment entity s net assets but do not have significant management influence and the ability to direct the VIE s significant economic activities are said to have a variable interest in the VIE but do not consolidate the VIE in their financial results.

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

The fair value of one of the Company s variable interest VIE s was $29.1 million and $32.6 million as of September 30, 2016 and December 31, 2015, respectively. The Company s maximum exposure to loss from this variable interest VIE, which factors in future funding commitments, was $51.1 million at September 30, 2016 and $52.6 million at December 31, 2015. The fair value of the remaining three variable interest VIE s, which were acquired in 2016, were $3.6 million at September 30, 2016. The Company is not able to accurately estimate future funding requirements for the remaining three variable interest VIE s due to related debt components of the underlying investments that are not considered variable interest VIE s. If the entire future funding commitments of these three investments were considered variable interest VIE s, the Company s maximum exposure to loss from the remaining VIE s at September 30, 2016 would be $24.6 million. The Company s investment in variable interest VIE s is included in other invested assets on the consolidated balance sheet with changes in fair value recorded in the statement of operations.

3. Derivative Instruments

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

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

The following table summarizes information on the location and the gross amount of the derivatives fair value on the consolidated balance sheets as of September 30, 2016 and December 31, 2015:

(Dollars in thousands)		September 30, 2016		December 31, 2015	
Derivatives Not Designated as Hedging Instruments under ASC 815	Balance Sheet Location	Notional Amount	Fair Value	Notional Amount	Fair Value

Interest rate swap agreements	Other liabilities	$ 200,000	$ (24,388)	$ 200,000	$ (15,256)

The following table summarizes the net gains (losses) included in the consolidated statement of operations for changes in the fair value of the derivatives and the periodic net interest settlements under the derivatives for the quarters and nine months ended September 30, 2016 and 2015:

		Quarters Ended September 30,		**Nine Months Ended September 30,**	
(Dollars in thousands)	**Statement of Operations Line**	**2016**	**2015**	**2016**	**2015**
Interest rate swap agreements	Net realized investment gains (losses)	$ 758	$ (8,071)	$ (12,794)	$ (8,896)

As of September 30, 2016 and December 31, 2015, the Company is due $4.4 million and $4.5 million, respectively, for funds it needed to post to execute the swap transaction and $25.2 million and $17.3 million, respectively, for margin calls made in connection with the interest rate swaps. These amounts are included in other assets on the consolidated balance sheets.

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4. Fair Value Measurements

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

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

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

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

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

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

The following table presents information about the Company s invested assets and derivative instruments measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of September 30, 2016		**Fair Value Measurements**		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$ 79,325	$ 1,514	$	$ 80,839
Obligations of states and political subdivisions		170,696		170,696
Mortgage-backed securities		106,949		106,949
Commercial mortgage-backed securities		174,653		174,653
Asset-backed securities		252,200		252,200
Corporate bonds and debt		378,795	16,860	395,655

Foreign corporate bonds		129,965		129,965
Total fixed maturities	79,325	1,214,772	16,860	1,310,957
Common stock	122,779			122,799
Total assets measured at fair value (1)	$ 202,104	$ 1,214,772	$ 16,860	$ 1,433,736
Liabilities:				
Derivative instruments	$	$ 24,388	$	$ 24,388
Total liabilities measured at fair value	$	$ 24,388	$	$ 24,388

(1) Excluded from the table above are limited liability companies and limited partnerships of $32.6 million at September 30, 2016 whose fair value is based on net asset value as a practical expedient.

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As of December 31, 2015	Fair Value Measurements			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$ 101,264	$ 5,858	$	$ 107,122
Obligations of states and political subdivisions		205,240		205,240
Mortgage-backed securities		159,123		159,123
Commercial mortgage-backed securities		140,390		140,390
Asset-backed securities		260,022		260,022
Corporate bonds		332,111		332,111
Foreign corporate bonds		102,141		102,141
Total fixed maturities	101,264	1,204,885		1,306,149
Common stock	110,315			110,315
Total assets measured at fair value (1)	$ 211,579	$ 1,204,885	$	$ 1,416,464
Liabilities:				
Derivative instruments	$	$ 15,256	$	$ 15,256
Total liabilities measured at fair value	$	$ 15,256	$	$ 15,256

(1) Excluded from the table above are limited partnerships of $32.6 million at December 31, 2015 whose fair value is based on net asset value as a practical expedient.

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

The securities classified as Level 2 in the above table consist primarily of fixed maturity securities and derivative instruments. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, security prices are derived through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. If there are no recent reported trades, matrix or model processes are used to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of asset-backed securities, collateralized mortgage obligations, and mortgage-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. The estimated fair value of the interest rate swaps is obtained from a third party financial institution who utilizes observable inputs such as the forward interest rate curve.

For the Company s material debt arrangements, the current fair value of the Company s debt at September 30, 2016 and December 31, 2015 was as follows:

(Dollars in thousands)	September 30, 2016 Carrying Value	September 30, 2016 Fair Value	December 31, 2015 Carrying Value	December 31, 2015 Fair Value
Margin Borrowing Facilities	$ 76,696	$ 76,696	$ 75,646	$ 75,646
7.75% Subordinated Notes due 2045 (1)	96,466	99,706	96,388	91,748
Total	$ 173,162	$ 176,402	$ 172,034	$ 167,394

(1) As of September 30, 2016 and December 31, 2015, the carrying value and fair value of the 7.75% Subordinated Notes due 2045 are net of unamortized debt issuance cost of $3.5 million.

The fair value of the margin borrowing facilities approximates its carrying value due to the facilities being due on demand. The 7.75% subordinated notes due 2045 are publicly traded instruments and are classified as Level 1 in the fair value hierarchy.

There were no transfers between Level 1 and Level 2 during the quarters ended September 30, 2016 or 2015.

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The following table presents changes in Level 3 investments measured at fair value on a recurring basis for the quarters and nine months ended September 30, 2016 and 2015:

(Dollars in thousands)	Quarters Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Beginning balance	$ 11,220	$	$	$
Total gains (realized / unrealized):				
Amortization of bond premium and discount, net	27		30	
Included in accumulated other comprehensive income	534		531	
Purchases	5,079		16,299	
Distributions				
Ending balance	$ 16,860	$	$ 16,860	$

The investments classified as Level 3 in the above table consist of privately placed securities with unobservable inputs. The Company does not have access to daily valuations; therefore, market trades, performance of the underlying assets, and key risks are considered in order to estimate fair values of these middle market corporate debt instruments.

Fair Value of Alternative Investments

Other invested assets consist of limited liability companies and limited partnerships whose fair value is based on the net asset value per share practical expedient. The following table provides the fair value and future funding commitments related to these investments at September 30, 2016 and December 31, 2015.

	September 30, 2016		December 31, 2015	
(Dollars in thousands)	Fair Value	Future Funding Commitment	Fair Value	Future Funding Commitment
Real Estate Fund, LP **(1)**	$	$	$	$
European Non-Performing Loan Fund, LP **(2)**	29,073	22,014	32,592	20,014
Private Middle Market Loans, LLC **(3)**	3,562	21,058		
Total	$ 32,635	$ 43,072	$ 32,592	$ 20,014

(1) This limited partnership invests in real estate assets through a combination of direct or indirect investments in partnerships, limited liability companies, mortgage loans, and lines of credit. The Company does not have the

contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company continues to hold an investment in this limited partnership and has written the fair value down to zero.

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

(3) This interest consists of three separate equity investments in limited liability companies whereby the Company is also a lender via separate loan agreements. Typical financing is used for growth, acquisitions, or buyouts. The Company classifies their portion of the middle market corporate debt as fixed maturities. The Company has committed $40 million to this investment strategy, including both the equity and financing provisions. While the Company is not able to estimate the proportion of future funding commitments between equity and financing, the total remaining commitment is $21.1 million. Based on the terms of the investment management agreement, the Company anticipates its interest to be redeemed no later than 2024.

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

The Company uses the equity method to account for investments in limited liability companies and limited partnerships where its ownership interest exceeds 3%. The equity method of accounting for an investment in a limited liability company and limited partnership requires that its cost basis be updated to account for the income or loss earned on the investment. The investment income associated with these limited liability companies or limited partnerships, which is reflected in the statement of operations, was $0.9 million and $0.1 million during the quarters ended September 30, 2016 and 2015, respectively, and $3.7 million and $1.4 million during the nine months ended September 30, 2016 and 2015, respectively.

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Pricing

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

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

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

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

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

For obligations of state and political subdivisions, a multi-dimensional relational model is used to evaluate securities. The pricing models incorporate security set-up, benchmark yields, apply base spreads, yield to worst or market convention, ratings updates, prepayment schedules and adjustments for material events notices.

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

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

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

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

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

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

During the quarters and nine months ended September 30, 2016 and 2015, the Company has not adjusted quotes or prices obtained from the pricing vendors.

5. Income Taxes

The statutory income tax rates of the countries where the Company does business are 35% in the United States, 0% in Bermuda, 0% in the Cayman Islands, 0% in Gibraltar, 29.22% in the Duchy of Luxembourg, and 25% on non-trading income, 33% on capital gains and 12.5% on trading income in the Republic of Ireland. The statutory income tax rate of each

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country is applied against the expected annual taxable income of the Company in each country to estimate the annual income tax expense. Generally, during interim periods, the Company will divide total estimated annual income tax expense by total estimated annual pre-tax income to determine the expected annual income tax rate used to compute the income tax provision. The expected annual income tax rate is then applied against interim pre-tax income, excluding net realized gains and losses and distributions from limited liability companies and limited partnerships, and that amount is then added to the actual income taxes on net realized gains and losses, discrete items and distributions from limited liability companies and limited partnerships. However, when there is significant volatility in the expected effective tax rate, the Company records its actual income tax provision in lieu of the estimated effective income tax rate.

The Company s income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, including the results of the quota share and stop-loss agreements between Global Indemnity Reinsurance and the Insurance Operations, for the quarters and nine months ended September 30, 2016 and 2015 were as follows:

Quarter Ended September 30, 2016:

(Dollars in thousands)	**Non-U.S. Subsidiaries**	**U.S. Subsidiaries**	**Eliminations**	**Total**
Revenues:				
Gross premiums written	$ 51,900	$ 123,770	$ (42,101)	$ 133,569
Net premiums written	$ 51,900	$ 63,151	$	$ 115,051
Net premiums earned	$ 54,155	$ 65,398	$	$ 119,553
Net investment income	11,556	5,828	(8,589)	8,795
Net realized investment gains (losses)	58	1,870		1,928
Other income (loss)	(10)	7,862		7,852
Total revenues	65,759	80,958	(8,589)	138,128
Losses and Expenses:				
Net losses and loss adjustment expenses	27,932	44,230		72,162
Acquisition costs and other underwriting expenses	24,651	23,478		48,129
Corporate and other operating expenses	2,906	2,100		5,006
Interest expense	2,081	8,741	(8,589)	2,233
Income (loss) before income taxes	$ 8,189	$ 2,409	$	$ 10,598

Quarter Ended September 30, 2015:

(Dollars in thousands)	**Non-U.S. Subsidiaries**	**U.S. Subsidiaries**	**Eliminations**	**Total**
Revenues:				

Gross premiums written	$ 67,543	$ 140,268	$ (57,663)	$ 150,148
Net premiums written	$ 67,534	$ 54,963	$	$ 122,497
Net premiums earned	$ 70,532	$ 54,175	$	$ 124,707
Net investment income	10,644	4,783	(6,575)	8,852
Net realized investment gains (losses)	(1,256)	(9,522)		(10,778)
Other income (loss)	(11)	1,290		1,279
Total revenues	79,909	50,726	(6,575)	124,060
Losses and Expenses:				
Net losses and loss adjustment expenses	39,849	37,842		77,691
Acquisition costs and other underwriting expenses	30,504	20,430		50,934
Corporate and other operating expenses	1,648	1,919		3,567
Interest expense	1,501	6,669	(6,575)	1,595
Income (loss) before income taxes	$ 6,407	$ (16,134)	$	$ (9,727)

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Nine Months Ended September 30, 2016:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 141,297	$ 394,312	$ (106,355)	$ 429,254
Net premiums written	$ 141,283	$ 215,950	$	$ 357,233
Net premiums earned	$ 162,594	$ 196,399	$	$ 358,993
Net investment income	36,791	13,888	(25,576)	25,103
Net realized investment gains (losses)	128	(9,185)		(9,057)
Other income (loss)	17	9,586		9,603
Total revenues	199,530	210,688	(25,576)	384,642
Losses and Expenses:				
Net losses and loss adjustment expenses	84,154	130,903		215,057
Acquisition costs and other underwriting expenses	71,758	77,003		148,761
Corporate and other operating expenses	7,181	5,883		13,064
Interest expense	6,233	26,020	(25,576)	6,677
Income (loss) before income taxes	$ 30,204	$ (29,121)	$	$ 1,083

Nine Months Ended September 30, 2015:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 289,940	$ 411,310	$ (241,718)	$ 459,532
Net premiums written	$ 289,892	$ 104,714	$	$ 394,606
Net premiums earned	$ 214,667	$ 166,254	$	$ 380,921
Net investment income	32,146	13,594	(19,506)	26,234
Net realized investment gains (losses)	(1,643)	(5,573)		(7,216)
Other income (loss)	(77)	2,485		2,408
Total revenues	245,093	176,760	(19,506)	402,347
Losses and Expenses:				
Net losses and loss adjustment expenses	115,654	111,216		226,870
Acquisition costs and other underwriting expenses	92,368	57,750		150,118

Corporate and other operating expenses	3,395	16,046		19,441
Interest expense	2,325	19,816	(19,506)	2,635
Income (loss) before income taxes	$ 31,351	$ (28,068)	$	$ 3,283

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

(Dollars in thousands)	Quarters Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Current income tax expense (benefit):				
Foreign	$ 84	$ 67	$ 289	$ 228
U.S. Federal	146	(579)	146	(2,126)
Total current income tax expense (benefit)	230	(512)	435	(1,898)
Deferred income tax expense (benefit):				
U.S. Federal	833	(5,469)	(10,847)	(8,984)
Total deferred income tax expense (benefit)	833	(5,469)	(10,847)	(8,984)
Total income tax expense (benefit)	$ 1,063	$ (5,981)	$ (10,412)	$ (10,882)

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

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

	Quarters Ended September 30,			
	2016		2015	
(Dollars in thousands)	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Expected tax provision at weighted average rate	$ 933	8.8%	$ (5,580)	(57.4%)
Adjustments:				
Tax exempt interest	(101)	(1.0)	(107)	(1.1)
Dividend exclusion	(3)	0.0	(175)	(1.8)
Other	234	2.2	(119)	(1.2)
Actual tax on continuing operations	$ 1,063	10.0%	$ (5,981)	(61.5%)

The effective income tax rate for the quarter ended September 30, 2016 was 10.0%, compared to an effective income tax benefit rate of 61.5% for the quarter ended September 30, 2015. The increase is primarily due to capital gains and the gain on the sale of United National Specialty Insurance Company during the quarter ended September 30, 2016. Taxes were computed using a discrete period computation because a reliable estimate of an effective tax rate could not be made.

	Nine Months Ended September 30,			
	2016		2015	
(Dollars in thousands)	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Expected tax provision at weighted average rate	$ (9,896)	(913.8%)	$ (9,595)	(292.3%)
Adjustments:				
Tax exempt interest	(304)	(28.1)	(326)	(9.9)
Dividend exclusion	(480)	(44.3)	(588)	(17.9)
Other	268	24.8	(373)	(11.4)
Actual tax on continuing operations	$ (10,412)	(961.4%)	(10,882)	(331.5%)

The effective income tax benefit rate for the nine months ended September 30, 2016 was 961.4%, compared to an effective income tax benefit rate of 331.5% for the nine months ended September 30, 2015. The increase is primarily due to losses incurred in the Company s U.S. operations. Taxes were computed using a discrete period computation because a reliable estimate of an effective tax rate could not be made.

The Company has an alternative minimum tax (AMT) credit carryforward of $11.0 million and $10.9 million as of September 30, 2016 and December 31, 2015, respectively, which can be carried forward indefinitely. The Company has a net operating loss (NOL) carryforward of $10.1 million and $1.9 million as of September 30, 2016 and December 31, 2015, respectively, which will expire in 2036 and 2035, respectively. The Company has a Section 163(j) (163(j)) carryforward of $3.9 million and $3.1 million as of September 30, 2016 and December 31, 2015, respectively, which can be carried forward indefinitely. The 163(j) carryforward is for disqualified interest paid or accrued to a related entity that is not subject to U.S. tax.

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6. Liability for Unpaid Losses and Loss Adjustment Expenses

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Balance at beginning of period	$ 683,850	$ 769,299	$ 680,047	$ 675,472
Less: Ceded reinsurance receivables	111,579	138,497	108,130	123,201
Net balance at beginning of period	572,271	630,802	571,917	552,271
Purchased reserves, gross	1,410	1,119	1,410	89,489
Less: Purchased reserves ceded	(641)	1,119	(641)	12,800
Purchased reserves, net	2,051		2,051	76,689
Incurred losses and loss adjustment expenses related to:				
Current year	81,579	86,203	239,991	244,041
Prior years	(9,417)	(8,512)	(24,934)	(17,171)
Total incurred losses and loss adjustment expenses	72,162	77,691	215,057	226,870
Paid losses and loss adjustment expenses related to:				
Current year	49,704	53,512	113,090	113,573
Prior years	35,147	56,385	114,302	143,661
Total paid losses and loss adjustment expenses	84,851	109,897	227,392	257,234
Net balance at end of period	561,633	598,596	561,633	598,596
Plus: Ceded reinsurance receivables	102,749	130,913	102,749	130,913
Balance at end of period	$ 664,382	$ 729,509	$ 664,382	$ 729,509

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

In the third quarter of 2016, the Company reduced its prior accident year loss reserves by $9.4 million, which consisted of a $6.5 million decrease related to Commercial Lines and a $2.9 million decrease related to Reinsurance Operations.

The $6.5 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

General Liability: A $9.0 million reduction in aggregate with $3.2 million of favorable development in the construction defect reserve category and $6.0 million of favorable development in the other general liability reserve categories. The favorable development in the construction defect reserve category reflects the lower than expected claims frequency and severity which led to a reduction in the 2005 through 2015 accident years. For the other general liability reserve categories, lower than anticipated claims severity was the driver of the favorable development mainly in accident years 2004 through 2012.

Property: A $2.1 million increase was due to higher than expected case incurred emergence in the property brokerage segment excluding catastrophe experience in the 2011 through 2015 accident years.

The $2.9 million reduction related to Reinsurance Operations was from the property lines. Ultimate losses were lowered in the 2014 and 2015 accident years based on a review of the experience reported from cedants.

In the third quarter of 2015, the Company decreased its prior accident year loss reserves by $8.5 million, which consisted of a $7.3 million decrease related to Commercial Lines and a $1.2 million decrease related to Reinsurance Operations.

The $7.3 million decrease related to Commercial Lines primarily consisted of the following:

Professional: A $3.5 million decrease in aggregate primarily related to better than anticipated loss emergence in accident years 2006 through 2012.

General Liability: A $3.8 million decrease in aggregate primarily related to accident years 1999 through 2013 primarily due to better than anticipated frequency and severity in construction defect.

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The $1.2 million decrease in aggregate related to Reinsurance Operations was primarily due to lower than expected emergence on property catastrophe contracts for accident years 2009 to 2013.

In the first nine months of 2016, the Company decreased its prior accident year loss reserves by $24.9 million, which consisted of an $18.8 million decrease related to Commercial Lines and a $6.1 million decrease related to Reinsurance Operations.

The $18.8 million decrease related to Commercial Lines primarily consisted of the following:

- **General Liability:** A $21.1 million reduction in aggregate with $4.8 million of favorable development in the construction defect reserve category and $16.3 million of favorable development in the other general liability reserve categories. The favorable development in the construction defect reserve category reflects the lower than expected claims frequency and severity which led to a reduction in the 2005 through 2015 accident years. For the other general liability reserve categories, lower than anticipated claims severity was the driver of the favorable development mainly in accident years 2004 through 2012.

- **Property:** A $0.8 million increase in aggregate with a $0.5 million increase in the non-catastrophe segments and a $0.3 million increase in the catastrophe segments. The increases reflect higher than expected case incurred emergence primarily in the 2012 through 2015 accident years.

The $6.1 million reduction related to Reinsurance Operations was from the property lines. Ultimate losses were lowered for the 2013 through 2015 accident years due to lower than expected emergence of catastrophe losses.

In the first nine months of 2015, the Company decreased its prior accident year loss reserves by $17.2 million, which consisted of a $12.9 million decrease related to Commercial Lines and a $4.3 million decrease related to Reinsurance Operations.

The $12.9 million decrease related to Commercial Lines primarily consisted of the following:

- **Property:** A $0.8 million decrease in aggregate primary related to better than anticipated loss emergence in the 2011 through 2014 accident years.

- **Umbrella:** $0.3 million decrease primarily related to accident years 2003 through 2005 as a result of better than anticipated loss emergence.

- **Professional:** $6.4 million decrease in aggregate primarily related to better than anticipated frequency in accident years 2006 through 2012.

General Liability: A $5.7 million decrease in aggregate primarily related to accident years prior to 2013 due to better than anticipated frequency and severity in construction defect.

The $4.3 million decrease in aggregate related to Reinsurance Operations was primarily due to improved results reported by the Company s cedants on property contracts for accident years 2009 through 2014.

7. Shareholders Equity

Repurchases of the Company s A ordinary shares

No shares were repurchased during the quarters ended September 30, 2016 and 2015. During the nine months ended September 30, 2016 and 2015, the Company repurchased 28,099 shares and 11,895 shares, respectively, with an average price paid of $28.64 per share and $ 28.03 per share, respectively.

Please see Note 12 of the notes to the consolidated financial statements in Item 8 Part II of the Company s 2015 Annual Report on Form 10-K for more information on the Company s repurchase program.

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8. Related Party Transactions

Fox Paine & Company

As of September 30, 2016, Fox Paine beneficially owned shares having approximately 84% of the Company s total outstanding voting power. Fox Paine has the right to appoint a number of the Company s Directors equal in aggregate to the pro rata percentage of the voting shares of the Company beneficially held by Fox Paine for so long as Fox Paine holds an aggregate of 25% or more of the voting power in the Company. Fox Paine controls the election of all of the Company s Directors due to its controlling share ownership. The Company s Chairman is a member of Fox Paine. The Company relies on Fox Paine to provide management services and other services related to the operations of the Company.

Global Indemnity Reinsurance was a limited partner in Fox Paine Capital Fund, II, which was managed by Fox Paine & Company. This investment was originally made by United National Insurance Company in June 2000 and pre-dates the September 5, 2003 acquisition by Fox Paine of Wind River Investment Corporation, which was the predecessor holding company for United National Insurance Company. In connection with the Company s share redemption in 2015, Global Indemnity Reinsurance elected to redeem its shares in Fox Paine Capital Fund II, and as a result, the Company no longer held an interest in Fox Paine Capital Fund II as of November 10, 2015. All of Global Indemnity Reinsurance s allocable Global Indemnity plc shares that were held by Fox Paine Capital Fund, II were transferred into a new unrelated liquidating partnership.

There were no distributions received from Fox Paine Capital Fund II during the quarters ended September 30, 2016 or 2015. During the nine months ended September 30, 2015, the Company received a distribution of $0.8 million from Fox Paine Capital Fund II. The Company did not receive any distributions from Fox Paine Capital Fund II during the nine months ended September 30, 2016.

The Company relies on Fox Paine to provide management services and other services related to the operations of the Company. The Company incurred management fees of $0.5 million and $0.4 million during the quarters ended September 30, 2016 and 2015, respectively, and $1.5 million and $1.4 million during the nine months ended September 30, 2016 and 2015, respectively, as part of the annual management fee paid to Fox Paine. As of September 30, 2016 and December 31, 2015, unpaid management fees, which were included in other liabilities on the consolidated balance sheets, were $4.1 million and $2.6 million, respectively.

In connection with the acquisition of American Reliable, the Company agreed to pay to Fox Paine an investment banking fee of 3% of the amount paid plus the additional capital required to operate American Reliable on a standalone basis and a $1.5 million investment advisory fee, which in the aggregate, totaled $6.5 million. This amount is included in corporate and other operating expenses on the Company s Consolidated Statements of Operations during the nine months ended September 30, 2015. As payment for these fees, 267,702 A ordinary shares of Global Indemnity were issued under the Global Indemnity plc Share Incentive Plan (the Plan) in May, 2015. These shares cannot be sold until the earlier of five years after January 1, 2015 or a change of control.

Cozen O Connor

The Company incurred $0.2 million and $0.6 million for legal services rendered by Cozen O Connor during the quarter and nine months ended September 30, 2015, respectively. Stephen A. Cozen, the chairman of Cozen O Connor, was a member of the Company s Board of Directors until he resigned effective December 31, 2015.

Crystal & Company

The Company incurred brokerage fees with Crystal & Company, an insurance broker, of $0.1 million during each of the quarters ended September 30, 2016 and 2015 and $0.2 million during each of the nine months ended September 30, 2016 and 2015. James W. Crystal, the chairman and chief executive officer of Crystal & Company, was a member of the Company s Board of Directors until he resigned effective July 24, 2016.

Hiscox Insurance Company (Bermuda) Ltd.

Global Indemnity Reinsurance is a participant in two reinsurance agreements with Hiscox Insurance Company (Bermuda)

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Ltd. (Hiscox Bermuda) while Steve Green, the President of Global Indemnity Reinsurance, was a member of Hiscox Bermuda s Board of Directors. Steve Green was a member of the Hiscox Bermuda s Board of Directors until May, 2014. The Company estimated that the following earned premium and incurred losses related to these agreements have been assumed by Global Indemnity Reinsurance from Hiscox Bermuda:

	Quarters Ended September 30,	
(Dollars in thousands)	**2016**	**2015**
Assumed earned premium	$ (2)	$ 47
Assumed losses and loss adjustment expenses	(209)	(167)

	Nine Months Ended September 30,	
(Dollars in thousands)	**2016**	**2015**
Assumed earned premium	$ 51	$ 2,294
Assumed losses and loss adjustment expenses	(419)	476

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

(Dollars in thousands)	**September 30, 2016**	**December 31, 2015**
Net payable balance	$ (114)	$ (110)

9. Commitments and Contingencies

Legal Proceedings

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

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

Commitments

During 2014, the Company entered into a $50 million commitment to purchase an alternative investment vehicle which is comprised of European non-performing loans. As of September 30, 2016, the Company has funded $28.0 million of this commitment leaving $22.0 million as unfunded.

In June, 2016, the Company entered into a $40 million commitment with an investment manager that provides financing for middle market companies. Typical financing arrangements are used for growth, acquisitions, or buyouts. This investment vehicle targets companies with $10 - $50 million in earnings before interest, taxes, depreciation, and amortization. As of September 30, 2016, the Company has funded $18.9 million of this commitment leaving $21.1 million as unfunded. Of the $18.9 million funded, $16.3 million and $2.6 million, respectively, was invested in middle market corporate debt and three separate equity investments in limited liability companies.

10. Share-Based Compensation Plans

Options

No stock options were awarded during the quarters ended September 30, 2016 and 2015. No unvested stock options were forfeited during the quarters ended September 30, 2016 and 2015.

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The Company did not award any stock options during the nine months ended September 30, 2016. During the nine months ended September 30, 2015, the Company awarded 200,000 stock options with a strike price of $28.37 which were subsequently forfeited during the nine months ended September 30, 2016. No unvested stock options were forfeited during the nine months ended September 30, 2015.

Restricted Shares

No restricted shares were issued to employees during the quarters ended September 30, 2016 and 2015.

During the nine months ended September 30, 2016, the Company granted 121,346 A ordinary shares, with a weighted average grant date value of $28.97 per share, to key employees under the Plan. Of the shares granted during the nine months ended September 30, 2016, 11,199 were granted to the Company s Chief Executive Officer and vest 33 1/3 on each subsequent anniversary date of the grant for a period of three years subject to a true-up of bonus year underwriting results as of the third anniversary of the grant. 5,309 were granted to another key employee and vest 100% on February 7, 2019. 8,253 were issued to other key employees and vest 33% on the first and second anniversary of the grant and vest 34% on the third anniversary of the grant contingent on meeting certain performance objectives and subject to Board approval. The remaining 96,585 shares were granted to key employees and will vest as follows:

- 16.5%, 16.5%, and 17.0% of the granted stock vest on the first, second, and third anniversary of the grant, respectively.
- 50% of granted stock vests 100% on the third anniversary of the grant subject to a true-up of bonus year underwriting results and are subject to Board approval.

During the nine months ended September 30, 2015, the Company issued 138,507 A ordinary shares, with a weighted average grant date value of $28.37 per share, to key employees under the Plan.

Of the shares granted during the nine months ended September 30, 2015, 10,574 were granted to the Company s Chief Executive Officer and vest 33 1/3 on each subsequent anniversary date of the grant for a period of three years subject to an accident year true-up of bonus year underwriting results as of the third anniversary of the grant and an additional 44,058 were granted to the Company s Chief Executive Officer and other key employees which vest 100% on January 1, 2018. The remaining 83,875 shares were granted to key employees and will vest as follows:

- 16.5%, 16.5%, and 17.0% of the granted stock vest on the first, second, and third anniversary of the grant, respectively.
- 50% of granted stock vests 100% on the third anniversary of the grant subject to a true-up of bonus year underwriting results and are subject to Board approval.

During the quarters ended September 30, 2016 and 2015, the Company issued 8,802 and 9,392 A ordinary shares, respectively, at a weighted average grant date value of $29.70 and $26.17 per share, respectively, to non-employee directors of the Company under the Plan. During the nine months ended September 30, 2016 and 2015, the Company issued 28,416 and 27,437 A ordinary shares, respectively, at a weighted average grant date value of $29.40 and $27.31 per share, respectively, to non-employee directors of the Company under the Plan. All of the shares issued to non-employee directors of the Company in 2016 and 2015 were fully vested but subject to certain restrictions.

11. Earnings Per Share

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

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

(Dollars in thousands, except share and per share data)	Quarters Ended September 30, 2016	Quarters Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income (loss)	$ 9,535	$ (3,746)	$ 11,495	$ 14,165
Basic earnings per share:				
Weighted average shares outstanding basic	17,254,843	25,463,994	17,241,040	25,452,991
Net income (loss) per share	$ 0.55	$ (0.15)	$ 0.67	$ 0.56
Diluted earnings per share:				
Weighted average shares outstanding diluted **(1)**	17,540,060	25,463,994	17,515,854	25,684,931
Net income (loss) per share	$ 0.54	$ (0.15)	$ 0 .66	$ 0.55

(1) For the quarter ended September 30, 2015, weighted average shares outstanding basic was used to calculate diluted earnings per share due to a net loss for the period.

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

	Quarters Ended September 30, 2016	Quarters Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Weighted average shares for basic earnings per share	17,254,843	25,463,994	17,241,040	25,452,991
Non-vested restricted stock	176,087		165,011	128,942
Options	109,130		109,803	102,998
Weighted average shares for diluted earnings per share	17,540,060	25,463,994	17,515,854	25,684,931

If the Company had not incurred a loss in the quarter ended September 30, 2015, 25,704,931 weighted average shares would have been used to compute the diluted loss per share calculation. In addition to the basic shares, weighted average shares for the diluted calculation would have included 138,261 shares of non-vested restricted stock and 102,676 share equivalents for options.

The weighted average shares outstanding used to determine dilutive earnings per share for the quarters ended September 30, 2016 and 2015 do not include 300,000 and 512,500 options, respectively, which were deemed to be anti-dilutive. The weighted average shares outstanding used to determine dilutive earnings per share for the nine months ended September 30, 2016 and 2015 do not include 300,000 and 512,500 options, respectively, which were deemed to be anti-dilutive.

The following table summarizes options which are deemed to be anti-dilutive at September 30, 2016:

Grant Date	Expiration Date	Outstanding Options	Strike Price
February 9, 2014	February 10, 2024	300,000	$ 32.38
		300,000	

12. Segment Information

The Company manages its business through three business segments: Commercial Lines, managed in Bala Cynwyd, Pennsylvania, offers specialty property and casualty products designed for product lines such as Small Business Binding Authority, Property Brokerage, and Programs. Personal Lines, managed in Scottsdale, Arizona, offers specialty personal lines and agricultural coverage. Reinsurance Operations, managed in Bermuda, provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.

On September 30, 2016, Diamond State Insurance Company sold all the outstanding shares of capital stock of one of its wholly owned subsidiaries, United National Specialty Insurance Company, to an unrelated party. Diamond State Insurance Company received a one-time payment of $18.7 million and recognized a pretax gain of $6.9 million which is reflected in other income (loss). This transaction will not have an impact on the Company s ongoing business operations.

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Going forward, any business previously written by United National Specialty Insurance Company has been and will be written by other companies within the Company s U.S. Insurance Operations.

The following are tabulations of business segment information for the quarters and nine months ended September 30, 2016 and 2015.

Quarter Ended September 30, 2016:

(Dollars in thousands)	**Commercial Lines (1)**	**Personal Lines (1)**	**Reinsurance Operations (2)**	**Total**
Revenues:				
Gross premiums written	$ 50,214	$ 73,557**(6)**	$ 9,798	$ 133,569
Net premiums written	$ 45,754	$ 59,499	$ 9,798	$ 115,051
Net premiums earned	$ 48,179	$ 60,816	$ 10,558	$ 119,553
Other income (loss)	7,031	832	(11)	7,852
Total revenues	55,210	61,648	10,547	127,405
Losses and Expenses:				
Net losses and loss adjustment expenses	23,887	42,888	5,387	72,162
Acquisition costs and other underwriting expenses	19,362**(3)**	25,097**(4)**	3,670	48,129
Income (loss) from segments	$ 11,961	$ (6,337)	$ 1,490	$ 7,114
Unallocated Items:				
Net investment income				8,795
Net realized investment gains				1,928
Corporate and other operating expenses				(5,006)
Interest expense				(2,233)
Income before income taxes				10,598
Income tax expense				(1,063)
Net income				9,535
Total assets	$ 757,267	$ 512,190	$ 712,358**(5)**	$ 1,981,815

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

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

(3) Includes federal excise tax of $132 relating to cessions from Commercial Lines to Reinsurance Operations.

(4) Includes federal excise tax of $304 relating to cessions from Personal Lines to Reinsurance Operations.

(5) Comprised of Global Indemnity Reinsurance s total assets less its investment in subsidiaries.

(6) Includes $7,328 of business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

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Quarter Ended September 30, 2015:

(Dollars in thousands)	Commercial Lines (1)	Personal Lines (1)	Reinsurance Operations (2)	Total
Revenues:				
Gross premiums written	$ 52,920	$ 87,349**(6)**	$ 9,879	$ 150,148
Net premiums written	$ 49,325	$ 63,302	$ 9,870	$ 122,497
Net premiums earned	$ 48,916	$ 62,132	$ 13,659	$ 124,707
Other income (loss)	102	1,188	(11)	1,279
Total revenues	49,018	63,320	13,648	125,986
Losses and Expenses:				
Net losses and loss adjustment expenses	22,832	48,899	5,960	77,691
Acquisition costs and other underwriting expenses	20,686**(3)**	25,779**(4)**	4,469	50,934
Income (loss) from segments	$ 5,500	$ (11,358)	$ 3,219	$ (2,639)
Unallocated Items:				
Net investment income				8,852
Net realized investment losses				(10,778)
Corporate and other operating expenses				(3,567)
Interest expense				(1,595)
Loss before income taxes				(9,727)
Income tax benefit				5,981
Net loss				(3,746)
Total assets	$ 1,005,435	$ 572,807	$ 740,377**(5)**	$ 2,318,619

(1) Includes business ceded to the Company s Reinsurance Operations.
(2) External business only, excluding business assumed from affiliates.
(3) Includes federal excise tax of $258 relating to cessions from Commercial Lines to Reinsurance Operations.
(4) Includes federal excise tax of $310 relating to cessions from Personal Lines to Reinsurance Operations.
(5) Comprised of Global Indemnity Reinsurance s total assets less its investment in subsidiaries
(6) Includes $18,749 of business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

Nine Months Ended September 30, 2016:

(Dollars in thousands)	Commercial Lines (1)	Personal Lines (1)	Reinsurance Operations (2)	Total
Revenues:				
Gross premiums written	$ 157,335	$ 236,978**(6)**	$ 34,941	$ 429,254
Net premiums written	$ 141,764	$ 180,542	$ 34,927	$ 357,233
Net premiums earned	$ 143,699	$ 183,631	$ 31,663	$ 358,993
Other income	7,354	2,232	17	9,603
Total revenues	151,053	185,863	31,680	368,596
Losses and Expenses:				
Net losses and loss adjustment expenses	78,605	122,748	13,704	215,057
Acquisition costs and other underwriting expenses	58,752**(3)**	78,381**(4)**	11,628	148,761
Income (loss) from segments	$ 13,696	$ (15,266)	$ 6,348	$ 4,778
Unallocated Items:				
Net investment income				25,103
Net realized investment losses				(9,057)
Corporate and other operating expenses				(13,064)
Interest expense				(6,677)
Income before income taxes				1,083
Income tax benefit				10,412
Net income				11,495
Total assets	$ 757,267	$ 512,190	$ 712,358**(5)**	$ 1,981,815

(1) Includes business ceded to the Company s Reinsurance Operations.
(2) External business only, excluding business assumed from affiliates.
(3) Includes federal excise tax of $391 relating to cessions from Commercial Lines to Reinsurance Operations.
(4) Includes federal excise tax of $918 relating to cessions from Personal Lines to Reinsurance Operations.
(5) Comprised of Global Indemnity Reinsurance s total assets less its investment in subsidiaries.
(6) Includes $30,910 of business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

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Nine Months Ended September 30, 2015:

(Dollars in thousands)	Commercial Lines (1)	Personal Lines (1)	Reinsurance Operations (2)	Total
Revenues:				
Gross premiums written	$ 161,746	$ 249,564**(6)**	$ 48,222	$ 459,532
Net premiums written	$ 149,647	$ 196,785	$ 48,174	$ 394,606
Net premiums earned	$ 149,244	$ 191,472	$ 40,205	$ 380,921
Other income (loss)	420	2,065	(77)	2,408
Total revenues	149,664	193,537	40,128	383,329
Losses and Expenses:				
Net losses and loss adjustment expenses	82,474	129,997	14,399	226,870
Acquisition costs and other underwriting expenses	61,317**(3)**	74,590**(4)**	14,211	150,118
Income (loss) from segments	$ 5,873	$ (11,050)	$ 11,518	$ 6,341
Unallocated Items:				
Net investment income				26,234
Net realized investment losses				(7,216)
Corporate and other operating expenses				(19,441)
Interest expense				(2,635)
Income before income taxes				3,283
Income tax benefit				10,882
Net income				14,165
Total assets	$ 1,005,435	$ 572,807	$ 740,377**(5)**	$ 2,318,619

(1) Includes business ceded to the Company s Reinsurance Operations.
(2) External business only, excluding business assumed from affiliates.
(3) Includes federal excise tax of $787 relating to cessions from Commercial Lines to Reinsurance Operations.
(4) Includes federal excise tax of $957 relating to cessions from Personal Lines to Reinsurance Operations.
(5) Comprised of Global Indemnity Reinsurance s total assets less its investment in subsidiaries
(6) Includes $41,749 of business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

13. New Accounting Pronouncements

The following are new accounting guidance issued in 2016 which have not yet been adopted.

In August 2016, the Financial Accounting Standards Board (FASB) issued new accounting guidance regarding the classification of certain cash receipts and cash payments within the statement of cash flows. The new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This guidance is effective for public business entities for fiscal periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. Although the Company is still evaluating the impact of this new guidance, the Company does not anticipate it will have a material impact on its financial condition, results of operations, or cash flows.

In June, 2016, the Financial Accounting Standards Board (FASB) issued new accounting guidance surrounding the measurement of credit losses on financial instruments. For assets held at amortized cost basis, the new guidance replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of information for credit loss estimates. For available for sale debt securities, credit losses should be measured similar to current GAAP; however, the new guidance requires that credit losses be presented as an allowance rather than as a write-down. This guidance is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application of this new guidance is permitted as of the fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. The Company is still evaluating the impact of this guidance on its financial condition, results of operations, and cash flows.

In March, 2016, the FASB issued new accounting guidance surrounding stock compensation. The new guidance simplifies several aspects of the accounting for share-based payment, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for public entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. Although the Company is still evaluating the impact of this new guidance, the Company does not anticipate it will have a material impact on its financial condition, results of operations, or cash flows.

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In February, 2016, the FASB issued new accounting guidance regarding leases. The new guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Although the Company is still evaluating the impact of this new guidance, the Company does not anticipate it will have a material impact on its financial condition, results of operations, or cash flows.

In January, 2016, the FASB issued new accounting guidance surrounding the accounting for financial instruments. The new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. In particular, the guidance requires equity investments, except for those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with the changes in fair value recognized in net income. It also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. This guidance is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application of this new guidance is permitted as of the beginning of the fiscal year of adoption. The Company is still evaluating the impact of this guidance on its financial condition, results of operations, and cash flows.

In 2016, the FASB issued several new accounting pronouncements which provided clarification to existing guidance surrounding revenue from contracts with customers. Long and short duration insurance contracts, which comprise the majority of the Company s revenues, are excluded from this accounting guidance. This guidance is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Although the Company is still evaluating the impact of this new guidance, the Company does not anticipate it will have a material impact on its financial condition, results of operations, or cash flows.

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

The following discussion and analysis of the Company s financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes of Global Indemnity included elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to the Company s plans and strategy, constitutes forward-looking statements that involve risks and uncertainties. Please see Cautionary Note Regarding Forward-Looking Statements at the end of this Item 2 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein. For more information regarding the Company s business and operations, please see the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

Recent Developments

On September 30, 2016, Diamond State Insurance Company sold all the outstanding shares of capital stock of one of its wholly owned subsidiaries, United National Specialty Insurance Company, to an unrelated party. Diamond State

Insurance Company received a one-time payment of $18.7 million and recognized a pretax gain of $6.9 million which is reflected in other income (loss). This transaction will not have an impact on the Company s ongoing business operations. Going forward, any business previously written by United National Specialty Insurance Company has been and will be written by other companies within the Company s U.S. Insurance Operations.

James W. Crystal and Larry N. Port resigned from the Company s Board of Directors effective July 24, 2016 and July 28, 2016, respectively.

On June 20, 2016, the Company announced that its Board of Directors has unanimously approved a plan to re-domicile from Ireland to the Cayman Islands. On September 14, 2016, the Company held a special meeting of the holders of its A ordinary shares and B ordinary shares and an extraordinary general meeting of its shareholders. The proposals submitted to a vote of the shareholders at the meetings are described in detail in the Company s proxy statement filed on July 15, 2016. All resolutions required to effectuate the re-domestication were approved by the requisite shareholder vote. On October 21,

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2016, the High Court of Ireland sanctioned Global Indemnity plc s scheme of arrangement related to the re-domestication from Ireland to Cayman Islands. A Cayman Islands exempted company, Global Indemnity Limited, will replace Global Indemnity plc as the ultimate holding company of the Global Indemnity group of companies. The Company does not expect the re-domestication will have any material impact on its financial results, including the Company s global effective tax rate. The Company expects to complete the re-domestication during the week of November 7, 2016.

The Company believes that the Cayman Islands offers a business friendly regulatory environment and a predictable legal framework that simultaneously provides both corporate certainty and shareholder protections, presents a flexible and stable legal and corporate governance framework, which allows a company s Board of Directors latitude to exercise its judgment in what it deems to be in the best interests of the company and offers a beneficial tax regime.

Upon implementation of the move to the Cayman Islands, each Company A ordinary share will be cancelled and replaced with one A ordinary share of Global Indemnity Limited and each Company B ordinary share will be cancelled and replaced with one B ordinary share of Global Indemnity Limited. The Company intends that the Global Indemnity Limited A ordinary shares will trade on the NASDAQ Global Select Market (NASDAQ) under the ticker symbol GBLI, the same symbol under which the Company s A ordinary shares are currently listed. The Company intends that Global Indemnity Limited will be subject to U.S. Securities and Exchange Commission reporting requirements, the mandates of the U.S. Sarbanes-Oxley Act and the corporate governance rules of NASDAQ. The Company will report its consolidated financial results in U.S. dollars and under U.S. generally accepted accounting principles.

For additional information on the proposed re-domestication, see the Company s definitive proxy statement on Schedule 14A filed with the SEC on July 15, 2016.

In June, 2016, the Company entered into a $40 million commitment with an investment manager that provides financing for middle market companies. Typical financing arrangements are used for growth, acquisitions, or buyouts. This investment vehicle targets companies with $10 - $50 million in earnings before interest, taxes, depreciation, and amortization. As of September 30, 2016, the Company has funded $18.9 million of this commitment leaving $21.1 million as unfunded. Of the $18.9 million funded, $16.3 million and $2.6 million, respectively, was invested in middle market corporate debt and three separate equity investments in limited liability companies.

Overview

The Company s Commercial Lines segment distribute property and casualty insurance products through a group of approximately 120 professional general agencies that have limited quoting and binding authority, as well as a number of wholesale insurance brokers who in turn sell the Company s insurance products to insureds through retail insurance brokers. Commercial Lines operates predominantly in the excess and surplus lines marketplace. The Company manages its Commercial Lines segment via product classifications. These product classifications are: 1) Penn-America, which includes property and general liability products for small commercial businesses distributed through a select network of wholesale general agents with specific binding authority; 2) United National, which includes property, general liability, and professional lines products distributed through program administrators with specific binding authority; and 3) Diamond State, which includes property, casualty, and professional lines products distributed through wholesale brokers and program administrators with specific binding authority.

The Company s Personal Lines segment, via American Reliable, offers specialty personal lines and agricultural coverage through a group of approximately 285 agents, primarily comprised of wholesale general agents, with specific binding authority in the admitted marketplace.

The Company s Reinsurance Operations consisting solely of the operations of Global Indemnity Reinsurance, provides reinsurance solutions through brokers and on a direct basis. Global Indemnity Reinsurance is a Bermuda based treaty reinsurer for specialty property and casualty insurance and reinsurance companies. Global Indemnity Reinsurance conducts business in Bermuda and is focused on using its capital capacity to write catastrophe-oriented placements and other niche or specialty-focused treaties meeting the Company s risk tolerance and return thresholds.

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

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

Critical Accounting Estimates and Policies

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

The most critical accounting policies involve significant estimates and include those used in determining the liability for unpaid losses and loss adjustment expenses, recoverability of reinsurance receivables, investments, fair value measurements, goodwill and intangible assets, deferred acquisition costs, and taxation. For a detailed discussion on each of these policies, please see the Company s Annual Report on Form 10-K for the year ended December 31, 2015. There have been no significant changes to any of these policies during the current year.

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Results of Operations

The following table summarizes the Company s results for the three and nine months ended September 30, 2016 and 2015:

(Dollars in thousands)	Quarters Ended September 30, 2016	Quarters Ended September 30, 2015	% Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	% Change
Gross premiums written	$ 133,569	$ 150,148	(11.0%)	$ 429,254	$ 459,532	(6.6%)
Net premiums written	$ 115,051	$ 122,497	(6.1%)	$ 357,233	$ 394,606	(9.5%)
Net premiums earned	$ 119,553	$ 124,707	(4.1%)	$ 358,993	$ 380,921	(5.8%)
Other income	7,852	1,279	513.9%	9,603	2,408	298.8%
Total revenues	127,405	125,986	1.1%	368,596	383,329	(3.8%)
Losses and expenses:						
Net losses and loss adjustment expenses	72,162	77,691	(7.1%)	215,057	226,870	(5.2%)
Acquisition costs and other underwriting expenses	48,129	50,934	(5.5%)	148,761	150,118	(0.9%)
Underwriting income (loss)	7,114	(2,639)	369.6%	4,778	6,341	(24.6%)
Net investment income	8,795	8,852	(0.6%)	25,103	26,234	(4.3%)
Net realized investment gains (losses)	1,928	(10,778)	117.9%	(9,057)	(7,216)	(25.5%)
Corporate and other operating expenses	(5,006)	(3,567)	40.3%	(13,064)	(19,441)	(32.8%)
Interest expense	(2,233)	(1,595)	40.0%	(6,677)	(2,635)	153.4%
Income (loss) before income taxes	10,598	(9,727)	209.0%	1,083	3,283	(67.0%)
Income tax (expense) benefit	(1,063)	5,981	(117.8%)	10,412	10,882	4.3%
Net income (loss)	$ 9,535	$ (3,746)	354.5%	$ 11,495	$ 14,165	(18.8%)
Underwriting Ratios:						
Loss ratio **(1)**:	60.3%	62.3%		59.9%	59.6%	
Expense ratio **(2)**	40.3%	40.8%		41.4%	39.4%	
Combined ratio **(3)**	100.6%	103.1%		101.3%	99.0%	

(1) The loss ratio is a GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.
(2) The expense ratio is a GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned.
(3) The combined ratio is a GAAP financial measure and is the sum of the Company s loss and expense ratios.

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Premiums

The following table summarizes the change in premium volume by business segment:

(Dollars in thousands)	Quarters Ended September 30, 2016	Quarters Ended September 30, 2015	% Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	% Change
Gross premiums written **(1)**						
Personal Lines **(3) (4)**	$ 73,557	$ 87,349	(15.8%)	$ 236,978	$ 249,564	(5.0%)
Commercial Lines **(4)**	50,214	52,920	(5.1%)	157,335	161,746	(2.7%)
Reinsurance **(5)**	9,798	9,879	(0.8%)	34,941	48,222	(27.5%)
Total gross premiums written	$ 133,569	$ 150,148	(11.0%)	$ 429,254	$ 459,532	(6.6%)
Ceded premiums written						
Personal Lines **(4)**	$ 14,058	$ 24,047	(41.5%)	$ 56,436	$ 52,779	6.9%
Commercial Lines **(4)**	4,460	3,595	24.1%	15,571	12,099	28.7%
Reinsurance **(5)**		9	(100.0%)	14	48	(70.8%)
Total ceded premiums written	$ 18,518	$ 27,651	(33.0%)	$ 72,021	$ 64,926	10.9%
Net premiums written **(2)**						
Personal Lines **(4)**	$ 59,499	$ 63,302	(6.0%)	$ 180,542	$ 196,785	(8.3%)
Commercial Lines **(4)**	45,754	49,325	(7.2%)	141,764	149,647	(5.3%)
Reinsurance **(5)**	9,798	9,870	(0.7%)	34,927	48,174	(27.5%)
Total net premiums written	$ 115,051	$ 122,497	(6.1%)	$ 357,233	$ 394,606	(9.5%)
Net premiums earned						
Personal Lines **(4)**	$ 60,816	$ 62,132	(2.1%)	$ 183,631	$ 191,472	(4.1%)
Commercial Lines **(4)**	48,179	48,916	(1.5%)	143,699	149,244	(3.7%)
Reinsurance **(5)**	10,558	13,659	(22.7%)	31,663	40,205	(21.2%)
Total net premiums earned	$ 119,553	$ 124,707	(4.1%)	$ 358,993	$ 380,921	(5.8%)

(1) Gross premiums written represent the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions.
(2) Net premiums written equal gross premiums written less ceded premiums written
(3) Includes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement of $7,328 and $18,749 during the quarters ended September 30, 2016

and 2015, respectively, and $30,910 and $41,749 during the nine months ended September 30, 2016 and 2015, respectively.

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

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

Gross premiums written decreased by 11.0% and 6.6% for the quarter and nine months ended September 30, 2016, respectively, as compared to same periods in 2015. Gross premiums written include business written by American Reliable that is ceded to insurance entities owned by Assurant under a 100% quota share reinsurance agreement in the amount of $7.3 million and $18.7 million for the quarters ended September 30, 2016 and 2015, respectively and $30.9 million and $41.7 million for the nine months ended September 30, 2016 and 2015, respectively. Excluding the business that is ceded 100% to insurance entities owned by Assurant, gross premiums written decreased by 3.9% and 4.7% for the quarter and nine months ended September 30, 2016, respectively, as compared to same periods in 2015. The decline is mainly due to one of the treaties within the Reinsurance Operations being non-renewed in 2016 in an effort to reduce catastrophe exposure. In addition, there was some slight reduction of premiums within both Commercial Lines and Personal Line primarily due to non-renewing unprofitable business and limiting catastrophe exposure in certain areas.

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Net Retention

The ratio of net premiums written to gross premiums written is referred to as the Company s net premium retention. The Company s net premium retention is summarized by segments as follows:

(Dollars in thousands)	Quarters Ended September 30, 2016	2015	Change	Nine Months Ended September 30, 2016	2015	Change
Personal Lines **(1)**	89.8%	92.3%	(2.5)	87.6%	94.7%	(7.1)
Commercial Lines	91.1%	93.2%	(2.1)	90.1%	92.5%	(2.4)
Reinsurance	100.0%	99.9%	0.1	100.0%	99.9%	0.1
Total **(1)**	91.1%	93.2%	(2.1)	89.7%	94.5%	(4.8)

(1) Excludes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement of $7.3 million and $18.7 million during the quarters ended September 30, 2016 and 2015, respectively, and $30.9 million and $41.7 million during the nine months ended September 30, 2016 and 2015, respectively.

The net premium retention for the Personal Lines segment for the quarter and nine months ended September 30, 2016 decreased by 2.5 points and 7.1 points, respectively, as compared to the same period in 2015. The reduction in the Personal Lines retention rate for the quarter was primarily due to the quota share arrangement that was put in place during the second quarter of 2016. The reduction in the Personal Lines retention rate for the nine months ended September 30, 2016 was primarily due to an increase in catastrophe reinsurance as well as the quota share arrangement that was put in place during the second quarter of 2016.

The net premium retention for the Commercial Lines segment for the quarter and nine months ended September 30, 2016 decreased by 2.1 points and 2.4 points, respectively, as compared to the same period in 2015 primarily due to ceding more premiums in an effort to reduce exposure to catastrophes and large losses.

Net Premiums earned

Net premiums earned within the Personal Lines segment decreased by 2.1% and 4.1% for the quarter and nine months ended September 30, 2016, respectively, as compared to the same period in 2015. Property net premiums earned were $50.6 million and $52.7 million for the quarter ended September 30, 2016 and 2015, respectively, and $153.8 million and $164.0 million for the nine months ended September 30, 2016 and 2015, respectively. Casualty net premiums earned were $10.2 million and $9.4 million for the quarter ended September 30, 2016 and 2015, respectively, and $29.8 million and $27.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Net premiums earned within the Commercial Lines segment decreased by 1.5% and 3.7% for the quarter and nine months ended September 30, 2016, respectively, as compared to the same period in 2015. The decline in net premiums earned was primarily due to decreasing the Company s property retention, additional property excess of loss reinsurance was purchased, and a slight reduction in gross premiums written. Property net premiums earned were $27.4 million and $28.5 million for the quarter ended September 30, 2016 and 2015, respectively, and $82.9 million and $89.7 million for the nine months ended September 30, 2016 and 2015, respectively. Casualty net premiums earned were $20.8 million and $20.4 million for the quarter ended September 30, 2016 and 2015, respectively, and $60.8 million and $59.6 million for the nine months ended September 30, 2016 and 2015, respectively.

Net premiums earned within the Reinsurance Operations segment decreased by 22.7% and 21.2% for the quarter and nine months ended September 30, 2016, respectively, as compared to the same period in 2015. The decline in net premiums earned was primarily due to one treaty being non-renewed in 2016 in an effort to reduce catastrophe exposure. Property net premiums earned were $9.5 million and $12.5 million for the quarter ended September 30, 2016 and 2015, respectively, and $28.9 million and $38.3 million for the nine months ended September 30, 2016 and 2015, respectively. Casualty net premiums earned were $1.0 million and $1.1 million for the quarter ended September 30, 2016 and 2015, respectively, and $2.8 million and $1.9 million for the nine months ended September 30, 2016 and 2015, respectively.

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Reserves

Management s best estimate at September 30, 2016 was recorded as the loss reserve. Management s best estimate is as of a particular point in time and is based upon known facts, the Company s actuarial analyses, current law, and the Company s judgment. This resulted in carried gross and net reserves of $664.4 million and $561.6 million, respectively, as of September 30, 2016. A breakout of the Company s gross and net reserves, excluding the effects of the Company s intercompany pooling arrangements and intercompany stop loss and quota share reinsurance agreements, as of September 30, 2016 is as follows:

	Gross Reserves		
(Dollars in thousands)	**Case**	**IBNR (1)**	**Total**
Commercial Lines	$ 130,965	$ 362,678	$ 493,643
Personal Lines	36,359	66,398	102,757
Reinsurance Operations	18,139	49,843	67,982
Total	$ 185,463	$ 478,919	$ 664,382

	Net Reserves (2)		
(Dollars in thousands)	**Case**	**IBNR (1)**	**Total**
Commercial Lines	$ 102,594	$ 301,873	$ 404,467
Personal Lines	32,030	57,445	89,475
Reinsurance Operations	18,139	49,552	67,691
Total	$ 152,763	$ 408,870	$ 561,633

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

Each reserve category has an implicit frequency and severity for each accident year as a result of the various assumptions made. If the actual levels of loss frequency and severity are higher or lower than expected, the ultimate losses will be different than management s best estimate. For most of its reserve categories, the Company believes that frequency can be predicted with greater accuracy than severity. Therefore, the Company believes management s best estimate is more likely influenced by changes in severity than frequency. The following table, which the Company believes reflects a reasonable range of variability around its best estimate based on historical loss experience and management s judgment, reflects the impact of changes (which could be favorable or unfavorable) in frequency and severity on the Company s current accident year net loss estimate of $240.0 million for claims occurring during the nine months ended September 30, 2016:

Severity Change

(Dollars in thousands)