Global Indemnity Ltd
Form 10-Q
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2018

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 LIMITED

(Exact name of registrant as specified in its charter)

Cayman Islands	98-1304287
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

27 HOSPITAL ROAD

GEORGE TOWN, GRAND CAYMAN

KY1-9008

CAYMAN ISLANDS

(Address of principal executive office including zip code)

Registrant's telephone number, including area code: (345) 949-0100

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files.). Yes [X] No [ ]

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

Large accelerated filer	[ ];	Accelerated filer	[X];
Non-accelerated filer	[ ];	Smaller reporting company [ ];	
Emerging growth company [ ]			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

As of November 2, 2018, the registrant had outstanding 10,089,507 A Ordinary Shares and 4,133,366 B Ordinary Shares.

TABLE OF CONTENTS

2

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL INDEMNITY LIMITED

Consolidated Balance Sheets

(In thousands, except share amounts)

	(Unaudited) September 30, 2018	December 31, 2017
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,299,656 and $1,243,144)	$ 1,273,681	$ 1,241,437
Equity securities:		
At fair value (cost: $137,554 and $124,915)	137,554	140,229
Other invested assets	85,268	77,820
Total investments	1,496,503	1,459,486
Cash and cash equivalents	40,646	74,414
Premiums receivable, net	84,641	84,386
Reinsurance receivables, net	96,534	105,060
Funds held by ceding insurers	50,805	45,300
Federal income taxes receivable	10,758	10,332
Deferred federal income taxes	35,675	26,196
Deferred acquisition costs	64,538	61,647
Intangible assets	22,152	22,549
Goodwill	6,521	6,521
Prepaid reinsurance premiums	22,976	28,851
Receivable for securities sold	-	1,543
Other assets	26,297	75,384
Total assets	$ 1,958,046	$ 2,001,669
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 608,607	$ 634,664
Unearned premiums	297,630	285,397
Ceded balances payable	16,612	10,851
Payable for securities purchased	4,942	-
Contingent commissions	8,076	7,984
Debt	282,086	294,713
Other liabilities	37,767	49,666
Total liabilities	$ 1,255,720	$ 1,283,275
Commitments and contingencies (Note 10)	-	-

Shareholders' equity:		
Ordinary shares, $0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 10,164,291 and 10,102,927 respectively; A ordinary shares outstanding: 10,089,507 and 10,073,376, respectively; B ordinary shares issued and outstanding: 4,133,366 and 4,133,366, respectively	2	2
Additional paid-in capital	437,124	434,730
Accumulated other comprehensive income (loss), net of taxes	(23,829)	8,983
Retained earnings	292,001	275,838
A ordinary shares in treasury, at cost: 74,784 and 29,551 shares, respectively	(2,972)	(1,159)
Total shareholders' equity	702,326	718,394
Total liabilities and shareholders' equity	$ 1,958,046	$ 2,001,669

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY LIMITED

Consolidated Statements of Operations

(In thousands, except shares and per share data)

	(Unaudited) Quarters Ended September 30, 2018	2017	(Unaudited) Nine Months Ended September 30, 2018	2017
Revenues:				
Gross premiums written	$135,606	$126,054	$418,670	$393,699
Net premiums written	$116,233	$109,045	$360,557	$344,348
Net premiums earned	$120,528	$108,619	$342,447	$328,818
Net investment income	11,750	10,134	34,108	27,618
Net realized investment gains (losses):				
Other than temporary impairment losses on investments	(24)	(1,020)	(395)	(1,708)
Other net realized investment gains	5,343	57	8,228	858
Total net realized investment gains (losses)	5,319	(963)	7,833	(850)
Other income	411	2,294	1,289	5,444
Total revenues	138,008	120,084	385,677	361,030
Losses and Expenses:				
Net losses and loss adjustment expenses	80,493	82,395	195,426	202,656
Acquisition costs and other underwriting expenses	48,680	45,002	141,196	135,010
Corporate and other operating expenses	3,475	4,630	23,653	11,045
Interest expense	4,924	4,836	14,725	12,065
Income (loss) before income taxes	436	(16,779)	10,677	254
Income tax benefit	(3,292)	(7,855)	(5,944)	(13,193)
Net income (loss)	$3,728	$(8,924)	$16,621	$13,447
Per share data:				
Net income (loss) (1)				
Basic	$0.26	$(0.51)	$1.18	$0.78
Diluted	$0.26	$(0.51)	$1.16	$0.76
Weighted-average number of shares outstanding				
Basic	14,100,180	17,343,292	14,082,698	17,331,840
Diluted	14,346,585	17,343,292	14,321,113	17,684,519
Cash dividends declared per share	$0.25	$-	$0.75	$-

(1) For the quarter ended September 30, 2017, “diluted” loss per share is the same as “basic” loss per share since there was a net loss for the period.

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY LIMITED

Consolidated Statements of Comprehensive Income

(In thousands)

	(Unaudited) Quarters Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$3,728	$(8,924)	$16,621	$13,447
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses)	(1,624)	3,386	(22,632)	10,719
Portion of other-than-temporary impairment losses recognized in other comprehensive income (losses)	7	(1)	(1)	(2)
Reclassification adjustment for gains (losses) included in net income	717	441	1,403	(788)
Unrealized foreign currency translation gains (losses)	(454)	273	(1,554)	774
Other comprehensive income (loss), net of tax	(1,354)	4,099	(22,784)	10,703
Comprehensive income (loss), net of tax	$2,374	$(4,825)	$(6,163)	$24,150

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY LIMITED

Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except share amounts)

	(Unaudited) Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Number of A ordinary shares issued:		
Number at beginning of period	10,102,927	13,436,548
Ordinary shares issued under share incentive plans	37,381	2,204
Ordinary shares issued to directors	23,983	27,121
Ordinary shares redeemed	-	(3,397,031)
Adjustment for shares redeemed indirectly owned by subsidiary	-	34,085
Number at end of period	10,164,291	10,102,927
Number of B ordinary shares issued:		
Number at beginning and end of period	4,133,366	4,133,366
Par value of A ordinary shares:		
Number at beginning and end of period	$ 1	$ 1
Par value of B ordinary shares:		
Balance at beginning and end of period	$ 1	$ 1
Additional paid-in capital:		
Balance at beginning of period	$ 434,730	$ 430,283
Adjustment for shares redeemed indirectly owned by subsidiary	-	706
Share compensation plans	2,394	3,741
Balance at end of period	$ 437,124	$ 434,730
Accumulated other comprehensive income (loss), net of deferred income tax:		
Balance at beginning of period	$ 8,983	$ (618)
Other comprehensive income (loss):		
Change in unrealized holding gains (losses)	(21,229)	8,829
Change in other than temporary impairment losses recognized in other comprehensive income	(1)	(3)
Unrealized foreign currency translation gains (losses)	(1,554)	775
Other comprehensive income (loss)	(22,784)	9,601
Cumulative effect adjustment resulting from adoption of new accounting guidance	(10,028)	-
Balance at end of period	$ (23,829)	$ 8,983
Retained earnings:		
Balance at beginning of period	$ 275,838	$ 368,284
Cumulative effect adjustment resulting from adoption of new accounting guidance	10,198	-

Ordinary shares redeemed	-	(83,015)
Adjustment for gain on shares redeemed indirectly owned by subsidiary	-	120
Net income (loss)	16,621	(9,551)
Dividends to shareholders	(10,656)	-
Balance at end of period	$ 292,001	$ 275,838
Number of treasury shares:		
Number at beginning of period	29,551	-
A ordinary shares purchased	45,233	29,551
Number at end of period	74,784	29,551
Treasury shares, at cost:		
Balance at beginning of period	$ (1,159)	$ -
A ordinary shares purchased, at cost	(1,813)	(1,159)
Balance at end of period	$ (2,972)	$ (1,159)
Total shareholders' equity	$ 702,326	$ 718,394

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY LIMITED

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited)	
	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$16,621	$13,447
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Amortization and depreciation	5,272	4,813
Amortization of debt issuance costs	198	166
Restricted stock and stock option expense	2,394	2,971
Deferred federal income taxes	(6,270)	(13,611)
Amortization of bond premium and discount, net	4,650	6,137
Net realized investment (gains) losses	(7,833)	850
Changes in:		
Premiums receivable, net	(255)	7,632
Reinsurance receivables, net	8,526	20,005
Funds held by ceding insurers	(7,059)	(26,576)
Unpaid losses and loss adjustment expenses	(26,057)	(1,316)
Unearned premiums	12,233	3,776
Ceded balances payable	5,761	(1,808)
Other assets and liabilities, net	35,040	(31,442)
Contingent commissions	92	(3,902)
Federal income tax receivable/payable	(426)	314
Deferred acquisition costs, net	(2,891)	(4,396)
Prepaid reinsurance premiums	5,875	11,756
Net cash provided by (used for) operating activities	45,871	(11,184)
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	229,362	742,229
Proceeds from sale of equity securities	28,141	24,483
Proceeds from maturity of fixed maturities	43,303	112,620
Proceeds from limited partnerships	8,352	10,567
Amounts received (paid) in connection with derivatives	7,599	(2,500)
Purchases of fixed maturities	(329,002)	(979,074)
Purchases of equity securities	(22,931)	(28,631)
Purchases of other invested assets	(15,800)	(18,000)
Acquisition of business	(3,515)	-
Net cash used for investing activities	(54,491)	(138,306)
Cash flows from financing activities:		
Net borrowings (repayments) under margin borrowing facility	(12,825)	9,872
Proceeds from issuance of subordinated notes	-	130,000
Debt issuance cost	-	(4,246)
Dividends paid to shareholders	(10,510)	-

Purchase of A ordinary shares	(1,813)	(1,159)
Net cash provided by (used for) financing activities	(25,148)	134,467
Net change in cash and cash equivalents	(33,768)	(15,023)
Cash and cash equivalents at beginning of period	74,414	75,110
Cash and cash equivalents at end of period	$40,646	$60,087

See accompanying notes to consolidated financial statements.

7

GLOBAL INDEMNITY LIMITED

1. Principles of Consolidation and Basis of Presentation

Global Indemnity Limited ("Global Indemnity" or "the Company") was incorporated on February 9, 2016 and is domiciled in the Cayman Islands. On November 7, 2016, Global Indemnity replaced Global Indemnity plc as the ultimate parent company as a result of a redomestication transaction. The Company's A ordinary shares are publicly traded on the NASDAQ Global Select Market under the ticker symbol GBLI. Please see Note 2 of the notes to the consolidated financial statements in Item 8 Part II of the Company's 2017 Annual Report on Form 10-K for more information on the Company's redomestication.

The Company manages its business through three business segments: Commercial Lines, Personal Lines, and Reinsurance Operations. The Company's Commercial Lines offers specialty property and casualty insurance products in the excess and surplus lines marketplace. The Company manages its Commercial Lines by differentiating them into four product classifications: Penn-America, which markets property and general liability products to small commercial businesses through a select network of wholesale general agents with specific binding authority; United National, which markets insurance products for targeted insured segments, including specialty products, such as property, general liability, and professional lines through program administrators with specific binding authority; Diamond State, which markets property, casualty, and professional lines products, which are developed by the Company's underwriting department by individuals with expertise in those lines of business, through wholesale brokers and also markets through program administrators having specific binding authority; and Vacant Express, which insures dwellings which are currently vacant, undergoing renovation, or are under construction and is distributed through aggregators, brokers, and retail agents. These product classifications comprise the Company's Commercial Lines business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage. The Company's Personal Lines segment offers specialty personal lines and agricultural coverage through general and specialty agents with specific binding authority on an admitted basis. Collectively, the Company's U.S. insurance subsidiaries are licensed in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The Commercial Lines and Personal Lines segments comprise the Company's U.S. Insurance Operations ('Insurance Operations"). The Company's Reinsurance Operations consist solely of the operations of its Bermuda-based wholly-owned subsidiary, Global Indemnity Reinsurance Company, Ltd. ("Global Indemnity Reinsurance"). Global Indemnity Reinsurance is a treaty reinsurer of specialty property and casualty insurance and reinsurance companies. The Company's Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.

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

The unaudited consolidated financial statements include all adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair statement of results for the interim periods. Results of operations for the quarters and nine months ended September 30, 2018 and 2017 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 2017 Annual Report on Form 10-K.

On January 1, 2018, the Company adopted new accounting guidance which requires equity investments, except for those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with the changes in fair value recognized in net income. Upon adoption, the Company recorded a cumulative effect adjustment, net of tax, of $10.0 million which reduced accumulated other comprehensive income and increased retained earnings. During the quarter and nine months ended September 30, 2018, net realized investment gains (losses) included a gain of $2.7 million and a loss of $1.4 million, respectively, related to the change in the fair value of equity investments in accordance with this new accounting guidance. In addition, under the new guidance, equity investments, are no longer classified into different categories as either trading or available for sale. Prior to the adoption of this new guidance, equity securities were previously classified as available for sale.

GLOBAL INDEMNITY LIMITED

On January 1, 2018, the Company adopted new accounting guidance regarding the classification of certain cash receipts and cash payments within the statement of cash flows. Upon adoption, the Company made a policy election to use the cumulative earnings approach for presenting distributions received from equity method investees. Under this approach, distributions up to the amount of cumulative equity in earnings recognized will be treated as returns on investment and presented in operating activities and those in excess of that amount will be treated as returns of investment and presented in the investing section. Prior to adoption, all distributions received from equity method investees were presented in the investing section of the consolidated statements of cash flows. The provisions of this accounting guidance were adopted on a retrospective basis. As a result, the consolidated statement of cash flows for the nine months ended September 30, 2017 that was included in the Form 10-Q for the nine months ended September 30, 2017 was restated. For the nine months ended September 30, 2017, net cash flows from operating activities was increased by $2.4 million and net cash flows from investing activities was reduced by $2.4 million.

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. Investments

The amortized cost and estimated fair value of investments were as follows as of September 30, 2018 and December 31, 2017:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of September 30, 2018					
Fixed maturities:					
U.S. treasury and agency obligations	$81,565	$ 156	$ (2,051)	$79,670	$ -
Obligations of states and political subdivisions	100,494	131	(998)	99,627	-
Mortgage-backed securities	138,442	280	(3,878)	134,844	-
Asset-backed securities	201,317	46	(1,641)	199,722	(1)
Commercial mortgage-backed securities	186,081	3	(5,876)	180,208	-
Corporate bonds	466,198	235	(9,601)	456,832	-
Foreign corporate bonds	125,559	33	(2,814)	122,778	-
Total fixed maturities	1,299,656	884	(26,859)	1,273,681	(1)
Common stock	137,554	-	-	137,554	-
Other invested assets	85,268	-	-	85,268	-
Total	$1,522,478	$ 884	$ (26,859)	$1,496,503	$ (1)

(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”).

GLOBAL INDEMNITY LIMITED

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of December 31, 2017					
Fixed maturities:					
U.S. treasury and agency obligations	$105,311	$ 562	$ (1,193)	$104,680	$ -
Obligations of states and political subdivisions	94,947	441	(274)	95,114	-
Mortgage-backed securities	150,237	404	(1,291)	149,350	-
Asset-backed securities	203,827	267	(393)	203,701	(1)
Commercial mortgage-backed securities	140,761	101	(1,067)	139,795	-
Corporate bonds	422,486	2,295	(1,391)	423,390	-
Foreign corporate bonds	125,575	377	(545)	125,407	-
Total fixed maturities	1,243,144	4,447	(6,154)	1,241,437	(1)
Common stock	124,915	18,574	(3,260)	140,229	-
Other invested assets	77,820	-	-	77,820	-
Total	$1,445,879	$ 23,021	$ (9,414)	$1,459,486	$ (1)

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

Excluding U.S. treasuries and agency bonds, the Company did not hold any debt or equity investments in a single issuer that was in excess of 5% of shareholders' equity at both September 30, 2018 and December 31, 2017.

The amortized cost and estimated fair value of the Company’s fixed maturities portfolio classified as available for sale at September 30, 2018, 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	$84,071	$83,626
Due in one year through five years	440,787	433,350
Due in five years through ten years	238,245	231,360
Due in ten years through fifteen years	6,501	6,331
Due after fifteen years	4,212	4,240
Mortgage-backed securities	138,442	134,844
Asset-backed securities	201,317	199,722
Commercial mortgage-backed securities	186,081	180,208

Total	$1,299,656	$1,273,681

10

GLOBAL INDEMNITY LIMITED

The following table contains an analysis of the Company's fixed income securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of September 30, 2018. Due to new accounting guidance implemented in 2018 regarding the treatment of gains and losses on equity securities, common stock is no longer included in the table:

	Less than 12 months		12 months or longer (1)		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	$16,462	$(279)	$61,137	$(1,772)	$77,599	$(2,051)
Obligations of states and political subdivisions	62,981	(778)	8,849	(220)	71,830	(998)
Mortgage-backed securities	90,574	(2,563)	35,442	(1,315)	126,016	(3,878)
Asset-backed securities	138,627	(1,247)	23,861	(394)	162,488	(1,641)
Commercial mortgage-backed securities	97,440	(3,249)	77,775	(2,627)	175,215	(5,876)
Corporate bonds	385,878	(8,625)	34,749	(976)	420,627	(9,601)
Foreign corporate bonds	83,304	(2,224)	28,124	(590)	111,428	(2,814)
Total fixed maturities	$875,266	$(18,965)	$269,937	$(7,894)	$1,145,203	$(26,859)

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

The following table contains an analysis of the Company's securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of December 31, 2017:

	Less than 12 months		12 months or longer (1)		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	$79,403	$(962)	$17,469	$(231)	$96,872	$(1,193)
Obligations of states and political subdivisions	34,537	(149)	12,060	(125)	46,597	(274)
Mortgage-backed securities	127,991	(1,247)	1,866	(44)	129,857	(1,291)
Asset-backed securities	97,817	(371)	6,423	(22)	104,240	(393)
Commercial mortgage-backed securities	83,051	(523)	27,976	(544)	111,027	(1,067)

Corporate bonds	147,064	(754)	53,024	(637)	200,088	(1,391)
Foreign corporate bonds	53,320	(305)	20,582	(240)	73,902	(545)
Total fixed maturities	623,183	(4,311)	139,400	(1,843)	762,583	(6,154)
Common stock	32,759	(3,260)	-	-	32,759	(3,260)
Total	$655,942	$ (7,571)	$139,400	$ (1,843)	$795,342	$ (9,414)

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

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

GLOBAL INDEMNITY LIMITED

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

(1) the issuer is in financial distress;

(2) the investment is secured;

(3) a significant credit rating action occurred;

(4) scheduled interest payments were delayed or missed;

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

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

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

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

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 September 30, 2018, gross unrealized losses related to U.S. treasury and agency obligations were $2.051 million. Of this amount, $1.772 million have been in an unrealized loss position for twelve months or greater and are rated AA+. Macroeconomic and market analysis is conducted in evaluating these securities. Consideration is given to the interest rate environment, duration and yield curve management of the portfolio, sector allocation and security selection.

Obligations of states and political subdivisions – As of September 30, 2018, gross unrealized losses related to obligations of states and political subdivisions were $0.998 million. Of this amount, $0.220 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 September 30, 2018, gross unrealized losses related to mortgage-backed securities were $3.878 million. Of this amount, $1.315 million have been in an unrealized loss position for twelve months or greater. 99.3% of the unrealized losses for twelve months or greater are related to securities rated AA+ or better. 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. These forecasts incorporate not just national macro-economic trends, but also regional impacts to arrive at the most granular and accurate projections. These assumptions are incorporated into the model as a basis to generate delinquency probabilities, default curves, loss severity curves, and voluntary prepayment curves at the loan level within each deal. The model utilizes HPI-adjusted current LTV, payment history, loan terms, loan modification history, and borrower characteristics as inputs to generate expected cash flows and principal loss for each bond under various scenarios.

Asset backed securities ("ABS") - As of September 30, 2018, gross unrealized losses related to asset backed securities were $1.641 million. Of this amount, $0.394 million have been in an unrealized loss position for twelve months or greater. 78.2% of the unrealized losses for twelve months or greater are related to securities rated A or better. The weighted average credit enhancement for the Company's asset backed portfolio is 23.2. This represents the percentage of pool losses that can occur before an asset backed security will incur its first dollar of principal losses. Every ABS transaction is analyzed on a stand-alone basis. This analysis involves a thorough review of the collateral, prepayment, and structural risk in each transaction. Additionally, the analysis includes an in-depth credit analysis of the originator and servicer of the collateral. The analysis projects an expected loss for a deal given a set of assumptions specific to the asset type. These assumptions are used to calculate at what level of losses the deal will incur its first dollar of principal loss. The major assumptions used to calculate this ratio are loss severities, recovery lags, and no advances on principal and interest.

Commercial mortgage-backed securities ("CMBS") - As of September 30, 2018, gross unrealized losses related to the CMBS portfolio were $5.876 million. Of this amount, $2.627 million have been in an unrealized loss position for twelve months or greater and are rated A- or better. The weighted average credit enhancement for the Company's CMBS portfolio is 49.1. 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. Each loan is analyzed over time using a series of tests to determine if a credit event will occur during the life of the loan. Inherent in this process are several economic scenarios and their corresponding rent/vacancy and capital market states. The five primary credit events that frame the analysis include loan modifications, term default, balloon default, extension, and ability to pay off at balloon. The resulting output is the expected loss adjusted cash flows for each bond under the base case and distressed scenarios.

Corporate bonds - As of September 30, 2018, gross unrealized losses related to corporate bonds were $9.601 million. Of this amount, $0.976 million have been in an unrealized loss position for twelve months or greater. 89.0% of the unrealized losses for twelve months or greater are related to securities rated investment grade or better. The analysis for this asset class includes maintaining detailed financial models that include a projection of each issuer's future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, the issuer's current competitive position, its vulnerability to changes in the competitive and regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

Foreign bonds – As of September 30, 2018, gross unrealized losses related to foreign bonds were $2.814 million. Of this amount, $0.590 million have been in an unrealized loss position for twelve months or greater. 95.5% of the unrealized losses for twelve months or greater are related to securities rated investment grade or better. For this asset class, 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.

GLOBAL INDEMNITY LIMITED

The Company recorded the following other than temporary impairments ("OTTI") on its investment portfolio for the quarters and nine months ended September 30, 2018 and 2017:

(Dollars in thousands)	Quarters Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Fixed maturities:				
OTTI losses, gross	$(24)	$-	$(395)	$(31)
Portion of loss recognized in other comprehensive income (pre-tax)	-	-	-	-
Net impairment losses on fixed maturities recognized in earnings	(24)	-	(395)	(31)
Equity securities	-	(1,020)	-	(1,677)
Total	$(24)	$(1,020)	$(395)	$(1,708)

The following table is an analysis of the credit losses recognized in earnings on fixed maturities held by the Company for the quarters and nine months ended September 30, 2018 and 2017 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	Quarters Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Balance at beginning of period	$ 13	$ 16	$ 13	$ 31
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	-	(3)	-	(18)
Balance at end of period	$ 13	$ 13	$ 13	$ 13

Accumulated Other Comprehensive Income, Net of Tax

Accumulated other comprehensive income, net of tax, as of September 30, 2018 and December 31, 2017 was as follows:

(Dollars in thousands)

	September 30, 2018	December 31, 2017
Net unrealized gains (losses)from:		
Fixed maturities	$ (25,975)	$ (1,707)
Common stock	-	15,314
Foreign currency fluctuations	(1,003)	551
Deferred taxes	3,149	(5,175)
Accumulated other comprehensive income, net of tax	$ (23,829)	$ 8,983

14

GLOBAL INDEMNITY LIMITED

The following tables present the changes in accumulated other comprehensive income, net of tax, by component for the quarters and nine months ended September 30, 2018 and 2017:

Quarter Ended September 30, 2018 (Dollars In Thousands)	Unrealized Gains and Losses on Available for Sale Securities	Foreign Currency Items	Accumulated Other Comprehensive Income
Beginning balance, net of tax	$ (21,926)	$ (549)	$ (22,475)
Other comprehensive loss before reclassification, before tax	(1,945)	(454)	(2,399)
Amounts reclassified from accumulated other comprehensive income (loss), before tax	835	-	835
Other comprehensive loss, before tax	(1,110)	(454)	(1,564)
Income tax benefit related to items of OCI	210	-	210
Cumulative effect adjustment, net of tax	-	-	-
Ending balance, net of tax	$ (22,826)	$ (1,003)	$ (23,829)

Quarter Ended September 30, 2017 (Dollars In Thousands)	Unrealized Gains and Losses on Available for Sale Securities	Foreign Currency Items	Accumulated Other Comprehensive Income
Beginning balance, net of tax	$ 5,549	$ 437	$ 5,986
Other comprehensive income before reclassification, before tax	4,486	548	5,034
Amounts reclassified from accumulated other comprehensive income (loss), before tax	923	(326)	597
Other comprehensive income, before tax	5,409	222	5,631
Income Tax (expense) benefit related to items of OCI	(1,583)	51	(1,532)
Cumulative effect adjustment, net of tax			
Ending balance, net of tax	$ 9,375	$ 710	$ 10,085

Nine Months Ended September 30, 2018 (Dollars In Thousands)	Unrealized Gains and Losses on Available for Sale Securities	Foreign Currency Items	Accumulated Other Comprehensive Income
Beginning balance, net of tax	$ 8,272	$ 711	$ 8,983
Other comprehensive loss before reclassification, before tax	(25,928)	(1,554)	(27,482)
Amounts reclassified from accumulated other comprehensive income (loss), before tax	1,660	-	1,660
Other comprehensive loss, before tax	(24,268)	(1,554)	(25,822)
Income Tax benefit related to items of OCI	3,038	-	3,038
Cumulative effect adjustment, net of tax	(9,868)	(160)	(10,028)
Ending balance, net of tax	$ (22,826)	$ (1,003)	$ (23,829)

GLOBAL INDEMNITY LIMITED

Nine Months Ended September 30, 2017 (Dollars In Thousands)	Unrealized Gains and Losses on Available for Sale Securities	Foreign Currency Items	Accumulated Other Comprehensive Income
Beginning balance, net of tax	$ (554)	$ (64)	$ (618)
Other comprehensive income before reclassification, before tax	14,675	1,212	15,887
Amounts reclassified from accumulated other comprehensive income (loss), before tax	(830)	(336)	(1,166)
Other comprehensive income, before tax	13,845	876	14,721
Income Tax (expense) related to items of OCI	(3,916)	(102)	(4,018)
Cumulative effect adjustment, net of tax	-	-	-
Ending balance, net of tax	$ 9,375	$ 710	$ 10,085

The reclassifications out of accumulated other comprehensive income for the quarters and nine months ended September 30, 2018 and 2017 were as follows:

(Dollars in thousands) Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	Amounts Reclassified from Accumulated Other Comprehensive Income Quarters Ended September 30, 2018	2017
Unrealized gains and losses on available for sale securities	Other net realized investment (gains) losses	$ 811	$ (97)
	Other than temporary impairment losses on investments	24	1,020

	Total before tax	835	923
	Income tax (benefit)	(118)	(270)
	Unrealized gains and losses on available for sale securities, net of tax	717	653
Foreign currency items	Other net realized investment (gains)	-	$(326)
	Income tax expense	-	114
	Foreign currency items, net of tax	-	(212)
Total reclassifications	Total reclassifications, net of tax	$717	$441

16

GLOBAL INDEMNITY LIMITED

(Dollars in thousands) Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	Amounts Reclassified from Accumulated Other Comprehensive Income Nine Months Ended September 30, 2018	2017
Unrealized gains and losses on available for sale securities	Other net realized investment (gains) losses	$1,265	$(2,538)
	Other than temporary impairment losses on investments	395	1,708
	Total before tax	1,660	(830)
	Income tax expense (benefit)	(257)	261
	Unrealized gains and losses on available for sale securities, net of tax	1,403	(569)
Foreign currency items	Other net realized investment (gains)	-	(336)
	Income tax expense	-	117
	Foreign currency items, net of tax	-	(219)
Total reclassifications	Total reclassifications, net of tax	$1,403	$(788)

Net Realized Investment Gains (Losses)

The components of net realized investment gains (losses) for the quarters and nine months ended September 30, 2018 and 2017 were as follows:

(Dollars in thousands)	Quarters Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Fixed maturities:				
Gross realized gains	$329	$434	$373	$3,122
Gross realized losses	(1,164)	(300)	(2,033)	(2,358)
Net realized gains (losses)	(835)	134	(1,660)	764
Common stock:				
Gross realized gains	5,789	917	12,116	2,711
Gross realized losses	(946)	(1,648)	(9,582)	(2,309)

Net realized gains (losses)	4,843	(731)	2,534	402
Derivatives:				
Gross realized gains	1,690	486	8,457	822
Gross realized losses	(379)	(852)	(1,498)	(2,838)
Net realized gains (losses) (1)	1,311	(366)	6,959	(2,016)
Total net realized investment gains (losses)	$5,319	$(963)	$7,833	$(850)

(1) Includes periodic net interest settlements related to the derivatives of $0.4 million and $0.9 million for the quarters ended September 30, 2018 and 2017, respectively, and $1.5 million and $2.8 million for the nine months ended September 30, 2018 and 2017, respectively.

GLOBAL INDEMNITY LIMITED

New accounting guidance regarding equity securities was implemented on January 1, 2018 which requires companies to disclose realized gains and losses for equity securities still held at period end and gains and losses from securities sold during the period. See Note 15 for additional information regarding new accounting pronouncements. The following table shows the calculation of the portion of realized gains and losses related to common stock held as of September 30, 2018:

(Dollars in thousands)	Quarter Ended September 30, 2018	Nine Months Ended September 30, 2018
Net gains and losses recognized during the period on equity securities	$ 4,843	$ 2,534
Less: Net gains and losses recognized during the period on equity securities sold during the period	2,096	3,958
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$ 2,747	$ (1,424)

The proceeds from sales and redemptions of available for sale and equity securities resulting in net realized investment gains (losses) for the nine months ended September 30, 2018 and 2017 were as follows:

(Dollars in thousands)	Nine Months Ended September 30, 2018	2017
Fixed maturities	$229,362	$742,229
Equity securities	28,141	24,483

Net Investment Income

The sources of net investment income for the quarters and nine months ended September 30, 2018 and 2017 were as follows:

	Quarters Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Fixed maturities	$9,520	$9,020	$27,236	$24,032
Equity securities	1,006	906	3,010	2,740
Cash and cash equivalents	285	226	814	621

Other invested assets	1,631	655	5,194	2,423
Total investment income	12,442	10,807	36,254	29,816
Investment expense	(692)	(673)	(2,146)	(2,198)
Net investment income	$11,750	$10,134	$34,108	$27,618

The Company's total investment return on a pre-tax basis for the quarters and nine months ended September 30, 2018 and 2017 were as follows:

	Quarters Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Net investment income	$11,750	$10,134	$34,108	$27,618
Net realized investment gains (losses)	5,319	(963)	7,833	(850)
Change in unrealized holding gains and losses	(1,564)	5,631	(25,822)	14,721
Net realized and unrealized investment returns	3,755	4,668	(17,989)	13,871
Total investment return	$15,505	$14,802	$16,119	$41,489
Total investment return % (1)	1.0 %	0.9 %	1.1 %	2.6 %
Average investment portfolio	$1,541,975	$1,629,989	$1,533,825	$1,587,645

(1) Not annualized.

GLOBAL INDEMNITY LIMITED

Insurance Enhanced Asset-Backed and Credit Securities

As of September 30, 2018, the Company held insurance enhanced collateralized mortgage obligations, commercial mortgage-backed and credit securities with a market value of approximately $34.2 million. Approximately $0.71 million of these securities were tax-free municipal bonds, which represented less than 0.1% 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." None of these bonds are pre-refunded with U.S. treasury securities, nor would they have carried a lower credit rating had they not been insured.

A summary of the Company's insurance enhanced municipal bonds that are backed by financial guarantors, including the pre-refunded bonds that are escrowed in U.S. government obligations, as of September 30, 2018, is as follows:

(Dollars in thousands) Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	Exposure Net of Pre-refunded & Government Guaranteed Securities
Municipal Bond Insurance Association	$708	$ -	$ -	$ 708
Total backed by financial guarantors	708	-	-	708
Other credit enhanced municipal bonds	-	-	-	-
Total	$708	$ -	$ -	$ 708

In addition to the tax-free municipal bonds, the Company held $33.5 million of insurance enhanced bonds, which represented approximately 2.2% of the Company's total invested assets, net of receivable/payable for securities purchased and sold. The insurance enhanced bonds are comprised of $20.5 million of taxable municipal bonds, $12.8 million of commercial mortgage-backed securities, and $0.2 million of collateralized mortgage obligations. The financial guarantors of the Company's $33.5 million of insurance enhanced commercial-mortgage-backed, taxable municipal securities, and collateralized mortgage obligations include Municipal Bond Insurance Association ($6.0 million), Assured Guaranty Corporation ($14.5 million), Federal Home Loan Mortgage Corporation ($12.8 million), and Federal Deposit Insurance Corporation ($0.2 million).

The Company had no direct investments in the entities that have provided financial guarantees or other credit support to any security held by the Company at September 30, 2018.

Bonds Held on Deposit

Certain cash balances, cash equivalents, equity securities, and bonds available for sale were deposited with various governmental authorities in accordance with statutory requirements, were held as collateral pursuant to borrowing arrangements, or were held in trust pursuant to intercompany reinsurance agreements. The fair values were as follows as of September 30, 2018 and December 31, 2017:

(Dollars in thousands)	Estimated Fair Value September 30, 2018	December 31, 2017
On deposit with governmental authorities	$25,817	$ 26,852
Intercompany trusts held for the benefit of U.S. policyholders	205,995	328,494
Held in trust pursuant to third party requirements	97,407	94,098
Letter of credit held for third party requirements	2,317	3,944
Securities held as collateral for borrowing arrangements (1)	74,714	88,040
Total	$406,250	$ 541,428

(1) Amount required to collateralize margin borrowing facility.

Variable Interest Entities

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

19

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

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

The fair value of one of the Company's VIE's, which invests in distressed securities and assets, was $19.0 million and $26.3 million as of September 30, 2018 and December 31, 2017, respectively. The Company's maximum exposure to loss from this VIE, which factors in future funding commitments, was $33.2 million and $40.5 million at September 30, 2018 and December 31, 2017, respectively. The fair value of a second VIE that provides financing for middle market companies, was $34.2 million and $33.8 million at September 30, 2018 and December 31, 2017, respectively. The Company's maximum exposure to loss from this VIE, which factors in future funding commitments, was $39.4 million and $43.8 million at September 30, 2018 and December 31, 2017, respectively. The fair value of a third VIE that also invests in distressed securities and assets, was $32.1 million and $17.8 million as of September 30, 2018 and December 31, 2017, respectively. The Company's maximum exposure to loss from this VIE, which factors in future funding commitments, was $52.6 million and $51.3 million at September 30, 2018 and December 31, 2017, respectively. The Company's investment in VIEs is included in other invested assets on the consolidated balance sheet with changes in fair value recorded in the consolidated statements of operations.

3. Derivative Instruments

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

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

The following table summarizes information on the location and the gross amount of the derivatives' fair value on the consolidated balance sheets as of September 30, 2018 and December 31, 2017:

(Dollars in thousands)		September 30, 2018		December 31, 2017	
Derivatives Not Designated as Hedging Instruments under ASC 815	Balance Sheet Location	Notional Amount	Fair Value	Notional Amount	Fair Value

Interest rate swap agreements	Other assets/liabilities	$200,000	$ 489	$200,000	$(7,968)

The following table summarizes the net gains (losses) included in the consolidated statements of operations for changes in the fair value of the derivatives and the periodic net interest settlements under the derivatives for the quarters and nine months ended September 30, 2018 and 2017:

		Quarters Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	Consolidated Statements of Operations Line	2018	2017	2018	2017
Interest rate swap agreements	Net realized investment gains (losses)	$1,311	$(366)	$6,959	$(2,016)

As of September 30, 2018 and December 31, 2017, the Company is due $2.7 million and $3.1 million, respectively, for funds it needed to post to execute the swap transaction and $0.7 million and $9.5 million, respectively, for margin calls made in connection with the interest rate swaps. These amounts are included in other assets on the consolidated balance sheets.

GLOBAL INDEMNITY LIMITED

4. Fair Value Measurements

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

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

- Level 1 – inputs utilize quoted prices (unadjusted) in active markets for identical assets that the Company has the ability to access at the measurement date.
- Level 2 – inputs utilize other than quoted prices included in Level 1 that are observable for similar assets, either directly or indirectly.
- Level 3 – inputs are unobservable for the asset, and include situations where there is little, if any, market activity for the asset.

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

The following table presents information about the Company's invested assets and derivative instruments measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of September 30, 2018	Fair Value Measurements			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$79,670	$ -	$ -	$79,670
Obligations of states and political subdivisions	-	99,627	-	99,627
Mortgage-backed securities	-	134,844	-	134,844
Commercial mortgage-backed securities	-	180,208	-	180,208
Asset-backed securities	-	199,722	-	199,722
Corporate bonds	-	456,832	-	456,832
Foreign corporate bonds	-	122,778	-	122,778
Total fixed maturities	79,670	1,194,011	-	1,273,681
Common stock	137,554	-	-	137,554
Derivative instruments	-	489	-	489
Total assets measured at fair value (1)	$217,224	$1,194,500	$ -	$1,411,724

(1) Excluded from the table above are limited partnerships of $85.3 million at September 30, 2018 whose fair value is based on net asset value as a practical expedient.

21

GLOBAL INDEMNITY LIMITED

As of December 31, 2017	Fair Value Measurements			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$104,680	$-	$ -	$104,680
Obligations of states and political subdivisions	-	95,114	-	95,114
Mortgage-backed securities	-	149,350	-	149,350
Commercial mortgage-backed securities	-	139,795	-	139,795
Asset-backed securities	-	203,701	-	203,701
Corporate bonds	-	423,390	-	423,390
Foreign corporate bonds	-	125,407	-	125,407
Total fixed maturities	104,680	1,136,757	-	1,241,437
Common stock	140,229	-	-	140,229
Total assets measured at fair value (1)	$244,909	$1,136,757	$ -	$1,381,666
Liabilities:				
Derivative instruments	$-	$7,968	$ -	$7,968
Total liabilities measured at fair value	$-	$7,968	$ -	$7,968

(1) Excluded from the table above are limited partnerships of $77.8 million at December 31, 2017 whose fair value is based on net asset value as a practical expedient.

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

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

For the Company’s material debt arrangements, the current fair value of the Company’s debt at September 30, 2018 and December 31, 2017 was as follows:

	September 30, 2018		December 31, 2017	
(Dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Margin Borrowing Facility	$59,405	$59,405	$72,230	$72,230
7.75% Subordinated Notes due 2045 (1)	96,711	99,511	96,619	100,059
7.875% Subordinated Notes due 2047 (2)	125,970	129,714	125,864	130,429

Total	$ 282,086	$ 288,630	$ 294,713	$ 302,718

(1) As of September 30, 2018 and December 31, 2017, the carrying value and fair value of the 7.75% Subordinated Notes due 2045 are net of unamortized debt issuance cost of $3.3 million and $3.4 million, respectively.
(2) As of September 30, 2018 and December 31, 2017, the carrying value and fair value of the 7.875% Subordinated Notes due 2047 are net of unamortized debt issuance cost of $4.0 million and $4.1 million, respectively.

The fair value of the margin borrowing facility approximates its carrying value due to the facility being due on demand. The subordinated notes due 2045 and 2047 are publicly traded instruments and are classified as Level 1 in the fair value hierarchy.

GLOBAL INDEMNITY LIMITED

There were no transfers between Level 1 and Level 2 during the quarters ended September 30, 2018 and 2017.

Fair Value of Alternative Investments

Other invested assets consist of limited liability partnerships whose fair value is based on net asset value per share practical expedient. The following table provides the fair value and future funding commitments related to these investments at September 30, 2018 and December 31, 2017.

	September 30, 2018		December 31, 2017	
(Dollars in thousands)	Fair Value	Future Funding Commitment	Fair Value	Future Funding Commitment
Real Estate Fund, LP (1)	$ -	$ -	$ -	$ -
European Non-Performing Loan Fund, LP (2)	18,967	14,214	26,262	14,214
Private Middle Market Loan Fund, LP (3)	34,199	5,200	33,760	10,000
Distressed Debt Fund, LP (4)	32,102	20,500	17,798	33,500
Total	$ 85,268	$ 39,914	$ 77,820	$ 57,714

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

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

(3) This limited partnership provides financing for middle market companies. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. Based on the terms of the investment management agreement, the Company anticipates its interest to be redeemed no later than 2024.

(4) This limited partnership invests in stressed and distressed securities and structured products. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. Based on the terms of the partnership agreement, the Company anticipates its interest to be redeemed no later than 2027.

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

The Company uses the equity method to account for investments in limited liability companies and limited partnerships where its ownership interest exceeds 3%. The equity method of accounting for an investment in a limited liability company and limited partnership requires that its cost basis be updated to account for the income or loss earned on the investment. The investment income associated with these limited liability companies or limited partnerships, which is reflected in the consolidated statements of operations, was $1.6 million and $0.7 million for the quarters ended September 30, 2018 and 2017, respectively, and $5.2 million and $2.4 million during the nine months ended September 30, 2018 and 2017, respectively.

Pricing

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

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

- Common stock prices are received from all primary and secondary exchanges.
- Corporate and agency bonds are evaluated by utilizing terms and conditions sourced from commercial vendors. Bonds with similar characteristics are grouped into specific sectors. Both asset classes use standard inputs and utilize bid price or spread, quotes, benchmark yields, discount rates, market data feeds, and financial statements.

- Data from commercial vendors is aggregated with market information, then converted into a prepayment/spread/LIBOR curve model used for commercial mortgage obligations ("CMO"). CMOs are categorized with mortgage-backed securities in the tables listed above. For asset-backed securities, data derived from market information along with trustee and servicer reports is converted into spreads to interpolated benchmark curve. For both asset classes, evaluations utilize standard inputs plus new issue data, monthly payment information, and collateral performance. The evaluated pricing models incorporate discount rates, loan level information, prepayment speeds, treasury benchmarks, and LIBOR and swap curves.
- For obligations of state and political subdivisions, an integrated evaluation system is used. The pricing models incorporate trades, spreads, benchmark curves, market data feeds, new issue data, and trustee reports.
- U.S. treasuries are evaluated by obtaining feeds from a number of live data sources including active market makers and inter-dealer brokers.
- For mortgage-backed securities, various external analytical products are utilized and purchased from commercial vendors.

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

- Reviewing periodic reports provided by the Investment Manager that provides information regarding rating changes and securities placed on watch. This procedure allows the Company to understand why a particular security's market value may have changed or may potentially change.
- Understanding and periodically evaluating the various pricing methods and procedures used by the Company's pricing vendors to ensure that investments are properly classified within the fair value hierarchy.
- On a quarterly basis, the Company corroborates investment security prices received from its pricing vendors by obtaining pricing from a second pricing vendor for a sample of securities.

During the quarters and nine months ended September 30, 2018 and 2017, the Company has not adjusted quotes or prices obtained from the pricing vendors.

5. Income Taxes

As of September 30, 2018, the statutory income tax rates of the countries where the Company conducts business are 21% in the United States, 0% in Bermuda, 0% in the Cayman Islands, 26.01% for companies with a registered office in Luxembourg City, 0.25% to 2.5% in Barbados, 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.

GLOBAL INDEMNITY LIMITED

The Company's income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries for the quarters and nine months ended September 30, 2018 and 2017 were as follows:

Quarter Ended September 30, 2018	Non-U.S.	U.S.		
(Dollars in thousands)	Subsidiaries	Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 9,361	$ 126,245	$ -	$ 135,606
Net premiums written	$ 9,356	$ 106,877	$ -	$ 116,233
Net premiums earned	$ 30,220	$ 90,308	$ -	$ 120,528
Net investment income	12,013	7,204	(7,467)	11,750
Net realized investment gains (losses)	(273)	5,592	-	5,319
Other income (loss)	(82)	493	-	411
Total revenues	41,878	103,597	(7,467)	138,008
Losses and Expenses:				
Net losses and loss adjustment expenses	14,877	65,616	-	80,493
Acquisition costs and other underwriting expenses	13,188	35,492	-	48,680
Corporate and other operating expenses	1,237	2,238	-	3,475
Interest expense	356	12,035	(7,467)	4,924
Income (loss) before income taxes	$ 12,220	$ (11,784)	$ -	$ 436

Quarter Ended September 30, 2017	Non-U.S.	U.S.		
(Dollars in thousands)	Subsidiaries	Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 50,812	$ 114,076	$ (38,834)	$ 126,054
Net premiums written	$ 50,800	$ 58,245	$ -	$ 109,045
Net premiums earned	$ 50,392	$ 58,227	$ -	$ 108,619
Net investment income	14,631	6,584	(11,081)	10,134
Net realized investment losses	(150)	(813)	-	(963)
Other income	40	2,254	-	2,294
Total revenues	64,913	66,252	(11,081)	120,084
Losses and Expenses:				
Net losses and loss adjustment expenses	31,044	51,351	-	82,395
Acquisition costs and other underwriting expenses	21,922	23,080	-	45,002
Corporate and other operating expenses	1,807	2,823	-	4,630
Interest expense	4,679	11,238	(11,081)	4,836
Income (loss) before income taxes	$ 5,461	$ (22,240)	$ -	$ (16,779)

GLOBAL INDEMNITY LIMITED

Nine Months Ended September 30, 2018	Non-U.S.	U.S.		
(Dollars in thousands)	Subsidiaries	Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 39,976			