

Global Indemnity plc  
Form 10-Q  
May 11, 2015

**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 March 31, 2015**

**OR**

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

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

**001-34809**

**Commission File Number**

**GLOBAL INDEMNITY PLC**

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

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

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

**25/28 NORTH WALL QUAY**

**DUBLIN 1**

**IRELAND**

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

**353 (0) 1 649 2000**

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

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 May 5, 2015, the registrant had outstanding 13,667,782 A Ordinary Shares and 12,061,370 B Ordinary Shares.



**GLOBAL INDEMNITY PLC**

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## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

#### GLOBAL INDEMNITY PLC

#### Consolidated Balance Sheets

(In thousands, except share amounts)

	(Unaudited) March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Fixed maturities:		
Available for sale, at fair value (amortized cost: \$1,560,440 and \$1,272,948)	\$ 1,577,337	\$ 1,283,475
Equity securities:		
Available for sale, at fair value (cost: \$100,818 and \$99,297)	121,456	122,048
Other invested assets:		
Available for sale, at fair value (cost: \$28,887 and \$33,174)	29,992	33,663
Total investments	1,728,785	1,439,186
Cash and cash equivalents	67,142	58,823
Restricted Cash		113,696
Premiums receivable, net	96,814	56,586
Reinsurance receivables, net	145,581	125,718
Funds held by ceding insurers	23,794	25,176
Federal income taxes receivable	2,023	3,139
Deferred federal income taxes	25,910	20,250
Deferred acquisition costs	39,228	25,238
Intangible assets	38,694	17,636
Goodwill	7,011	4,820
Prepaid reinsurance premiums	39,800	4,725
Receivable for securities sold		60
Other assets	59,118	34,980
Total assets	\$ 2,273,900	\$ 1,930,033
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Unpaid losses and loss adjustment expenses	\$ 770,119	\$ 675,472
Unearned premiums	283,385	120,815
Ceded balances payable	12,509	2,800
Payable for securities purchased	13,595	
Contingent commissions	11,953	12,985
Margin borrowing facilities	207,245	174,673
Other liabilities	48,310	34,998

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Total liabilities	1,347,116	1,021,743
Commitments and contingencies (Note 11)		
<b>Shareholders equity:</b>		
Ordinary shares, \$0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 16,743,896 and 16,331,577, respectively; A ordinary shares outstanding: 13,667,782 and 13,266,762, respectively; B ordinary shares issued and outstanding: 12,061,370 and 12,061,370, respectively	3	3
Additional paid-in capital	527,286	519,590
Accumulated other comprehensive income, net of taxes	27,705	23,384
Retained earnings	473,511	466,717
A ordinary shares in treasury, at cost: 3,076,114 and 3,064,815 shares, respectively	(101,721)	(101,404)
Total shareholders equity	926,784	908,290
Total liabilities and shareholders equity	\$ 2,273,900	\$ 1,930,033

See accompanying notes to consolidated financial statements.

## GLOBAL INDEMNITY PLC

## Consolidated Statements of Operations

(In thousands, except shares and per share data)

	(Unaudited)	
	Quarters Ended March 31,	
	2015	2014
<b>Revenues:</b>		
Gross premiums written	\$ 142,869	\$ 77,197
Net premiums written	\$ 126,104	\$ 72,861
Net premiums earned	\$ 127,337	\$ 67,544
Net investment income	8,241	8,284
Net realized investment losses:		
Other than temporary impairment losses on investments	(341)	(25)
Other net realized investment losses	(2,629)	(788)
Total net realized investment losses	(2,970)	(813)
Other income	552	168
Total revenues	133,160	75,183
<b>Losses and Expenses:</b>		
Net losses and loss adjustment expenses	69,619	38,572
Acquisition costs and other underwriting expenses	48,258	26,485
Corporate and other operating expenses	11,540	2,961
Interest expense	505	191
Income before income taxes	3,238	6,974
Income tax expense (benefit)	(3,556)	(1,849)
Net income	\$ 6,794	\$ 8,823
<b>Per share data:</b>		
Net income		
Basic	\$ 0.27	\$ 0.35
Diluted	\$ 0.26	\$ 0.35
Weighted-average number of shares outstanding		
Basic	25,449,282	25,122,812
Diluted	25,641,741	25,278,907

See accompanying notes to consolidated financial statements.





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

(In thousands)

	<b>(Unaudited)</b>	
	<b>Quarters Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income	\$ 6,794	\$ 8,823
Other comprehensive income, net of taxes:		
Unrealized holding gains (losses)	6,357	2,041
Portion of other-than-temporary impairment losses recognized in other comprehensive income (loss)	1	(1)
Reclassification adjustment for gains included in net income	(1,799)	(4,032)
Unrealized foreign currency translation gains (losses)	(238)	16
Other comprehensive income (loss), net of taxes	4,321	(1,976)
Comprehensive income, net of taxes	\$ 11,115	\$ 6,847

See accompanying notes to consolidated financial statements.

## GLOBAL INDEMNITY PLC

## Consolidated Statements of Changes in Shareholders Equity

(In thousands, except share amounts)

	(Unaudited) Quarter Ended March 31, 2015	Year Ended December 31, 2014
<b>Number of A ordinary shares issued:</b>		
Number at beginning of period	16,331,577	16,200,406
Ordinary shares issued under share incentive plans	135,370	94,563
Ordinary shares issued to directors	9,247	36,608
Ordinary shares issued in connection with American Reliable Acquisition	267,702	
Number at end of period	16,743,896	16,331,577
<b>Number of B ordinary shares issued:</b>		
Number at beginning and end of period	12,061,370	12,061,370
<b>Par value of A ordinary shares:</b>		
Balance at beginning and end of period	\$ 2	\$ 2
<b>Par value of B ordinary shares:</b>		
Balance at beginning and end of period	\$ 1	\$ 1
<b>Additional paid-in capital:</b>		
Balance at beginning of period	\$ 519,590	\$ 516,653
Share compensation plans	7,639	2,900
Tax benefit on share-based compensation expense	57	37
Balance at end of period	\$ 527,286	\$ 519,590
<b>Accumulated other comprehensive income, net of deferred income tax:</b>		
Balance at beginning of period	\$ 23,384	\$ 54,028
Other comprehensive income (loss):		
Change in unrealized holding gains (losses)	4,558	(30,299)
Change in other than temporary impairment losses recognized in other comprehensive income	1	(4)
Unrealized foreign currency translation gains (losses)	(238)	(341)
Other comprehensive income (loss)	4,321	(30,644)
Balance at end of period	\$ 27,705	\$ 23,384

**Retained earnings:**

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Balance at beginning of period	\$	466,717	\$	403,861
Net income		6,794		62,856
Balance at end of period	\$	473,511	\$	466,717
<b>Number of Treasury Shares:</b>				
Number at beginning of period		3,064,815		3,059,371
A ordinary shares purchased		11,299		5,444
Number at end of period		3,076,114		3,064,815
<b>Treasury Shares, at cost:</b>				
Balance at beginning of period	\$	(101,404)	\$	(101,265)
A ordinary shares purchased, at cost		(317)		(139)
Balance at end of period	\$	(101,721)	\$	(101,404)
Total shareholders equity	\$	926,784	\$	908,290

See accompanying notes to consolidated financial statements.

## GLOBAL INDEMNITY PLC

## Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited)	
	Quarters Ended March 31,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,794	\$ 8,823
Adjustments to reconcile net income to net cash used for operating activities:		
Amortization of value of business acquired	11,309	
Amortization and depreciation	1,109	895
Restricted stock and stock option expense	7,639	813
Deferred federal income taxes	(4,757)	(1,643)
Amortization of bond premium and discount, net	3,712	1,848
Net realized investment loss	2,970	813
Equity in the earnings of a partnership	(253)	
Changes in:		
Premiums receivable, net	17,595	(7,965)
Reinsurance receivables, net	(7,140)	(1,080)
Funds held by ceding insurers	1,390	(5,102)
Unpaid losses and loss adjustment expenses	5,693	(419)
Unearned premiums	(9,664)	4,959
Ceded balances payable	(3,510)	(2,458)
Other assets and liabilities, net	(17,355)	(5,606)
Contingent commissions	(5,353)	(858)
Federal income tax receivable/payable	1,116	(2,017)
Deferred acquisition costs, net	(13,990)	(2,060)
Prepaid reinsurance premiums	8,431	359
Net cash provided by (used for) operating activities	5,736	(10,698)
<b>Cash flows from investing activities:</b>		
Cash release from escrow for business acquisition	113,696	
Acquisition of business, net of cash acquired	(92,336)	
Proceeds from sale of fixed maturities	108,120	95,289
Proceeds from sale of equity securities	6,509	10,702
Proceeds from sale of preferred stock	1,540	
Proceeds from maturity of fixed maturities	77,390	32,095
Proceeds from limited partnership distribution	4,287	
Amounts paid in connection with derivatives	(5,674)	(5,636)
Purchases of fixed maturities	(237,444)	(113,406)
Purchases of equity securities	(5,817)	(12,375)
Purchases of other invested assets		(2,101)
Net cash provided by (used for) investing activities	(29,729)	4,568

<b>Cash flows from financing activities:</b>		
Net borrowings under margin borrowing facilities	32,572	
Tax benefit on share-based compensation expense	57	
Purchase of A ordinary shares	(317)	(139)
<b>Net cash provided by (used for) financing activities</b>	<b>32,312</b>	<b>(139)</b>
Net change in cash and cash equivalents	8,319	(6,269)
Cash and cash equivalents at beginning of period	58,823	105,492
Cash and cash equivalents at end of period	\$ 67,142	\$ 99,223

See accompanying notes to consolidated financial statements.

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## GLOBAL INDEMNITY PLC

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

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

Starting in the 1<sup>st</sup> quarter of 2015, the Company manages its business through three business segments: Commercial Lines, managed in Bala Cynwyd, 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, AZ, offers specialty personal lines and agricultural coverage, and Reinsurance Operations, managed in Bermuda, 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. See Note 14 for additional information regarding segments.

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 ended March 31, 2015 and 2014 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 2014 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.

### 2. Acquisition

On January 1, 2015, Global Indemnity Group, Inc., a subsidiary of the Company, acquired 100% of the voting equity interest of American Reliable Insurance Company ( American Reliable ) from American Bankers Insurance Group, Inc. by paying \$113.7 million in cash and assuming \$284.3 million of customary insurance related liabilities, obligations, and mandates. Per the American Reliable Stock Purchase Agreement, the ultimate purchase price is subject to (i) accounting procedures that were performed in 2015 to determine GAAP book value and (ii) indemnification on future development on recorded loss and loss adjustment expenses as of December 31, 2014. In accordance with the Agreement, on the third calendar year following the calendar year of the Closing, if loss and loss adjustment expenses for accident years 2014 and prior are lower than recorded unpaid loss and loss adjustment expenses as of December 31, 2014, Global Indemnity Group, Inc. will pay the variance to American Bankers Insurance Company. Conversely, if loss and loss adjustment expenses for accident years 2014 and prior exceed recorded unpaid loss and loss adjustment expenses as of December 31, 2014, American Bankers Insurance Company will pay the variance to Global Indemnity Group, Inc. The Company's current estimate of the purchase price, based on available financial information, is approximately \$105.5 million.

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The results of American Reliable's operations have been included in the Company's consolidated financial statements since the date of acquisition on January 1, 2015.

The purchase of American Reliable expands Global Indemnity's product offerings. American Reliable is a specialty company that distributes personal lines products written on an admitted basis that are unusual and harder to place. It complements Global Indemnity's existing US Insurance Operations that primarily distribute commercial lines products on an excess and surplus lines basis.

American Reliable is domiciled in Arizona and as such is subject to its state insurance department regulations.

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**GLOBAL INDEMNITY PLC**

American Reliable had total revenues of \$65.3 million and pre-tax income of \$6.6 million for the quarter ended March 31, 2015. These amounts are included in the Company's results of operations for the quarter ended March 31, 2015.

The following table presents the Company's unaudited pro forma consolidated results of operations for the quarters ended March 31, 2015 and 2014 as if the acquisition had occurred on January 1, 2014 instead of January 1, 2015.

<b>(Dollars in thousands except per share data)</b>	<b>Pro Forma Quarters Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Total Revenue	\$ 133,160	\$ 139,490
Net Income	\$ 12,189	\$ 7,880
Net Income per share	\$ 0.48	\$ 0.31

The pro forma results were calculated by applying the Company's accounting policies and adjusting the result of American Reliable to reflect (i) impact of intercompany reinsurance with GI Re, (ii) the impact on interest expense resulting from changes to the Company's capital structure in connection with the acquisition, (iii) impact on investment income from the acquisition date adjustments to fair value of investments, (iv) impact on underwriting expenses from the acquisition date adjustments to fair value of deferred acquisition costs and intangible assets (v) impact of transaction costs related to the acquisition and (vi) the tax effects of the above adjustments.

The pro forma results do not include any anticipated cost synergies or other effects of the integration of American Reliable. Such pro forma amounts are not indicative of the results that actually would have occurred had the acquisition been completed on January 1, 2014, nor are they indicative of the future operating results of the combined company.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of the acquisition:

<b>(Dollars in thousands)</b>	
<b>ASSETS:</b>	
Investments	\$ 226,458
Cash and cash equivalents	21,360
Premiums receivables, net	25,941
Accounts receivable	17,323
Reinsurance receivables	12,723
Prepaid Reinsurance Premiums	43,506
Intangible assets	32,500
Deferred federal income taxes	1,179
Other assets	6,550
<b>Total assets</b>	<b>387,540</b>



**LIABILITIES:**

Unearned premiums	172,234
Unpaid losses and loss adjustment expenses	88,954
Reinsurance balances payable	13,219
Contingent commission	3,876
Other liabilities	5,985
Total liabilities	284,268
Estimated fair value of net assets acquired	103,272
Purchase price	105,463
Goodwill	\$ 2,191

The Company is still in the process of valuing the assets acquired and liabilities assumed, as a result, the allocation of the acquisition consideration is subject to change.

The transaction is being accounted for using the purchase method of accounting. The assets and liabilities acquired by the Company were adjusted to estimated fair value. The \$2.2 million excess of cash and acquisition cost over the estimated fair value of assets acquired was recognized as goodwill. Under the purchase method of accounting, goodwill is not amortized but is tested for impairment at least annually.

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**GLOBAL INDEMNITY PLC**

Goodwill of \$2.2 million, arising from the acquisition, consists largely of the synergies and economies of scales expected from combining the operations of Global Indemnity and American Reliable. The Company has determined that the goodwill of \$2.2 million will be assigned to the Personal Lines segment. There is no tax goodwill.

An identification and valuation of intangible assets was performed that resulted in the recognition of intangible assets of \$32.5 million with values assigned as follows:

**(Dollars in thousands)**

<b>Description</b>	<b>Useful Life</b>	<b>Amount</b>
State insurance licenses	Indefinite	\$ 5,000
Value of business acquired	< 1 year	26,000
Agent relationships	10 years	900
Trade name	7 - 8 years	600
		<b>\$ 32,500</b>

Intangible assets arising from the acquisition will be deductible for income tax purposes over 15 years.

The fair value, gross contractual amounts due, and contractual cash flows not expected to be collected of acquired receivables are as follows:

<b>(Dollars in thousands)</b>	<b>Fair Value</b>	<b>Gross Contractual Amounts Due</b>	<b>Contractual cash flows not expected to be collected</b>
Premium receivables	\$ 25,941	\$ 26,896	\$ 955
Accounts receivable	17,323	17,323	
Reinsurance receivables	12,723	12,723	

In connection with the acquisition, the Company agreed to pay to Fox Paine & Company, LLC ( 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 quarter ended March 31, 2015. As payment for these fees, 267,702 A ordinary shares of Global Indemnity will be issued. These shares will be registered but cannot be sold until the earlier of five years or a change of control. See Note 10 for additional information on Fox Paine's voting power.

Additional costs, mainly professional fees, of \$5.1 million were incurred in connection with the acquisition of American Reliable. Of this amount, \$3.3 million was recorded as corporate and other operating expenses on the Company's Consolidated Statements of Operations during the year ended December 31, 2014 and \$1.8 million was recorded as corporate and other operating expenses on the Company's Consolidated Statements of Operation during

the quarter ended March 31, 2015.

During the quarter ended March 31, 2015, the Company paid approximately \$1.6 million in employee compensation related cost, which were related to periods prior to the Acquisition. These costs were accrued by American Reliable and were included in the fair value of net assets acquired by Global Indemnity Group, Inc. on January 1, 2015.

**Geographic Concentration**

The following table sets forth the geographic distribution of American Reliable's gross premiums written, excluding business that is ceded under a 100% quota share reinsurance agreement to American Bankers Insurance Company, for the year ended December 31, 2014:

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**GLOBAL INDEMNITY PLC**

(Dollars in thousands)	Year Ended December 31, 2014	
	Amount	Percent
Texas	\$ 32,760	12.3%
California	25,556	9.6
North Carolina	23,040	8.7
Arizona	17,722	6.7
Louisiana	17,522	6.6
New York	13,408	5.0
Florida	12,361	4.6
Oklahoma	9,977	3.7
Georgia	8,768	3.3
New Jersey	6,925	2.6
Subtotal	168,039	63.1
All other states	98,264	36.9
Total	\$ 266,303	100.0%

### Marketing and Distribution

American Reliable distributes its insurance products primarily through a group of approximately 290 general and specialty agents and 332 direct agents in Arizona and New Mexico. Of the Company's non-affiliated general and specialty agents, the top five accounted for 23.9% of American Reliable's gross premiums written for the year ended December 31, 2014. One agency represented 6.8% of American Reliable's gross premiums written for the year ended December 31, 2014. There is no agency which accounted for more than 10.0% of American Reliable's revenue for the year ended December 31, 2014.

### Dividend Limitations

The maximum amount of dividends, which can be paid by Arizona domiciled insurance companies without prior approval of the Director of Insurance, is subject to certain regulatory restrictions relating to statutory surplus. Specifically, an insurance company may pay dividends equal to the lesser of net income or 10% of its statutory surplus without specific approval from the Director. A dividend is considered extraordinary when the amount of the dividend, combined with all other dividends or distributions made within the preceding twelve months exceeds the lesser of either 10% of such insurer's surplus as regards to policyholders as of the thirty-first day of December next preceding, or the net income for the twelve month period ending the thirty-first day of December next preceding. Until the closing balance sheet is finalized, the maximum amount of the dividend that could be paid by American Reliable cannot be determined.

### Reinsurance

As a result of the acquisition, the following reinsurance treaties were entered into:

***Earthquake Property Catastrophe Excess of Loss*** Effective January 1, 2015, the Company purchased an earthquake property catastrophe excess of loss treaty which provides occurrence coverage for earthquake catastrophe losses of

\$30 million in excess of \$5 million for American Reliable property business. This treaty provides for one full reinstatement of coverage at 100% additional premium as to time and pro rata as to amount of limit reinstated.

***American Reliable Property Per Risk Excess of Loss*** Effective January 1, 2015, American Reliable renewed its property per risk excess of loss treaty covering business underwritten by American Reliable. This treaty provides coverage in two layers: \$1 million per risk in excess of \$1 million per risk, and \$3 million per risk in excess of \$2 million per risk. The first layer is subject to a \$2 million limit of liability for all risks involved in one loss occurrence, and the second layer is subject to a \$6 million limit for all risks involved in one loss occurrence.

***100% Ceded Quota Share to American Bankers*** Effective December 1, 2014, American Reliable entered into four treaties to cede 100% of its liabilities to American Bankers Insurance Company related to certain business not included in the acquisition of American Reliable. American Reliable recorded ceded written premiums of \$10.1 million and ceded earned premiums of \$18.8 million to American Bankers Insurance Company for the quarter ended March 31, 2015.

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**GLOBAL INDEMNITY PLC**

**100% Assumed Quota Share from American Bankers** Effective December 1, 2014, American Reliable entered into two treaties to assume 100% of its liabilities from various reinsurers owned by Assurant, Inc. for business included in the acquisition but not written directly by American Reliable. American Reliable recorded assumed written premiums of \$23.3 million and ceded earned premiums of \$23.6 million from insurance companies owned by Assurant, Inc. for the quarter ended March 31, 2015.

The effect of reinsurance on premiums written and earned by American Reliable is as follows:

<b>(Dollars in thousands)</b>	<b>Written</b>	<b>Earned</b>
For the quarter ended March 31, 2015:		
Direct business	\$ 49,836	\$ 60,994
Reinsurance assumed	23,375	23,699
Reinsurance ceded	(12,555)	(21,270)
<b>Net premiums</b>	<b>\$ 60,656</b>	<b>\$ 63,423</b>

### Commitments

As a result of the acquisition, the Company assumed operating leases related to the operations of American Reliable. Rental expense under these operating leases was \$0.3 million for the quarter ended March 31, 2015. At March 31, 2015, future minimum cash payments under non-cancelable operating leases related to the operations of American Reliable were as follows:

<b>(Dollars in thousands)</b>	
2015	\$ 930
2016	817
2017	780
2018	572
<b>Total</b>	<b>\$ 3,099</b>

At the time of the acquisition, one of the Company's policy administration systems was under development. In April, 2015, the Company entered into an agreement with an unrelated third party to build out a rate, quote, bind and issue application for the Company's agriculture products. This project has an estimated cost of approximately \$2.6 million plus reimbursable travel and related expenses.

### 3. Investments

The amortized cost and estimated fair value of investments were as follows as of March 31, 2015 and December 31, 2014:

<b>(Dollars in thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Other than temporary impairments recognized in AOCI (1)</b>
<b>As of March 31, 2015</b>					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 92,814	\$ 2,284	\$ (24)	\$ 95,074	\$
Obligations of states and political subdivisions	224,850	4,172	(67)	228,955	
Mortgage-backed securities	212,264	4,338	(279)	216,323	(3)
Asset-backed securities	256,425	1,401	(186)	257,640	(13)
Commercial mortgage-backed securities	169,826	300	(578)	169,548	
Corporate bonds	473,526	5,021	(84)	478,463	
Foreign corporate bonds	130,735	1,086	(487)	131,334	
<b>Total fixed maturities</b>	<b>1,560,440</b>	<b>18,602</b>	<b>(1,705)</b>	<b>1,577,337</b>	<b>(16)</b>
Common stock	100,818	24,480	(3,842)	121,456	
Other invested assets	28,887	1,105		29,992	
<b>Total</b>	<b>\$ 1,690,145</b>	<b>\$ 44,187</b>	<b>\$ (5,547)</b>	<b>\$ 1,728,785</b>	<b>\$ (16)</b>

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

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(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (2)
<b>As of December 31, 2014</b>					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 78,569	\$ 2,281	\$ (83)	\$ 80,767	\$
Obligations of states and political subdivisions	188,452	3,718	(697)	191,473	
Mortgage-backed securities	205,814	3,709	(764)	208,759	(4)
Asset-backed securities	177,853	713	(303)	178,263	(13)
Commercial mortgage-backed securities	133,984	21	(847)	133,158	
Corporate bonds	380,704	3,421	(709)	383,416	
Foreign corporate bonds	107,572	625	(558)	107,639	
Total fixed maturities	1,272,948	14,488	(3,961)	1,283,475	(17)
Common stock	99,297	25,689	(2,938)	122,048	
Other invested assets	33,174	489		33,663	
<b>Total</b>	<b>\$ 1,405,419</b>	<b>\$ 40,666</b>	<b>\$ (6,899)</b>	<b>\$ 1,439,186</b>	<b>\$ (17)</b>

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

Excluding U.S. treasuries and agency bonds, the Company did not hold any debt or equity investments in a single issuer that was in excess of 4% of shareholders' equity at March 31, 2015 or December 31, 2014.

The amortized cost and estimated fair value of the Company's fixed maturities portfolio classified as available for sale at March 31, 2015, 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	\$ 147,920	\$ 149,345
Due in one year through five years	670,004	677,567
Due in five years through ten years	74,459	76,607
Due in ten years through fifteen years	9,355	9,872
Due after fifteen years	20,187	20,435
Mortgage-backed securities	212,264	216,323
Asset-backed securities	256,425	257,640



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Commercial mortgage-backed securities	169,826	169,548
<b>Total</b>	<b>\$ 1,560,440</b>	<b>\$ 1,577,337</b>

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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 March 31, 2015:

(Dollars in thousands)	Less than 12 months		12 months or longer (1)		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	\$ 10,000	\$	\$ 3,394	\$ (24)	\$ 13,394	\$ (24)
Obligations of states and political subdivisions	3,557	(3)	11,680	(64)	15,237	(67)
Mortgage-backed securities	25,240	(139)	19,691	(140)	44,931	(279)
Asset-backed securities	77,970	(186)			77,970	(186)
Commercial mortgage-backed securities	87,170	(467)	11,722	(111)	98,892	(578)
Corporate bonds	47,209	(67)	2,978	(17)	50,187	(84)
Foreign corporate bonds	29,225	(487)			29,225	(487)
<b>Total fixed maturities</b>	<b>280,371</b>	<b>(1,349)</b>	<b>49,465</b>	<b>(356)</b>	<b>329,836</b>	<b>(1,705)</b>
Common stock	22,967	(3,815)	144	(27)	23,111	(3,842)
<b>Total</b>	<b>\$ 303,338</b>	<b>\$ (5,164)</b>	<b>\$ 49,609</b>	<b>\$ (383)</b>	<b>\$ 352,947</b>	<b>\$ (5,547)</b>

- (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.

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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, 2014:

(Dollars in thousands)	Less than 12 months		12 months or longer (2)		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	\$ 11,728	\$ (9)	\$ 3,343	\$ (74)	\$ 15,071	\$ (83)
Obligations of states and political subdivisions	28,684	(314)	28,061	(383)	56,745	(697)
Mortgage-backed securities	2,818	(7)	51,203	(757)	54,021	(764)
Asset-backed securities	92,123	(283)	1,683	(20)	93,806	(303)
Commercial mortgage-backed securities	92,664	(525)	26,280	(322)	118,944	(847)
Corporate bonds	144,505	(656)	3,216	(53)	147,721	(709)
Foreign corporate bonds	60,518	(558)			60,518	(558)
Total fixed maturities	433,040	(2,352)	113,786	(1,609)	546,826	(3,961)
Common stock	20,002	(2,808)	1,577	(130)	21,579	(2,938)
Total	\$ 453,042	\$ (5,160)	\$ 115,363	\$ (1,739)	\$ 568,405	\$ (6,899)

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

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

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

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

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

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

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

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

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

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

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

**U.S. treasury and agency obligations** As of March 31, 2015, gross unrealized losses related to U.S. treasury and agency obligations were \$0.024 million. With the exception of less than \$0.001 million, all unrealized losses have been in an unrealized loss position for twelve months or greater and are rated AA+. Macroeconomic and market analysis is conducted in evaluating these securities. The analysis is driven by moderate interest rate anticipation, yield curve management, and security selection.

**Obligations of states and political subdivisions** As of March 31, 2015, gross unrealized losses related to obligations of states and political subdivisions were \$0.067 million. Of this amount, \$0.064 million have been in an unrealized loss position for twelve months or greater and are rated A or better. All factors that influence performance of the municipal bond market are considered in evaluating these securities. The aforementioned factors include investor expectations, supply and demand patterns, and current versus historical yield and spread relationships. The analysis relies on the output of fixed income credit analysts, as well as dedicated municipal bond analysts who perform extensive in-house fundamental analysis on each issuer, regardless of their rating by the major agencies.

**Mortgage-backed securities ( MBS )** As of March 31, 2015, gross unrealized losses related to mortgage-backed securities were \$0.279 million. Of this amount, \$0.140 million have been in an unrealized loss position for twelve months or greater and are rated AA+. Mortgage-backed securities are modeled to project principal losses under downside, base, and upside scenarios for the economy and home prices. The primary assumption that drives the security and loan level modeling is the Home Price Index ( HPI ) projection. The model first projects HPI at the national level, then at the zip-code level based on the historical relationship between the individual zip code HPI and the national HPI. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and current loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs. The model also includes the explicit treatment of silent second liens, utilization of loan modification history, and the application of roll rate

adjustments.

**Asset-backed securities ( ABS )** As of March 31, 2015, gross unrealized losses related to asset backed securities were \$0.186 million. All unrealized losses have been in an unrealized loss position for less than 12 months and are rated A or better. The weighted average credit enhancement for the Company's asset backed portfolio is 21.0. 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.

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**Commercial mortgage-backed securities ( CMBS )** As of March 31, 2015, gross unrealized losses related to the CMBS portfolio were \$0.578 million. Of this amount, \$0.111 million have been in an unrealized loss position for twelve months or greater and are rated AA or better. The weighted average credit enhancement for the Company's CMBS portfolio is 35.2. 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** As of March 31, 2015, gross unrealized losses related to corporate bonds were \$0.084 million. Of this amount, \$0.017 million have been in an unrealized loss position for twelve months or greater and are rated BBB or better. The analysis for this sector includes maintaining detailed financial models that include a projection of each issuer's future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, the issuer's current competitive position, its vulnerability to changes in the competitive and regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

**Foreign bonds** As of March 31, 2015, gross unrealized losses related to foreign bonds were \$0.487 million. All unrealized losses have been in an unrealized loss position for less than twelve months. 92.5% of the securities in an unrealized loss position are rated investment grade. 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 March 31, 2015, gross unrealized losses related to common stock were \$3.842 million. Of this amount, \$0.027 million has been in an unrealized loss position for twelve months or greater. To determine if an other than temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

The Company recorded the following other than temporary impairments ( OTTI ) on its investment portfolio for the quarters ended March 31, 2015 and 2014:

**Quarters Ended March 31,**

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<b>(Dollars in thousands)</b>	<b>2015</b>	<b>2014</b>
Fixed maturities:		
OTTI losses, gross	\$ (10)	\$ (25)
Portion of loss recognized in other comprehensive income (pre-tax)		
Net impairment losses on fixed maturities recognized in earnings	(10)	(25)
Equity securities	(331)	
Total	\$ (341)	\$ (25)

The following table is an analysis of the credit losses recognized in earnings on fixed maturities held by the Company for the quarters ended March 31, 2015 and 2014 for which a portion of the OTTI loss was recognized in other comprehensive income.



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(Dollars in thousands)	Quarters Ended March 31,	
	2015	2014
Balance at beginning of period	\$ 50	\$ 54
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		
Balance at end of period	\$ 50	\$ 54

*Accumulated Other Comprehensive Income, Net of Tax*

Accumulated other comprehensive income, net of tax, as of March 31, 2015 and December 31, 2014 was as follows:

(Dollars in thousands)	March 31, 2015	December 31, 2014
Net unrealized gains from:		
Fixed maturities	\$ 16,897	\$ 10,527
Common stock	20,638	22,751
Other	709	369
Deferred taxes	(10,539)	(10,263)
Accumulated other comprehensive income, net of tax	\$ 27,705	\$ 23,384

The following tables present the changes in accumulated other comprehensive income, net of tax, by component for the quarters ended March 31, 2015 and 2014:

Quarter Ended March 31, 2015	Unrealized Gains and Losses on Available for Sale Securities, Net of Tax		Accumulated Other Comprehensive Income, Net of Tax
		Foreign Currency Items, Net of Tax	
(Dollars in thousands)			
Beginning balance	\$ 23,647	\$ (263)	\$ 23,384
Other comprehensive income (loss) before reclassification	6,441	(321)	6,120

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Amounts reclassified from accumulated other comprehensive income (loss)	(1,882)	83	(1,799)
Other comprehensive income (loss)	4,559	(238)	4,321
Ending balance	\$ 28,206	\$ (501)	\$ 27,705

Quarter Ended March 31, 2014 (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	\$ 53,950	\$ 78	\$ 54,028
Other comprehensive income before reclassification	2,027	29	2,056
Amounts reclassified from accumulated other comprehensive loss	(4,019)	(13)	(4,032)
Other comprehensive income (loss)	(1,992)	16	(1,976)
Ending balance	\$ 51,958	\$ 94	\$ 52,052

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The reclassifications out of accumulated other comprehensive income for the quarters ended March 31, 2015 and 2014 were as follows:

(Dollars in thousands)	Affected Line Item in the Consolidated Statements of Operations	Amounts Reclassified from Accumulated Other Comprehensive Income Quarters Ended March 31,	
		2015	2014
<b>Details about Accumulated Other Comprehensive Income Components</b>			
Unrealized gains and losses on available for sale securities	Other net realized investment gains	\$ (3,381)	\$ (5,534)
	Other than temporary impairment losses on investments	341	25
	Total before tax	(3,040)	(5,509)
	Income tax benefit	1,158	1,490
	Net of tax	\$ (1,882)	\$ (4,019)
<b>Foreign Currency Items</b>			
	Other net realized investment gains (losses)	\$ 128	\$ (20)
	Income tax expense (benefit)	(45)	7
	Net of tax	\$ 83	\$ (13)
Total reclassifications	Net of tax	\$ (1,799)	\$ (4,032)

***Net Realized Investment Gains***

The components of net realized investment gains for the quarters ended March 31, 2015 and 2014 were as follows:

<b>(Dollars in thousands)</b>	<b>Quarters Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Fixed maturities:</b>		
Gross realized gains	\$ 733	\$ 1,671
Gross realized losses	(131)	(131)
Net realized gains	602	1,540
<b>Common stock:</b>		
Gross realized gains	2,552	4,007
Gross realized losses	(338)	(18)
Net realized gains	2,214	3,989
<b>Preferred stock:</b>		
Gross realized gains	96	
Gross realized losses		
Net realized gains (losses)	96	
<b>Derivatives:</b>		
Gross realized gains		
Gross realized losses	(5,882)	(6,342)
Net realized losses	(5,882)	(6,342)
<b>Total net realized investment gains</b>	<b>\$ (2,970)</b>	<b>\$ (813)</b>

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The proceeds from sales of available-for-sale securities resulting in net realized investment gains for the quarters ended March 31, 2015 and 2014 were as follows:

<b>(Dollars in thousands)</b>	<b>Quarters Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Fixed maturities	\$ 108,120	\$ 95,289
Equity securities	6,509	10,702
Preferred stock	1,540	

***Net Investment Income***

The sources of net investment income for the quarters ended March 31, 2015 and 2014 were as follows:

<b>(Dollars in thousands)</b>	<b>Quarters Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Fixed maturities	\$ 8,014	\$ 7,255
Equity securities	792	2,140
Cash and cash equivalents	18	18
Other invested assets	253	
<b>Total investment income</b>	<b>9,077</b>	<b>9,413</b>
Investment expense	(836)	(1,129)
<b>Net investment income</b>	<b>\$ 8,241</b>	<b>\$ 8,284</b>

The Company's total investment return on a pre-tax basis for the quarters ended March 31, 2015 and 2014 were as follows:

<b>(Dollars in thousands)</b>	<b>Quarters Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net investment income	\$ 8,241	\$ 8,284
Net realized investment (losses)	(2,970)	(813)
Change in unrealized investment gains (losses)	4,597	(2,571)
Net realized and unrealized investment returns	1,627	(3,384)
<b>Total investment return</b>	<b>\$ 9,868</b>	<b>\$ 4,900</b>

Total investment return % (1)	0.6%	0.3%
Average investment portfolio	\$ 1,764,110	\$ 1,560,464

(1) Not annualized.

***Insurance Enhanced Asset Backed and Credit Securities***

As of March 31, 2015, the Company held insurance enhanced asset backed and credit securities with a market value of approximately \$47.6 million. Approximately \$27.0 million of these securities were tax free municipal bonds, which represented approximately 1.5% of the Company's total cash and invested assets, net of payable/receivable for securities purchased and sold. These securities had an average rating of AA-. Approximately \$14.4 million of these bonds are pre-refunded with U.S. treasury securities, of which \$3.6 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 \$12.6 million of insurance enhanced municipal bonds, \$1.8 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	Ratings
	with Insurance	without Insurance
AAA	\$ 1,244	\$
AA	519	1,244
BB		519
Total	\$ 1,763	\$ 1,763

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 March 31, 2015, is as follows:

(Dollars in thousands) Financial Guarantor	Total	Pre-refunded Securities	Government	Exposure Net of Pre-refunded & Government
			Guaranteed Securities	Guaranteed Securities
Ambac Financial Group	\$ 2,032	\$ 199	\$	\$ 1,833
Assured Guaranty Corporation	4,270	538		3,732
Municipal Bond Insurance Association	8,067	2,817		5,250
Gov't National Housing Association	555		555	
Permanent School Fund Guaranty	1,244		1,244	
Total backed by financial guarantors	16,168	3,554	1,799	10,815
Other credit enhanced municipal bonds	10,816	10,816		
Total	\$ 26,984	\$ 14,370	\$ 1,799	\$ 10,815

In addition to the tax-free municipal bonds, the Company held \$20.6 million of asset-backed and taxable municipal bonds, which represented approximately 1.2% of the Company's total invested assets, net of receivable/payable for securities purchased and sold. The financial guarantors of the Company's \$20.6 million of insurance enhanced asset-backed and taxable municipal securities include Municipal Bond Insurance Association (\$11.5 million), Ambac (\$1.6 million), and Assured Guaranty Corporation (\$7.2 million), Financial Guaranty Insurance Group (\$0.3 million).

The Company had no direct investments in the entities that have provided financial guarantees or other credit support to any security held by the Company at March 31, 2015.

#### ***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 March 31, 2015 and December 31, 2014:

<b>(Dollars in thousands)</b>	<b>Estimated Fair Value</b>	
	<b>March 31, 2015</b>	<b>December 31, 2014</b>
On deposit with governmental authorities	\$ 39,845	\$ 32,790
Intercompany trusts held for the benefit of U.S. policyholders	540,193	495,301
Held in trust pursuant to third party requirements	95,215	95,828
Letter of credit held for third party requirements	6,237	9,340
Securities held as collateral for borrowing arrangements (1)	265,337	222,809
Total	\$ 946,827	\$ 856,068

(1) Amount required to collateralize margin borrowing facilities.

#### **4. 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.



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The Company accounts for the interest rate swaps as non-hedge instruments and recognizes the fair value of the interest rate swaps in other assets or other liabilities on the consolidated balance sheets with the changes in fair value recognized as net realized investment gains in the consolidated statement of operations. The estimated fair value of the interest rate swaps, which is primarily derived from the forward interest rate curve, is based on the valuation received from a third party financial institution.

The following table summarizes information on the location and the gross amount of the derivatives fair value on the consolidated balance sheets as of March 31, 2015 and December 31, 2014:

(Dollars in thousands)	March 31, 2015		December 31, 2014		
<b>Derivatives Not Designated as Hedging</b>	<b>Balance Sheet</b>	<b>Notional</b>	<b>Fair</b>	<b>Notional</b>	<b>Fair</b>
<b>Instruments under ASC 815</b>	<b>Location</b>	<b>Amount</b>	<b>Value</b>	<b>Amount</b>	<b>Value</b>
Interest rate swap agreements	Other liabilities	\$ 200,000	\$ (18,154)	\$ 200,000	\$ (13,675)

The following table summarizes the net losses included in the consolidated statement of operations for changes in the fair value of the derivatives and the periodic net interest settlements under the derivatives for the quarters ended March 31, 2015 and 2014:

(Dollars in thousands)	Statement of Operations Line	Quarter Ended March 31,	
		2015	2014
Interest rate swap agreements	Other net realized investment losses	\$ (5,882)	\$ (6,342)

As of March 31, 2015, the Company is due receivables of \$6.1 million for collateral posted and \$18.9 million for margin calls made in connection with the interest rate swaps. These amounts are included in other assets on the consolidated balance sheets.

## 5. 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.

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

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

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

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

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**GLOBAL INDEMNITY PLC**

The following table presents information about the Company's invested assets and derivative instruments measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of March 31, 2015 (Dollars in thousands)	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Fixed maturities:				
U.S. treasury and agency obligations	\$ 85,008	\$ 10,066	\$	\$ 95,074
Obligations of states and political subdivisions		228,955		228,955
Mortgage-backed securities		216,323		216,323
Commercial mortgage-backed securities		169,548		169,548
Asset-backed securities		257,640		257,640
Corporate bonds		478,463		478,463
Foreign corporate bonds		131,334		131,334
Total fixed maturities	85,008	1,492,329		1,577,337
Common stock	121,456			121,456
Other invested assets			29,992	29,992
Total assets measured at fair value	\$ 206,464	\$ 1,492,329	\$ 29,992	\$ 1,728,785
<b>Liabilities:</b>				
Derivative instruments	\$	\$ 18,154	\$	\$ 18,154
Total liabilities measured at fair value	\$	\$ 18,154	\$	\$ 18,154

As of December 31, 2014 (Dollars in thousands)	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Fixed maturities:				
U.S. treasury and agency obligations	\$ 74,765	\$ 6,002	\$	\$ 80,767
Obligations of states and political subdivisions		191,473		191,473
Mortgage-backed securities		208,759		208,759
Commercial mortgage-backed securities		133,158		133,158
Asset-backed securities		178,263		178,263
Corporate bonds		383,416		383,416
Foreign corporate bonds		107,639		107,639
Total fixed maturities	74,765	1,208,710		1,283,475
Common stock	122,048			122,048
Other invested assets			33,663	33,663

Total assets measured at fair value	\$ 196,813	\$ 1,208,710	\$ 33,663	\$ 1,439,186
<b>Liabilities:</b>				
Derivative instruments	\$	\$ 13,675	\$	\$ 13,675
Total liabilities measured at fair value	\$	\$ 13,675	\$	\$ 13,675

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.

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**GLOBAL INDEMNITY PLC**

There were no transfers between Level 1 and Level 2 during the quarters ended March 31, 2015 or 2014.

The following table presents changes in Level 3 investments measured at fair value on a recurring basis for the quarters ended March 31, 2015 and 2014:

<b>(Dollars in thousands)</b>	<b>Quarters Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Beginning balance	\$ 33,663	\$ 3,489
Total gains (losses) (realized / unrealized):		
Included in accumulated other comprehensive income (loss)	363	(226)
Investment Income:		
Equity in Limited Partnership	253	
Purchases		2,101
Distributions	(4,287)	
Ending balance	\$ 29,992	\$ 5,364

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

The Company uses the equity method to account for an investment in a limited partnership where its ownership interest exceeded 3%. The equity method of accounting for an investment in a limited partnership requires changes in fair market value to be reflected in the income statement. The Company will record the changes in fair market value for investments in limited partnerships accounted for under the equity method to investment income. The change in fair market value included in investment income for this limited partnership during the first quarter of 2015 was \$0.3 million.

#### ***Fair Value of Alternative Investments***

Included in Other invested assets in the fair value hierarchy at March 31, 2015 and December 31, 2014 are limited liability partnerships measured at fair value. The following table provides the fair value and future funding commitments related to these investments at March 31, 2015 and December 31, 2014.

<b>(Dollars in thousands)</b>	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
	<b>Fair Value</b>	<b>Future Funding Commitment</b>	<b>Fair Value</b>	<b>Future Funding Commitment</b>
Equity Fund, LP (1)	\$ 3,230	\$ 2,391	\$ 3,401	\$ 2,436
Real Estate Fund, LP (2)				
European Non-Performing Loan Fund, LP (3)	26,762	23,564	30,262	20,064

Total	\$ 29,992	\$ 25,955	\$ 33,663	\$ 22,500
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- (1) This limited partnership invests in companies from various business sectors whereby the partnership has acquired control of the operating business as a lead or organizing investor. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner.
- (2) This limited partnership invests in real estate assets through a combination of direct or indirect investments in partnerships, limited liability companies, mortgage loans, and lines of credit. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company continues to hold an investment in this limited partnership and has written the fair value down to zero.
- (3) This limited partnership invests in distressed securities and assets through senior and subordinated, secured and unsecured debt and equity, in both public and private large-cap and middle-market companies. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner.

## GLOBAL INDEMNITY PLC

### *Pricing*

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

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

Equity prices are received from all primary and secondary exchanges.

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

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

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

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

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

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

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

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

On a quarterly basis, the Company corroborates investment security prices received from its pricing vendors by obtaining pricing from a second pricing vendor for a sample of securities. During the quarters ended March 31, 2015 and 2014, the Company has not adjusted quotes or prices obtained from the pricing vendors.



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

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 Company, Ltd. ( Global Indemnity Reinsurance ) and the Insurance Operations, for the quarters ended March 31, 2015 and 2014 were as follows:

**Quarter Ended March 31, 2015:**

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
<b>Revenues:</b>				
Gross premiums written	\$ 138,796	\$ 123,004	\$ (118,931)	\$ 142,869
Net premiums written	\$ 138,757	\$ (12,653)	\$	\$ 126,104
Net premiums earned	\$ 71,664	\$ 55,673	\$	\$ 127,337
Net investment income	10,182	4,486	(6,427)	8,241
Net realized investment losses	(269)	(2,701)	\$	(2,970)
Other income (loss)	(79)	631	\$	552
Total revenues	81,498	58,089	(6,427)	133,160
<b>Losses and Expenses:</b>				
Net losses and loss adjustment expenses	36,184	33,435	\$	69,619
Acquisition costs and other underwriting expenses	30,294	17,964	\$	48,258
Corporate and other operating expenses	2,081	9,459	\$	11,540
Interest expense	394	6,538	(6,427)	505
Income (loss) before income taxes	\$ 12,545	\$ (9,307)	\$	\$ 3,238

**Quarter Ended March 31, 2014:**

Eliminations	Total
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(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries		
<b>Revenues:</b>				
Gross premiums written	\$ 49,999	\$ 52,992	\$ (25,794)	\$ 77,197
Net premiums written	\$ 49,999	\$ 22,862	\$	\$ 72,861
Net premiums earned	\$ 42,354	\$ 25,190	\$	\$ 67,544
Net investment income	7,651	5,420	(4,787)	8,284
Net realized investment gains (losses)	1,252	(2,065)		(813)
Other income	2	166		168
Total revenues	51,259	28,711	(4,787)	75,183
<b>Losses and Expenses:</b>				
Net losses and loss adjustment expenses	19,958	18,614		38,572
Acquisition costs and other underwriting expenses	17,794	8,691		26,485
Corporate and other operating expenses	1,367	1,594		2,961
Interest expense	240	4,738	(4,787)	191
Income (loss) before income taxes	\$ 11,900	\$ (4,926)	\$	\$ 6,974

## GLOBAL INDEMNITY PLC

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

(Dollars in thousands)	Quarters Ended March 31,	
	2015	2014
Current income tax expense (benefit):		
Foreign	\$ 91	\$ 64
U.S. Federal	1,110	(270)
Total current income tax expense (benefit)	1,201	(206)
Deferred income tax expense (benefit):		
U.S. Federal	(4,757)	(1,643)
Total deferred income tax expense (benefit)	(4,757)	(1,643)
Total income tax expense (benefit)	\$ (3,556)	\$ (1,849)

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

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

(Dollars in thousands)	Quarters Ended March 31,			
	2015	2014	2015	2014
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Expected tax provision at weighted average rate	\$ (3,167)	(97.8%)	\$ (1,662)	(23.8%)
Adjustments:				
Tax exempt interest	(136)	(4.2)	(215)	(3.1)
Dividend exclusion	(155)	(4.8)	(478)	(6.9)
Effective tax rate adjustment			501	7.2
Other	(98)	(3.0)	5	0.1
Actual tax on continuing operations	\$ (3,556)	(109.8%)	\$ (1,849)	(26.5%)

The effective income tax benefit rate for the quarter ended March 31, 2015 was 109.8%, compared to an effective income tax benefit rate of 26.5%, for the quarter ended March 31, 2014. The increase in the effective income tax benefit rate is primarily due to acquisition expenses for American Reliable during the quarter ended March 31, 2015. Taxes were computed using a discrete period computation because a reliable estimate of an effective tax rate could not be made.



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**GLOBAL INDEMNITY PLC**

The tax effects of temporary differences that give rise to significant portions of the net deferred tax assets at March 31, 2015 and December 31, 2014 are presented below:

<b>(Dollars in thousands)</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Deferred tax assets:		
Discounted unpaid losses and loss adjustment expenses	\$ 8,537	\$ 7,492
Unearned premiums	7,642	3,409
Alternative minimum tax credit carryover	9,860	10,473
Partnership K1 basis differences	145	145
Capital gain on derivative instruments	6,354	4,786
Investment impairments	476	379
Stock options	2,076	2,048
Deferred acquisition costs	4,628	187
Stat-to-GAAP reinsurance reserve	1,424	1,424
Intercompany transfers	1,849	1,919
Other	4,298	3,050
<b>Total deferred tax assets</b>	<b>47,289</b>	<b>35,312</b>
Deferred tax liabilities:		
Intangible assets	8,989	3,220
Unrealized gain on securities available-for-sale and investments in limited partnerships included in accumulated other comprehensive income	10,539	10,263
Investment basis differences	853	692
Depreciation and amortization	72	16
Other	926	871
<b>Total deferred tax liabilities</b>	<b>21,379</b>	<b>15,062</b>
<b>Total net deferred tax assets</b>	<b>\$ 25,910</b>	<b>\$ 20,250</b>

Management believes it is more likely than not that the deferred tax assets will be fully utilized in future years. As a result, the Company has not recorded a valuation allowance at March 31, 2015 and December 31, 2014.

The Company has an alternative minimum tax credit carry forward of \$9.9 million and \$10.5 million as of March 31, 2015 and December 31, 2014, respectively, which can be carried forward indefinitely. The company has no net operating loss ( NOL ) carryforward as of March 31, 2015 or December 31, 2014.

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**GLOBAL INDEMNITY PLC**
**7. Liability for Unpaid Losses and Loss Adjustment Expenses**

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

<b>(Dollars in thousands)</b>	<b>Quarters Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Balance at beginning of period	\$ 675,472	\$ 779,466
Less: Ceded reinsurance receivables	(123,201)	(192,491)
Net balance at beginning of period	552,271	586,975
Purchased reserves gross	90,645	
Less: Purchased reserves ceded	(11,681)	
Purchased reserves, net	78,964	
<b>Incurred losses and loss adjustment expenses related to:</b>		
Current year	73,114	40,666
Prior years	(3,495)	(2,094)
Total incurred losses and loss adjustment expenses	69,619	38,572
<b>Paid losses and loss adjustment expenses related to:</b>		
Current year	14,682	8,212
Prior years	56,561	33,821
Total paid losses and loss adjustment expenses	71,243	42,033
Net balance at end of period	629,611	583,514
Plus: Ceded reinsurance receivables	140,508	195,533
Balance at end of period	\$ 770,119	\$ 779,047

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 first quarter of 2015, the Company decreased its prior accident year loss reserves by \$3.5 million, which consisted of a \$2.0 million decrease related to Commercial Lines and a \$1.5 million decrease related to Reinsurance Operations.

The \$2.0 million decrease related to Commercial Lines primarily consisted of the following:

**Property:** A \$1.0 million reduction primarily due to severity and frequency emerging less than expected for in accident years 2011 through 2014.

**Umbrella:** \$0.3 million decrease primarily due to emergence continuing to be better than anticipated in accident years 2003 through 2005.

**General Liability:** A \$0.8 million decrease primarily due to the reduction of a reinsurance reserve resulting from the collection of two disputed balances.

The \$1.5 million decrease related to Reinsurance Operations was primarily due to less severity on property than expected in accident years 2011 through 2014.

In the first quarter of 2014, the Company reduced its prior accident year loss reserves by \$2.1 million, which consisted of a \$2.0 million decrease related to Commercial Lines and a \$0.1 million decrease related to Reinsurance Operations.

The \$2.0 million decrease related to Commercial Lines primarily consisted of the following:

**General Liability:** A \$0.9 million decrease primarily driven by better than expected experience in the active general liability lines in accident years 2005 to 2011 offset by strengthening of environmental losses.

**Professional Liability:** A \$1.8 million decrease primarily driven by better than expected experience in the runoff of the professional liability lines in accident years 2005 to 2011.

**Other lines:** increased \$0.7 million mainly in the 2011 accident year due to higher than expected emergence for discontinued lines. As a result, management increased loss reserves.

The \$0.1 million decrease related to Reinsurance Operations is primarily related to a reduction in accident years 2010 to 2013 for property treaties.

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**GLOBAL INDEMNITY PLC**
**8. Debt**

The amount outstanding on the Company's margin borrowing facilities was \$207.2 million and \$174.7 million as of March 31, 2015 and December 31, 2014, respectively. The borrowing rate for each facility is tied to LIBOR and is currently approximately 1%. These facilities are due on demand. The borrowings are subject to maintenance margin, which is a minimum account balance that must be maintained. A decline in market conditions could require an additional deposit of collateral. As of March 31, 2015, approximately \$265.3 million in securities were deposited as collateral to support the borrowing.

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

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the quarter ended March 31, 2015:

<b>Period (1)</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plan or Program</b>
January 1-31, 2015	9,009(2)	\$ 28.37	
March 1-31, 2015	2,290(2)	\$ 26.98	
<b>Total</b>	<b>11,299</b>	<b>\$ 28.09</b>	

(1) Based on settlement date.

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

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the quarter ended March 31, 2014:

<b>Period (1)</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plan or Program</b>
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January 1-31, 2014	3,644(2)	\$ 25.30
February 1-28, 2014	362(2)	\$ 24.00
March 1-31, 2014	1,438(2)	\$ 26.23
Total	5,444	\$ 25.46

(1) Based on settlement date.

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

Please see Note 11 of the notes to the consolidated financial statements in Item 8 Part II of the Company's 2014 Annual Report on Form 10-K for more information on the Company's repurchase program.

## 10. Related Party Transactions

### *Fox Paine & Company*

As of March 31, 2015, Fox Paine beneficially owned shares having approximately 93% of the Company's total outstanding voting power. Fox Paine has the right to appoint a number of the Company's Directors equal in aggregate to the pro rata percentage of the voting shares of the Company beneficially held by Fox Paine for so long as Fox Paine holds an aggregate of 25% or more of the voting power in the Company. Fox Paine controls the election of all of the Company's Directors due to its controlling share ownership. The Company's Chairman is a member of Fox Paine. The Company relies on Fox Paine to provide management services and other services related to the operations of the Company.

At March 31, 2015 and December 31, 2014, Global Indemnity Reinsurance was a limited partner in Fox Paine Capital Fund, II, which is managed by Fox Paine. This investment was originally made by United National Insurance Company in June 2000 and pre-dates the September 5, 2003 acquisition by Fox Paine of Wind River Investment Corporation, which was the

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**GLOBAL INDEMNITY PLC**

predecessor holding company for United National Insurance Company. The Company's investment in this limited partnership was valued at \$3.2 million and \$3.4 million at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015, the Company had an unfunded capital commitment of \$2.4 million to the partnership. During the quarter ended March 31, 2015, the Company received a distribution of \$0.8 million. There were no distributions received from the limited partnership during 2014.

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 in each of the quarters ended March 31, 2015 and 2014 as part of the annual management fee paid to Fox Paine. As of March 31, 2015 and December 31, 2014, unpaid management fees, which were included in other liabilities on the consolidated balance sheets, were \$1.1 million and \$0.6 million, respectively.

In connection with the acquisition, the Company agreed to pay to Fox Paine & Company, LLC ( 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 quarter ended March 31, 2015. As payment for these fees, 267,702 A ordinary shares of Global Indemnity will be issued. These shares will be registered but cannot be sold until the earlier of five years or a change of control.

***Cozen O Connor***

The Company incurred \$0.1 million and \$0.03 million for legal services rendered by Cozen O Connor during the quarters ended March 31, 2015 and 2014, respectively. Stephen A. Cozen, the chairman of Cozen O Connor, is a member of the Company's Board of Directors.

***Crystal & Company***

During each of the quarters ended March 31, 2015 and 2014, the Company incurred \$0.1 million in brokerage fees to Crystal & Company, an insurance broker. James W. Crystal, the chairman and chief executive officer of Crystal & Company, is a member of the Company's Board of Directors.

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

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

(Dollars in thousands)	Quarters Ended March 31,	
	2015	2014
Assumed earned premium	\$ 1,803	\$ 1,014
Assumed losses and loss adjustment expenses	535	304

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

<b>(Dollars in thousands)</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Net receivable balance	\$ 2,890	\$ 2,897

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## GLOBAL INDEMNITY PLC

### 11. 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*

The Company entered into a \$50 million commitment to purchase an alternative investment vehicle which is comprised of European non-performing loans. As of March 31, 2015, the Company has funded \$26.5 million of this commitment leaving \$23.6 million as unfunded.

At March 31, 2015, the Company had an unfunded capital commitment of \$2.4 million related to its investment in Fox Paine Capital Fund, II. See Note 10 for additional information on the Company's investment in Fox Paine Capital Fund, II.

### 12. Share-Based Compensation Plans

On June 11, 2014, the Company's Shareholders approved the Global Indemnity plc Share Incentive Plan (the *Plan*). The previous share incentive plan, which became effective in 2003, expired per its terms on September 5, 2013. The purpose of the Plan is to give the Company a competitive advantage in attracting and retaining officers, employees, consultants and non-employee directors by offering stock options, restricted shares and other stock-based awards. Under the Plan, the Company may issue up to 2.0 million A ordinary shares pursuant to awards granted under the Plan.

#### **Options**

During the quarter ended March 31, 2015, the company awarded 200,000 time based options under the plan. During the quarter ended March 31, 2014, the Company awarded 25,000 Time-Based Options under the Plan. No unvested stock options were forfeited during the quarters ended March 31, 2015 and 2014.

#### **Restricted Shares**

During the quarter ended March 31, 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.

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During the quarter ended March 31, 2014, key employees of the Company earned 90,023 A ordinary shares, with a weighted average grant date value of \$25.30 per share. These shares were approved and granted in the 2<sup>nd</sup> quarter, 2014.

Of the shares granted during the quarter ended March 31, 2015, 10,574 were granted to the Company's Chief Executive Officer and vest  $33 \frac{1}{3}$  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 anniversary of the third year subject to accident year true-up of bonus year underwriting results and are subject to Board approval.

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Of the shares earned during the quarter ended March 31, 2014, 11,857 were earned by 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. The remaining 78,166 shares were earned by 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 anniversary of the third year subject to accident year true-up of bonus year underwriting results and are subject to Board approval.

During the quarters ended March 31, 2015 and 2014, the Company issued 9,247 and 8,928 A ordinary shares, respectively, at a weighted average grant date value of \$27.75 and \$26.34 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 2015 and 2014 were fully vested but subject to certain restrictions. The 8,928 shares issued to non-employee directors of the Company in 2014 were earned but not granted during the quarter ended March 31, 2014 but were considered issued and outstanding for purposes of this financial statement. These shares were approved in the 2<sup>nd</sup> quarter of 2014.

### 13. Earnings Per Share

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

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

<b>(Dollars in thousands, except share and per share data)</b>	<b>Quarters Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income	\$ 6,794	\$ 8,823
<i>Basic earnings per share:</i>		
Weighted average shares outstanding basic	25,449,282	25,122,812
Net income per share	\$ 0.27	\$ 0.35
<i>Diluted earnings per share:</i>		
Weighted average shares outstanding diluted	25,641,741	25,278,907
Net income per share	\$ 0.26	\$ 0.35

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

	<b>Quarters Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Weighted average shares for basic earnings per share	25,449,282	25,122,812
Non-vested restricted stock	90,475	64,847
Options	101,984	91,248
 Weighted average shares for diluted earnings per share	 25,641,741	 25,278,907

The weighted average shares outstanding used to determine dilutive earnings per share for the quarters ended March 31, 2015 and 2014 do not include 512,500 and 37,500 shares, respectively, which were deemed to be anti-dilutive.

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**14. Segment Information**

The acquisition of American Reliable has impacted the way the Company manages and analyzes its operating results. The business acquired from American Reliable is considered to be a separate segment, Personal Lines. The Company now manages its business through three business segments: Commercial Lines, managed in Bala Cynwyd, PA, 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, AZ, offers specialty personal lines and agricultural coverage, and Reinsurance Operations, managed in Bermuda, provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.

The following are tabulations of business segment information for the quarters ended March 31, 2015 and 2014.

**Quarter Ended March 31, 2015:**

<b>(Dollars in thousands)</b>	<b>Commercial Lines (1)</b>	<b>Personal Lines (1)</b>	<b>Reinsurance Operations (2)</b>	<b>Total</b>
<b>Revenues:</b>				
Gross premiums written	\$ 49,793	\$ 73,211	\$ 19,865	\$ 142,869
Net premiums written	\$ 45,622	\$ 60,656	\$ 19,826	\$ 126,104
Net premiums earned	\$ 50,714	\$ 63,422	\$ 13,201	\$ 127,337
Other income	165	466	(79)	552
Total revenues	50,879	63,888	13,122	127,889
<b>Losses and Expenses:</b>				
Net losses and loss adjustment expenses	29,603	35,918	4,098	69,619
Acquisition costs and other underwriting expenses	20,623(3)	22,746(4)	4,889	48,258
Income (loss) from segments	\$ 653	\$ 5,224	\$ 4,135	\$ 10,012
<b>Unallocated Items:</b>				
Net investment income				8,241
Net realized investment losses				(2,970)
Corporate and other operating expenses				(11,540)
Interest expense				(505)
Income before income taxes				3,238
Income tax benefit				3,556
Net income				6,794
Total assets	\$ 775,898	\$ 509,841	\$ 988,161(5)	\$ 2,273,900



- (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 \$268 relating to cessions from Commercial Lines to Reinsurance Operations.
- (4) Includes federal excise tax of \$317 relating to cessions from Personal Lines to Reinsurance Operations.
- (5) Comprised of Global Indemnity Reinsurance's total assets less its investment in subsidiaries.

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**Quarter Ended March 31, 2014:**

<b>(Dollars in thousands)</b>	<b>Commercial Lines (1)</b>	<b>Reinsurance Operations (2)</b>	<b>Total</b>
<b>Revenues:</b>			
Gross premiums written	\$ 52,992	\$ 24,205	\$ 77,197