Global Indemnity Ltd
Form 10-K
March 14, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 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

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

Title of Each Class	Name of Exchange on Which Registered
A Ordinary shares, $0.0001 Par Value	The Nasdaq Global Select Market
7.75% Subordinated Notes due 2045	The Nasdaq Global Select Market
7.875% Subordinated Notes due 2047	The Nasdaq Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES [X] NO [ ]

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

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 Act). YES [ ] NO [X]

The aggregate market value of the common equity held by non-affiliates of the registrant, computed by reference to the price of the registrant's A ordinary shares as of the last business day of the registrant's most recently completed second fiscal quarter (based on the last reported sale price on the Nasdaq Global Select Market as of such date), was $331,987,829. There are no B ordinary shares held by non-affiliates of the registrant.

As of March 1, 2019, the registrant had outstanding 10,070,518 A ordinary shares and 4,133,366 B ordinary shares.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to the 2018 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018 are incorporated by reference into Part III of this report.

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PART I

Item 1. BUSINESS
Some of the information contained in this Item 1 or set forth elsewhere in this report, including information with respect to the Company's plans and strategy, constitutes forward-looking statements that involve risks and uncertainties. Please see "Cautionary Note Regarding Forward-Looking Statements" at the end of Item 7 of Part II and "Risk Factors" in Item 1A of Part I for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

References to the Company refer to Global Indemnity Limited and its subsidiaries or, prior to November 7, 2016, to Global Indemnity plc and its subsidiaries.

History

Global Indemnity Limited ("Global Indemnity") is a holding company formed on February 9, 2016 under the laws of the Cayman Islands. On November 7, 2016, Global Indemnity Limited replaced Global Indemnity plc, an Irish company, as the ultimate parent company pursuant to a scheme of arrangement whereby all of Global Indemnity plc's A ordinary shares were cancelled and replaced with one A ordinary share of Global Indemnity Limited on a one for one basis and each B ordinary share of Global Indemnity plc was cancelled and replaced with one B ordinary share of Global Indemnity Limited on a one for one basis. Global Indemnity's A ordinary shares are publicly traded on the NASDAQ Global Select Market under the trading symbol "GBLI." Please see Note 12 of the notes to consolidated financial statements in Item 8 of Part II of this report for additional information on the cancellation of Global Indemnity plc ordinary shares and the replacement of these shares with ordinary shares of Global Indemnity Limited.

Subsequent to the completion of the redomestication, several of the Company's subsidiaries, including Global Indemnity plc, were placed into liquidation, liquidated, or merged out of existence. In addition, substantially all of the assets of these companies, including intellectual property, were transferred to Global Indemnity Limited.

General

Global Indemnity provides its insurance products across a distribution network that includes binding authority, program, brokerage, and reinsurance. The Company manages the distribution of these products through three business segments: Commercial Lines offers specialty property and casualty products designed for product lines such as Small Business Binding Authority, Property Brokerage, Vacant Express, and Programs; Personal Lines offers specialty personal lines and agricultural coverage; and Reinsurance Operations provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies. The Commercial Lines and Personal Lines segments comprise the Company's U.S. Insurance Operations ("Insurance Operations").

Business Segments

See Note 19 of the notes to consolidated financial statements in Item 8 of Part II of this report for gross and net premiums written, income and total assets of each operating segment for the years ended December 31, 2018, 2017 and 2016. For a discussion of the variances between years, see "Results of Operations" in Item 7 of Part II of this report.

During the 1st quarter of 2017, the Company re-evaluated its Commercial Lines and Personal Lines segments and determined that certain portions of business will be managed, operated and reported by including them in the other segment. As a result, the composition of the Company's reportable segments changed slightly. Premium that is written through a wholly owned agency that mainly sells to individuals, which was previously included as part of the

Commercial Lines segment, is now included within the Personal Lines segment. In addition, one of the small commercial programs written by American Reliable Insurance Company "American Reliable," which was previously included within the Personal Lines segment, is now aggregated within the Commercial Lines segment. Accordingly, the segment results for 2016 have been revised to reflect these changes.

Commercial Lines

The Company's Commercial Lines distribute property and casualty insurance products and operate predominantly in the excess and surplus lines marketplace. The excess and surplus lines market differs significantly from the standard property and casualty insurance market. For additional information on the standard property and casualty insurance market, see "Personal Lines" below.

The excess and surplus lines market provides coverage for businesses that often do not fit the underwriting criteria of an insurance company operating in the standard markets due to their relatively greater unpredictable loss patterns and unique niches of exposure requiring rate and policy form flexibility. Without the excess and surplus lines market, certain businesses would have to self-insure their exposures, or seek coverage outside the U.S. market.

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

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

The Commercial Lines' insurance products target specific, defined groups of insureds with customized coverage to meet their needs. To manage operations, the Commercial Lines segment differentiates its products by product classification. These product classifications are as follows:

- Penn-America Group distributes property and general liability products for small commercial businesses through a select network of wholesale general agents with specific binding authority;
- United National Group distributes property, general liability, and professional lines products through program administrators with specific binding authority; and
- Diamond State Group distributes property, casualty, and professional lines products through wholesale brokers that are underwritten by the Company's personnel and selected brokers with specific binding authority.
- Vacant Express primarily distributes products for dwellings which are currently vacant, undergoing renovations, or are under construction through aggregators, brokers, and retail agents.

These product classifications comprise the Commercial Lines business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage.

The Company's Commercial Lines provide property, casualty, and professional liability products utilizing customized guidelines, rates, and forms tailored to the Company's risk and underwriting philosophy. See "Underwriting" below for a discussion on how the Company's insurance products are underwritten.

In 2018, gross premiums written for the Commercial Lines were $249.9 million compared to $212.7 million for 2017. For 2018, surplus lines business accounts for approximately 87.2% of the business written while specialty admitted business accounts for the remaining 12.8%.

Personal Lines

The Company's Personal Lines distribute property and casualty insurance products and operate primarily in the admitted markets. In this standard property and casualty insurance market, insurance rates and forms are highly regulated; products and coverage are largely uniform and have relatively predictable exposures. In the standard market, policies must be written by insurance companies that are admitted to transact business in the state in which the policy is issued. As a result, in the standard property and casualty insurance market, insurance companies tend to compete for customers primarily on the basis of price, coverage, value-added service, and financial strength.

The Company's Personal Lines writes specialty products such as agriculture, mobile homes, manufactured homes, homeowners, collectibles, and watercraft via American Reliable. These products are distributed through retail agents, wholesale general agents, and brokers. The insurance products are either underwritten via specific binding authority or by internal personnel.

See "Underwriting" below for additional discussion on how the Company's insurance products are underwritten.

In 2018 and 2017, gross premiums written for the Personal Lines were $249.9 million and $249.8 million, respectively, and includes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement in the amount of ($2.1) million and ($1.3) million, respectively.

Reinsurance Operations

Global Indemnity Reinsurance Company, Ltd. (“Global Indemnity Reinsurance”), a direct subsidiary of the Company, is a Bermuda based 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, and consists solely of the operations of Global Indemnity Reinsurance.

The reinsurance markets face many of the same issues confronted in the primary insurance markets including excess capital capacity, low investment returns and increased pressure on generating acceptable return on investment.

The availability of capacity in the market has continued to put pressure on pricing levels and new opportunities. Global Indemnity Reinsurance is focused on using its capital capacity to write catastrophe-oriented placements and other niche or specialty-focused excess of loss contracts meeting the Company’s risk tolerance and return thresholds.

In 2018, gross premiums written from third parties were $48.0 million compared to $53.9 million for 2017.

Products and Product Development

The Company’s U.S. Insurance Operations distribute property and casualty insurance products. Its Personal Lines operate primarily in the admitted marketplace; whereas, its Commercial Lines operate predominantly in the excess and surplus lines marketplace. To manage its operations, the Company seeks to differentiate its products by product classification. See “Commercial Lines” and “Personal Lines” above for a description of these product classifications. The U.S. Insurance Operations are licensed to write on a surplus lines (non-admitted) basis and/or an admitted basis in all 50 U.S. States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, which provides the Company with flexibility in designing products and programs, and in determining rates to meet emerging risks and discontinuities in the marketplace.

The Company’s Reinsurance Operations offer third party treaty reinsurance for specialty property and casualty insurance and reinsurance companies as well as professional liability products to companies. Prior to January 1, 2018, the Company’s Reinsurance Operations also provided reinsurance to its Insurance Operations in the form of quota share arrangements. As a result of the enactment of the Tax Cuts and Jobs Act (“TCJA”), effective January 1, 2018, premiums being ceded under the quota share arrangement could have potentially been subject to a 10% base erosion minimum tax (“BEAT”). As a result, Global Indemnity Reinsurance and the Company’s U.S. insurance companies terminated the quota share arrangement effective January 1, 2018.

Geographic Concentration

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

	For the Years Ended December 31,					
	2018		2017		2016	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent

California	$58,744	10.8	%	$58,669	11.4	%	$62,010	11.0 %
Texas	49,544	9.1		44,420	8.6		48,183	8.5
Florida	42,116	7.7		36,922	7.1		36,683	6.5
New York	28,718	5.2		24,317	4.7		26,040	4.6
Louisiana	21,610	3.9		25,121	4.9		28,437	5.0
Arizona	20,973	3.8		20,593	4.0		19,883	3.5
North Carolina	19,021	3.5		18,476	3.6		21,613	3.8
Massachusetts	15,968	2.9		14,909	2.9		14,352	2.5
Georgia	15,017	2.7		12,669	2.5		13,605	2.4
New Jersey	13,931	2.5		12,541	2.4		14,797	2.6
Subtotal	285,642	52.1		268,637	52.1		285,603	50.4
All other states	214,212	39.1		193,810	37.5		220,405	39.0
Reinsurance Operations	48,043	8.8		53,887	10.4		59,837	10.6
Total	$547,897	100.0	%	$516,334	100.0	%	$565,845	100.0 %

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Marketing and Distribution

The Company provides its insurance products across a full distribution network – binding authority, program, brokerage, direct, and reinsurance. For its binding authority and program product classifications, the Company distributes its insurance products primarily through a group of wholesale general agents and program administrators that have specific quoting and binding authority. For its brokerage business, the Company distributes its insurance products through wholesale insurance brokers who in turn sell the Company's insurance products to insureds through retail insurance brokers. For its reinsurance business, the Company distributes its products through brokers and on a direct basis.

The Company's Commercial Lines distributes its insurance products primarily through a group of approximately 130 wholesale general agents and program administrators. Of the Commercial Lines' non-affiliated professional wholesale general agents and program administrators, the top five accounted for 30.7% of the Commercial Lines' gross premiums written for the year ended December 31, 2018. One agency represented 10.0% of the Commercial Lines' gross premiums written.

The Company's Personal Lines distributes specialty personal and agricultural insurance products through a group of approximately 275 agents, primarily comprised of wholesale general agents. It also distributes its specialty personal insurance products on a retail basis in New Mexico and Arizona. Of the Personal Lines' non-affiliated professional wholesale general agents and retail agents, the top five accounted for 25.3% of the Personal Lines' gross premiums written for the year ended December 31, 2018. No one agency represented more than 10% of the Personal Lines' gross premiums written.

There is no agency which accounts for more than 10% of the Company's consolidated revenues for the year ended December 31, 2018.

Global Indemnity Reinsurance assumed premiums on three treaties from two cedants which accounted for 89% of the Reinsurance Operations' 2018 gross premiums written. There is no treaty that accounted for 10% or more of the Company's consolidated revenues for the year ended December 31, 2018.

The Company's primary distribution strategy is to seek to maintain strong relationships with a limited number of high-quality wholesale professional general agents and wholesale insurance brokers. The Company carefully selects distribution sources based on their expertise, experience and reputation. The Company believes that its distribution strategy enables it to effectively access numerous markets through the marketing, underwriting, and administrative support of the Company's professional general agencies and wholesale insurance brokers. The Company believes these wholesale general agents and wholesale insurance brokers have local market knowledge and expertise that enables them to access business in these markets more effectively.

Underwriting

For Commercial Lines, the Company's insurance products are primarily underwritten via specific binding authority in which the Company grants underwriting authority to its wholesale general agents and program administrators and via brokerage in which the Company's internal personnel underwrites business submitted by wholesale insurance brokers.

For Personal Lines, the Company's insurance products are distributed through retail agents, wholesale general agents, and brokers. The insurance products are either underwritten via specific binding authority or by internal personnel. Some of the Company's specialized property business is submitted by retail agents or directly from insureds and is also underwritten by internal personnel.

Specific Binding Authority – Several of the Company’s wholesale general agents, retail agents, and program administrators for both Commercial Lines and Personal Lines have specific quoting and binding authority with respect to the lines they write and some have limited quoting and binding authority with respect to multiple products.

The Company’s wholesale general agents, retail agents, and program administrators will either utilize company administered policy systems with the Company’s underwriting guidelines embedded within the system or the agents will use their own proprietary systems. When the agents use their own proprietary systems, the Company provides its wholesale general agents, retail agents, and program administrators with a comprehensive, regularly updated underwriting manual that specifically outlines risk eligibility which is developed based on the type of insured, nature of exposure and overall expected profitability. This manual also outlines (a) premium pricing, (b) underwriting guidelines, including but not limited to policy forms, terms and conditions, and (c) policy issuance instructions.

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

Agricultural partners are not provided with underwriting manuals. Rather, they are provided with letters of authority; whereby, policies and endorsement issuance rights are extended.

The Company regularly monitors the underwriting quality of its wholesale general agents, retail agents, and program administrators through a disciplined system of controls, which includes the following:

- automated system criteria edits and exception reports;
- individual policy reviews to measure adherence to the Company's underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;
- periodic on-site comprehensive audits to evaluate processes, controls, profitability and adherence to all aspects of the Company's underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;
- internal quarterly actuarial analysis of loss ratios produced by business underwritten by the Company's wholesale general agents, retail agents, and program administrators; and
- internal quarterly analysis of financial results, including premium growth and overall profitability of business produced by the Company's wholesale general agents, retail agents, and program administrators.

The Company provides incentives to certain of its wholesale general agents and program administrators to produce profitable business through contingent profit commission structures that are tied directly to the achievement of profitability targets.

Brokerage –The wholesale insurance brokers are within the Company's Commercial Lines and are subject to the same guidelines and monitoring as discussed above. The majority of the Company's wholesale insurance brokers do not have specific binding authority; therefore, these risks are submitted to the Company's underwriting personnel for review and processing. There is only one wholesale insurance broker with specific binding authority.

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

The Company's underwriting personnel review submissions, issue all quotes and perform all policy issuance functions. The Company regularly monitors the underwriting quality of its underwriters through a disciplined system of controls, which includes the following:

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

Reinsurance – The Company's direct subsidiary, Global Indemnity Reinsurance, primarily offers retrocessional coverage to Bermuda based reinsurance companies. The business currently assumed is primarily quota share treaties on property catastrophe and marine. The Company also writes a small amount of professional lines excess liability business. Prior to entering into any agreement, the Company evaluates a number of factors for each cedant including, but not limited to, reputation and financial condition, underwriting and claims practices and historical claims experience. The Company also

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models proposed treaties for both the catastrophe exposure and the marginal impact on the Company's existing catastrophe portfolio.

Contingent Commissions

Certain professional general agencies of the U.S. Insurance Operations are paid special incentives, referred to as contingent commissions, when results of business produced by these agencies are more favorable than predetermined thresholds. Similarly, in some circumstances, companies that cede business to the Reinsurance Operations are paid a profit commission based on the profitability of the ceded portfolio. These commissions are charged to other underwriting expenses when incurred.

Pricing

Actuaries establish pricing tailored to each specific product the Company underwrites, taking into account historical loss experience, historical rate level changes, property catastrophe modeling output, and individual risk and coverage characteristics. The Company generally uses the actuarial loss costs promulgated by the Insurance Services Office as a benchmark in the development of pricing for most products. Specific products will utilize proprietary rating when deemed appropriate. The Company will seek to only write business if it believes it can achieve an adequate risk adjusted rate of return.

Reinsurance of Underwriting Risk

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

The Company purchases specific types and structures of reinsurance depending upon the characteristics of the lines of business and specialty products underwritten. The Company will typically seek to place proportional reinsurance for umbrella and excess products, certain specialty products, or new products in the development stage. The Company believes that this approach allows it to control net exposure in these product areas most cost effectively.

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

The Company analyzes its reinsurance contracts to ensure that they meet the risk transfer requirements of applicable accounting guidance, which requires that the reinsurer must assume significant insurance risk under the reinsured portions of the underlying insurance contracts and that there must be a reasonably possible chance that the reinsurer may realize a significant loss from the transaction.

The Company continually evaluates its retention levels across its entire line of business and specialty product portfolio seeking to ensure that the ultimate reinsurance structures are aligned with the Company's corporate risk tolerance levels associated with such products. Any decision to decrease the Company's reliance upon proportional reinsurance or to increase the Company's excess of loss retentions could increase the Company's earnings volatility. In cases where the Company decides to increase its excess of loss retentions, such decisions will be a result of a change or progression in the Company's risk tolerance level. The Company endeavors to purchase reinsurance from financially strong reinsurers with which it has long-standing relationships. In addition, in certain circumstances, the Company holds collateral, including letters of credit, under reinsurance agreements.

The Company’s Insurance Operations’ material reinsurance treaties are as follows:

Property Catastrophe Excess of Loss – The Company’s current property writings create exposure to catastrophic events. To protect against these exposures, the Company purchases a property catastrophe treaty. Effective June 1, 2018, the Company purchased two layers of occurrence coverage for losses of $250 million in excess of $50 million. The first layer provides coverage of $50 million in excess of $50 million and is unable to be reinstated. The second layer provides coverage of $200 million in excess of $100 million and includes one 100% paid reinstatement. The second layer also includes a cascading feature. Any erosion of the first layer lowers the attachment point of the second layer by the same amount. Should the second layer of limit be exhausted and reinstated, the attachment point would be in excess of $50 million.

This replaced the treaty which expired on May 31, 2018 and provided occurrence coverage for losses of $260 million in excess of $40 million. The expiring treaty was made up of two layers: $60 million in excess of $40 million, and $200 million in excess of $100 million. The expiring treaty provided for one full reinstatement of coverage at 100% additional premium as to time and pro rata as to amount of limit reinstated.

Location-Specific Quota Share – Effective May 1, 2016, the Company entered into an agreement, which is still in effect, to cede 50% of the net underwriting results for certain Personal Lines products in certain states, subject to an occurrence limit of $50 million for property coverages and $1.5 million for casualty coverages.

Catastrophe Quota Share – Effective June 1, 2018, the company renewed its agreement to cede 50% of its catastrophe losses which are above $3 million. Both the occurrence and aggregate limits of the treaty were adjusted at this renewal. The occurrence limit of the treaty was increased from $40 million to $50 million and the aggregate limit was increased from $120 million to $150 million.

Property Per Risk Excess of Loss - Effective January 1, 2019, the Company renewed its property per risk excess of loss treaty. This treaty provides coverage in two sections: $4 million per risk in excess of $1 million per risk for all business except the Property Brokerage unit, and $8 million per risk in excess of $2 million per risk for Property Brokerage business, of which the Company participated on 25% of the placement. This treaty also provides coverage of $20 million per risk in excess of $10 million per risk and $20 million per risk in excess of $30 million per risk for Property Brokerage business. This replaced the treaty which expired on December 31, 2018 and provided similar coverage.

Casualty Excess of Loss – Effective January 1, 2018, the Company entered into a casualty excess of loss treaty which, is still in effect, that provides coverage of $10 million per occurrence in excess of $2 million per occurrence for all casualty lines of business. The treaty is subject to an aggregate limit of $20 million.

100% Ceded Quota Share to American Bankers, former parent of American Reliable – Effective December 1, 2014, American Reliable entered into four treaties to cede 100% of its liabilities related to certain businesses to American Bankers Insurance Company that were not included in the acquisition of American Reliable. These treaties are still in effect at December 31, 2018. American Reliable recorded ceded written premiums of ($2.1) million and ($1.3) million, and ceded earned premiums of $7.3 million and $13.5 million to American Bankers Insurance Company for the years ended December 31, 2018 and 2017, respectively.

100% Assumed Quota Share from American Bankers, former parent of American Reliable – Effective December 1, 2014, American Reliable entered into two treaties to assume 100% of its liabilities from various insurers owned by Assurant, Inc. for business included in the acquisition but not written directly by American Reliable. These treaties are still in effect at December 31, 2018. American Reliable recorded assumed written premiums of $4.7 million and $28.5 million, and assumed earned premiums of $16.7 million and $33.9 million from insurance companies owned by Assurant, Inc. for the years ended December 31, 2018 and 2017, respectively.

To the extent that there may be an increase or decrease in catastrophe or casualty clash exposure in the future, the Company may increase or decrease its reinsurance protection for these exposures commensurately. There were no other significant changes to any of the Company's Insurance Operations' reinsurance treaties during 2018.

The following table sets forth the ten reinsurers for which the Company has the largest reinsurance receivables as of December 31, 2018. Also shown are the amounts of premiums ceded by the Company to these reinsurers during the year ended December 31, 2018.

(Dollars in millions)	A.M. Best Rating	Gross Reinsurance Receivables	Percent of Total	Ceded Premiums Written	Percent of Total
Munich Re America Corp.	A+	$ 52.4	42.5 %	$ 27.7	36.8 %
General Reinsurance Corp.	A++	13.0	10.6	8.1	10.7
Westport Insurance Corporation	A+	6.1	5.0	—	—
Transatlantic Reinsurance	A+	5.5	4.5	1.1	1.4
Scor Reinsurance Company	A+	3.5	2.8	3.0	4.0
Allianz Risk Transfer	A+	3.3	2.7	5.7	7.6
Hannover Rueckversicherungs AG	A+	3.1	2.5	2.4	3.2
Scor Switzerland AG	A+	2.6	2.1	—	—
American Bankers Insurance Company	A	2.5	2.0	(2.1)	(2.8)
Swiss Reinsurance America Corp.	A+	2.5	2.0	2.3	3.1
Subtotal		$ 94.5	76.7 %	$ 48.2	64.0 %
All other reinsurers		28.7	23.3	27.1	36.0
Total reinsurance receivables before purchase accounting adjustments and allowance for uncollectible reinsurance		$ 123.2	100.0 %	$ 75.3	100.0 %
Purchase accounting adjustments and allowance for uncollectible reinsurance		(8.8)			
Total receivables, net of purchase accounting adjustments and allowance for uncollectible reinsurance		114.4			
Collateral held in trust from reinsurers		(11.3)			
Net receivables		$ 103.1			

At December 31, 2018, the Company carried reinsurance receivables, net of collateral held in trust, of $103.1 million. This amount is net of a purchase accounting adjustment and an allowance for uncollectible reinsurance receivables. The purchase accounting adjustment resulted from the Company's acquisition of Wind River Investment Corporation on September 5, 2003 and is related to discounting the acquired loss reserves to their present value and applying a risk margin to the discounted reserves. This adjustment was $0.8 million at December 31, 2018. The allowance for uncollectible reinsurance receivables was $8.0 million at December 31, 2018.

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

Claims Management and Administration

The Company's approach to claims management is designed to investigate reported incidents at the earliest juncture, to select, manage, and supervise all legal and adjustment aspects of claims, including settlement, for the mutual benefit of the Company, its professional general agents, wholesale brokers, reinsurers and insureds. The Company's professional general agents and wholesale brokers have no authority to settle claims or otherwise exercise control over the claims process, with the exception of one statutory managing general agent and one general agent. The Insurance Operations' claims management staff supervises or processes all claims. The Company's Insurance Operations has a formal claims review process, and all claims greater than $200,000 for Personal Lines and $250,000 for Commercial Lines, gross of reinsurance, are reviewed by senior claims management and certain senior executives. Large loss trends and analysis are reviewed by a Large Loss committee.

To handle claims, the Company's Insurance Operations utilizes its own in-house claims department as well as third-party claims administrators ("TPAs") and assuming reinsurers, to whom it delegates limited claims handling authority. The Insurance Operations' experienced in-house staff of claims management professionals are assigned to one of five dedicated claim units: casualty and automobile claims, latent exposure claims, property claims, TPA oversight, and a wholly owned subsidiary that administers construction defect claims. The dedicated claims units meet regularly to communicate current developments within their assigned areas of specialty.

As of December 31, 2018, the Company had $156.6 million of direct outstanding losses and loss adjustment expense case reserves at its Insurance Operations. Claims relating to approximately 91% of those reserves are handled by in-house claims management professionals, while claims relating to approximately 1% of those reserves are handled by TPAs, which send the Company detailed financial and claims information on a monthly basis. The Company also individually supervises in-house any significant or complicated TPA handled claims, and conducts on-site audits of material TPAs at least twice a year. Approximately 8% of its reserves are handled by the Company's assuming reinsurers. The Company reviews and supervises the claims handled by its reinsurers seeking to protect its reputation and minimize exposure.

Reserves for Unpaid Losses and Loss Adjustment Expenses

Applicable insurance laws require the Company to maintain reserves to cover its estimated ultimate losses under insurance policies and reinsurance treaties that it writes and for loss adjustment expenses relating to the investigation and settlement of claims.

The Company establishes losses and loss adjustment expense reserves for individual claims by evaluating reported claims on the basis of:

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

The Company generally estimates such losses and claims costs through an evaluation of individual reported claims. The Company also establishes reserves for incurred but not reported losses ("IBNR"). IBNR reserves are based in part on statistical information and in part on industry experience with respect to the expected number and nature of claims arising from occurrences that have not been reported. The Company also establishes its reserves based on estimates of future trends in claims severity and other subjective factors. Insurance companies are not permitted to reserve for a catastrophe until it has occurred. Reserves are recorded on an undiscounted basis other than fair value adjustments recorded under purchase accounting. The Company's Insurance Operations' reserves are reviewed quarterly by the in-house actuarial staff. Loss reserve estimates for the Company's Reinsurance Operations are developed by independent, external actuaries; however management is responsible for the final determination of loss reserve selections. The data for this analysis is organized by treaty and treaty year. Reviews for both Insurance Operations and Reinsurance Operations are generally performed both gross and net of reinsurance and ceded reviews are also completed for most reserve categories.

In addition to the Company's internal reserve analysis, independent external actuaries perform a full, detailed review of the Insurance Operations' reserves annually. The Company does not rely upon the review by the independent actuaries to develop its reserves; however, the data is used to corroborate the analysis performed by the in-house actuarial staff. The Company's independent external actuaries also perform a full, detailed review of the Reinsurance Operations' reserves annually. The results of the detailed reserve reviews by internal and external actuaries are summarized and discussed with the Company's senior management to determine the best estimate of reserves.

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

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

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

Asbestos and Environmental ("A&E") Exposure

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

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

The liability for unpaid losses and loss adjustment expenses, inclusive of A&E reserves, reflects the Company's best estimates for future amounts needed to pay losses and related loss adjustment expenses as of each of the balance sheet dates reflected in the financial statements herein in accordance with GAAP. As of December 31, 2018, the Company had $15.8 million of net loss reserves for asbestos-related claims and $13.7 million for environmental claims. The Company attempts to estimate the full impact of the A&E exposures by establishing specific case reserves on all known losses. See Note 10 of the notes to the consolidated financial statements in Item 8 of Part II of this report for tables showing the Company's gross and net reserves for A&E losses.

In addition to the factors referenced above, establishing reserves for A&E and other mass tort claims involves considerably more judgment than other types of claims due to, among other things, inconsistent court decisions, an increase in bankruptcy filings as a result of asbestos related liabilities, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage.

See Note 10 of the notes to the consolidated financial statements in Item 8 of Part II of this report for the survival ratios on a gross and net basis for the Company's A&E claims.

Investments

The Company's investment policy is determined by the Investment Committee of the Board of Directors. The Company engages third-party investment advisors to oversee and manage its investments and to make recommendations to the Investment Committee. The Company's investment policy allows it to invest in taxable and tax-exempt fixed income investments including corporate bonds as well as publicly traded and private equity investments. With respect to fixed income investments, the maximum exposure per issuer varies as a function of the credit quality of the security. The allocation between taxable and tax-exempt bonds is determined based on market conditions and tax considerations. The maximum allowable investment in equity securities under the Company's current investment policy is 30% of the Company's GAAP equity, or $188.7 million at December 31, 2018. As of December 31, 2018, the Company had $1,510.2 million of investments and cash and cash equivalent assets, including $124.7 million of equity investments and $50.8 million of limited partnership investments.

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

The following table summarizes by type the estimated fair value of Global Indemnity's investments and cash and cash equivalents as of December 31, 2018, 2017, and 2016:

	December 31, 2018		December 31, 2017		December 31, 2016	
(Dollars in thousands)	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total
Cash and cash equivalents	$99,497	6.6 %	$74,414	4.8 %	$75,110	5.0 %
U.S. treasury and agency obligations	78,855	5.2	104,680	6.8	72,047	4.8
Obligations of states and political subdivisions	95,613	6.3	95,114	6.2	156,446	10.4
Mortgage-backed securities (1)	117,854	7.8	149,350	9.7	88,468	5.9
Asset-backed securities	183,754	12.2	203,701	13.3	233,991	15.6
Commercial mortgage-backed securities	202,722	13.4	139,795	9.1	183,192	12.2
Corporate bonds and loans	440,855	29.2	425,410	27.8	380,027	25.3
Foreign corporate bonds	115,502	7.6	123,387	8.0	125,860	8.4
Total fixed maturities	1,235,155	81.7	1,241,437	80.9	1,240,031	82.6
Common stock	124,747	8.3	140,229	9.2	120,557	8.0
Other invested assets	50,753	3.4	77,820	5.1	66,121	4.4
Total investments and cash and cash equivalents (2)	$1,510,152	100.0 %	$1,533,900	100.0 %	$1,501,819	100.0 %

(1) Includes collateralized mortgage obligations of $96,897, $68,183, and $28,608 for 2018, 2017, and 2016, respectively.

(2) Does not include net receivable (payable) for securities sold (purchased) of $15, $1,543, and ($3,717) for 2018, 2017, and 2016, respectively.

The Company does not acquire fixed maturities with the intention to sell these securities in a short period of time. The Company can hold fixed maturities to recovery and/or maturity; however, the Company regularly re-evaluates its positions and will sell a security if warranted by market conditions. As of December 31, 2018, the Company's fixed maturities have a duration of 3.1 years. Duration excluding the mortgage-backed, commercial mortgage-backed and collateralized mortgage obligations, had a weighted average maturity of 4.8 years and a weighted average duration, excluding mortgage-backed, commercial mortgage-backed and collateralized mortgage obligations and including cash and short-term investments, of 2.6 years. The Company's financial statements reflect a net unrealized loss on fixed maturities available for sale as of December 31, 2018 of $22.7 million on a pre-tax basis.

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

	Years Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Average fixed maturities at book value	$1,250,487	$1,242,242	$1,274,836
Gross income on fixed maturities (1)	$37,085	$33,020	$30,337
Book yield	2.97 %	2.66 %	2.38 %
Fixed maturities at book value	$1,257,830	$1,243,144	$1,241,339
Unrealized gain (loss)	$(22,675)	$(1,707)	$(1,308)

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

The Company has sought to structure its portfolio to reduce the risk of default on collateralized commercial real estate obligations and asset-backed securities. Of the $117.9 million of mortgage-backed securities, $21.0 million is invested in

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U.S. agency paper and $96.9 million is invested in collateralized mortgage obligations, of which $96.3 million, or 99.4%, are rated AA+ or better. In addition, the Company holds $183.8 million in asset-backed securities, of which 82.7% are rated AA- or better and $202.7 million in commercial mortgaged-backed securities, of which 98.4% are rated A- or better. The weighted average credit enhancement for the Company's asset-backed securities is 23.0. The Company also faces liquidity risk. Liquidity risk is when the fair value of an investment is not able to be realized due to lack of interest by outside parties in the marketplace. The Company attempts to diversify its investment holdings to minimize this risk. The Company's investment managers run periodic analysis of liquidity costs to the fixed income portfolio. The Company also faces credit risk. 95.5% of the Company's fixed income securities are investment grade securities. 18.3% of the Company's fixed maturities are rated AAA. See "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of Part II of this report for a more detailed discussion of the credit market and the Company's investment strategy.

The following table summarizes, by Standard & Poor's rating classifications, the estimated fair value of Global Indemnity's investments in fixed maturities, as of December 31, 2018 and 2017:

	December 31, 2018			December 31, 2017		
(Dollars in thousands)	Estimated Fair Value	Percent of Total		Estimated Fair Value	Percent of Total	
AAA	$225,753	18.3	%	$213,943	17.2	%
AA	378,163	30.6		403,723	32.5	
A	231,939	18.8		229,381	18.5	
BBB	343,611	27.8		350,849	28.3	
BB	39,257	3.2		24,363	2.0	
B	8,530	0.7		10,730	0.9	
CCC	291	0.0		383	—	
CC	104	0.0		138	—	
C	17	0.0		—	—	
Not rated	7,490	0.6		7,927	0.6	
Total fixed maturities	$1,235,155	100.0	%	$1,241,437	100.0	%

The following table sets forth the expected maturity distribution of Global Indemnity's fixed maturities portfolio at their estimated market value as of December 31, 2018 and 2017:

	December 31, 2018			December 31, 2017		
(Dollars in thousands)	Estimated Market Value	Percent of Total		Estimated Market Value	Percent of Total	
Due in one year or less	$89,071	7.2	%	$70,165	5.6	%
Due in one year through five years	412,006	33.4		434,078	35.0	
Due in five years through ten years	221,311	17.9		236,552	19.0	
Due in ten years through fifteen years	4,855	0.4		2,205	0.2	
Due after fifteen years	3,582	0.3		5,591	0.5	
Securities with fixed maturities	730,825	59.2		748,591	60.3	
Mortgaged-backed securities	117,854	9.5		149,350	12.0	

Commercial mortgage-backed securities	202,722	16.4	139,795	11.3
Asset-backed securities	183,754	14.9	203,701	16.4
Total fixed maturities	$1,235,155	100.0 %	$1,241,437	100.0 %

The expected weighted average duration of the Company's asset-backed, mortgage-backed and commercial mortgage-backed securities is 2.8 years.

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

As of December 31, 2018, the Company had aggregate equity securities of $124.7 million that consisted entirely of common stocks.

The Company’s investments in other invested assets is comprised of a limited liability partnership investment where the partnership invests in distressed securities and assets, which was valued at $17.9 million at December 31, 2018, a limited liability partnership investment that invests in real estate, which was valued at zero at December 31, 2018, and a limited liability partnership investment that invests in stressed and distressed debt instruments, which was valued at $32.9 million at December 31, 2018. There is no readily available independent market price for these limited liability partnership investments. The Company does not have access to daily valuations; therefore, the estimated fair value of these limited partnerships is based on the net asset value as a practical expedient for each limited partnership. The Company receives annual audited financial statements from each of the partnership investments it owns.

Net realized investment losses, including other than temporary impairments, for the year ended December 31, 2018 were $16.9 million compared with gains of $1.6 million and $21.7 million for the years ended December 31, 2017 and 2016, respectively.

Competition

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

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

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

Competition may take the form of lower prices, broader coverage, greater product flexibility, higher quality services, reputation and financial strength or higher ratings by independent rating agencies. In all of the Company’s markets, it competes by developing insurance products to satisfy well-defined market needs and by maintaining relationships with brokers and insureds that rely on the Company’s expertise. For its program and specialty wholesale products, offerings and underwriting products that are not readily available is the Company’s principal means of differentiating itself from its

competition. Each of the Company's products has its own distinct competitive environment. The Company seeks to compete through innovative products, appropriate pricing, niche underwriting expertise, and quality service to policyholders, general agencies and brokers.

Employees

At December 31, 2018, the Company had approximately 410 employees. None of the Company's employees are covered by collective bargaining agreements as of December 31, 2018.

Ratings

A.M. Best ratings for the industry range from "A++" (Superior) to "F" (In Liquidation) with some companies not being rated. The Company's Insurance Operations, which consist of its United States based insurance companies and Global Indemnity Reinsurance, are currently rated "A" (Excellent) by A.M. Best, the third highest of sixteen rating categories.

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

Regulation

General

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

U.S. Regulation

At December 31, 2018, the Company had six operating insurance subsidiaries domiciled in the United States; United National Insurance Company, Penn-America Insurance Company, and Penn-Star Insurance Company, which are domiciled in Pennsylvania; Diamond State Insurance Company which is domiciled in Indiana; Penn-Patriot Insurance Company, which is domiciled in Virginia; and American Reliable Insurance Company, which is domiciled in Arizona.

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

State Insurance Regulation

State insurance authorities have broad regulatory powers with respect to various aspects of the business of U.S. insurance companies, including, but not limited to, licensing companies to transact admitted business or determining eligibility to write surplus lines business, accreditation of reinsurers, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, management of enterprise risk, regulating investments and dividends, approving policy forms and related materials in certain instances and approving premium rates in certain instances. State insurance laws and regulations may require the Company's U.S. insurance companies to file financial statements with insurance departments everywhere they will be licensed or eligible or accredited to conduct insurance business, and their operations are subject to review by those departments at any time. The Company's U.S. insurance companies prepare statutory financial statements in accordance with statutory accounting principles ("SAP") and procedures prescribed or permitted by these departments. State insurance departments also conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years, although market conduct examinations may take place at any time. These examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. In addition, admitted insurers are subject to targeted market conduct examinations involving specific insurers by state insurance regulators in any state in which the insurer is admitted. The insurance departments for the states of Indiana, Virginia, and Pennsylvania completed their most recent financial examinations of the Company's U.S. insurance subsidiaries, excluding American Reliable, for the period ended December 31, 2012. Their final reports were issued in 2014, and there were no materially adverse findings. The insurance department for the state of Arizona completed its most recent financial examination of American Reliable for the period ending December 31, 2013. Their final report was issued in 2015, and there were no materially adverse findings. The insurance departments for the states of Arizona, Indiana, Pennsylvania, and Virginia are currently conducting routine examinations for the period ended December 31, 2017. The Company expects the final reports to be issued in 2019.

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

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

Insurance Regulatory Information System Ratios

The NAIC Insurance Regulatory Information System ("IRIS") was developed by a committee of the state insurance regulators and is intended primarily to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies "usual values" for each ratio. Departure from the usual values of the ratios can lead to inquiries from individual state insurance commissioners that require the insurer to describe certain aspects of a business that are causing such departures. The Company's U.S. insurance subsidiaries do have departures from usual values for certain IRIS ratios predominantly driven by changes to its affiliated reinsurance structure, affiliated capital contributions/dividends, and catastrophe losses in 2017 and 2018. Although the Company's U.S. insurance subsidiaries have departures from usual values of certain IRIS ratios, the Company believes that its U.S. insurance subsidiaries have adequate capital and liquidity to meet its operational needs.

The Company's U.S. insurance subsidiaries departures from usual values of certain IRIS ratios are as follows:

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Change in net written premiums for United National Insurance Company, Diamond State Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company, and American Reliable Insurance Company were outside of IRIS range due to termination of its affiliated quota share reinsurance treaty with Global Indemnity Reinsurance.

- Two-year operating ratio for Diamond State Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company and American Reliable Insurance Company were outside of

IRIS range due to catastrophe losses in 2017 and 2018 and termination of its affiliated quota share reinsurance treaty with Global Indemnity Reinsurance.

- Investment yields were lower than the IRIS range for Penn-America Insurance Company. A high percentage of its invested assets are wholly-owned subsidiaries, Penn-Star Insurance Company and Penn-Patriot Insurance Company, which did not distribute dividends in 2018.
- Gross Change in Surplus for United National Insurance Company, Diamond State Insurance Company and American Reliable Insurance Company was outside of the IRIS range due to dividends and capital contributions to affiliates, catastrophe losses in 2018 and termination of its affiliated quota share reinsurance treaty with Global Indemnity Reinsurance.
- Change in Adjusted Surplus ratios for United National Insurance Company, Diamond State Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company and American Reliable Insurance Company was outside of the IRIS range due to dividends and capital contributions to affiliates, catastrophe losses in 2018 and termination of its affiliated quota share reinsurance treaty with Global Indemnity Reinsurance.
- Adjusted liabilities to liquid assets ratio for United National Insurance Company, Penn-America Insurance Company and American Reliable Insurance Company was outside of the IRIS range mainly due to intercompany payables to parents and affiliates that were settled in the 1st quarter of 2019.
- Estimated current reserve deficiency was outside of the range for Penn-America Insurance Company and Penn-Patriot Insurance Company due to changes in the intercompany pooling agreement.

Risk-Based Capital Regulations

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

Based on the standards currently adopted, the U.S. insurance companies reported in their 2018 statutory filings that their capital and surplus are above the prescribed risk-based capital requirements. The cancellation of the quota share arrangement between Global Indemnity Reinsurance and the U.S. Insurance Companies increased the capital requirements of its U.S. Insurance Companies. The Company will continue to manage capital levels in its U.S. Insurance Companies to ensure its capital and surplus will remain above the prescribed risk-based capital requirements. See Note 18 of the notes to the consolidated financial statements in Item 8 of Part II of this report for additional information on the NAIC's risk-based capital model for determining the levels of statutory capital and surplus an insurer must maintain.

Statutory Accounting Principles (“SAP”)

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

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

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

State Dividend Limitations

The U.S. insurance companies are restricted by statute as to the amount of dividends that they may pay without the prior approval of the applicable state regulatory authorities. Dividends may be paid without advanced regulatory approval only out of unassigned surplus. The dividend limitations imposed by the applicable state laws are based on the statutory financial results of each company within the Insurance Operations that are determined using statutory accounting practices that differ in various respects from accounting principles used in financial statements prepared in conformity with GAAP. See "Regulation – Statutory Accounting Principles." Key differences relate to, among other items, deferred acquisition costs, limitations on deferred income taxes, reserve calculation assumptions and surplus notes, if any.

See the "Liquidity and Capital Resources" section in Item 7 of Part II of this report for a more complete description of the state dividend limitations. See Note 18 of the notes to consolidated financial statements in Item 8 of Part II of this report for the dividends declared and paid by Global Indemnity's U.S. insurance companies in 2018 and the maximum amount of distributions that U.S. insurance companies could pay as dividends in 2019.

Guaranty Associations and Similar Arrangements

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

Federal Insurance Regulation

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

Operations of Global Indemnity Reinsurance

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

As a reinsurer that is not licensed, accredited, or approved in any state in the United States, Global Indemnity Reinsurance is required to post collateral security with respect to the reinsurance liabilities it assumes from its third party U.S. ceding companies as well as for the reinsurance liabilities that it assumed from the Company's Insurance Operations prior to the January 1, 2018 termination of the quota share agreement. The posting of collateral security is generally required in order for U.S. ceding companies to obtain credit on their U.S. statutory financial statements with respect to reinsurance liabilities ceded to unlicensed or unaccredited reinsurers. Under applicable United States "credit for reinsurance" statutory provisions, the security arrangements generally may be in the form of letters of credit, reinsurance trusts maintained by third-party trustees or funds-withheld arrangements whereby the ceded premium is held by the ceding company. If "credit for reinsurance" laws or regulations are made more stringent in Pennsylvania, Indiana, Virginia and Arizona or other applicable states or any of the U.S. insurance companies re-domesticate to one of the few states that do not allow credit for reinsurance ceded to non-licensed reinsurers, the Company may be unable to realize some of the benefits expected from its business plan. Accordingly, Global Indemnity Reinsurance could be adversely affected.

Global Indemnity Reinsurance generally is not subject to regulation by U.S. jurisdictions. Specifically, rate and form regulations otherwise applicable to authorized insurers generally do not apply to Global Indemnity Reinsurance's transactions.

Bermuda Insurance Regulation

The Bermuda Insurance Act 1978 and related regulations, as amended (the "Insurance Act"), regulates the insurance business of Global Indemnity Reinsurance and provides that no person may carry on any such business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (the "BMA") under the Insurance Act. Global Indemnity Reinsurance, which is incorporated to carry on general insurance and reinsurance business, is registered as a Class 3B insurer in Bermuda. A corporate body is registrable as a Class 3B insurer if it intends to carry on insurance business in circumstances where 50% or more of the net premiums written or 50% or more of the losses and loss expense provisions represent unrelated business, or its total net premiums written from unrelated business are $50.0 million or more. The continued registration of an applicant as an insurer is subject to it complying with the terms of its registration and such other conditions as the BMA may impose from time to time. An insurer's registration may be canceled by the BMA on certain grounds specified in the Insurance Act, including failure of the insurer to comply with its obligations under the Insurance Act.

The Insurance Act imposes solvency and liquidity standards, auditing and reporting requirements, and grants the BMA powers to supervise, investigate, require information and the production of documents, and to intervene in the affairs of Bermuda insurance companies. The BMA continues to make amendments to the Insurance Act with a view to enhancing Bermuda’s insurance regulatory regime.

The BMA utilizes a risk-based approach when it comes to licensing and supervising insurance companies. As part of the BMA’s risk-based system, an assessment of the inherent risks within each particular class of insurer is used to determine the limitations and specific requirements which may be imposed. Thereafter the BMA keeps its analysis of relative risk within individual institutions under review on an ongoing basis, including through the scrutiny of regular audited statutory financial statements, and, as appropriate, meeting with senior management during onsite visits.

On March 25, 2016, Bermuda’s prudential framework for (re)insurance and group supervision was confirmed as being fully equivalent to the regulatory standards applied to European reinsurance companies and insurance groups in accordance with the requirements of the Solvency II Directive. Bermuda was granted this full “Solvency II equivalence” for an unlimited period by the European Commission based on an assessment conducted by the European Insurance and Occupational Pensions Authority, and the equivalence decision was applied retroactively to January 1, 2016.

Certain significant aspects of the Bermuda insurance regulatory framework are set forth as follows:

Cancellation of Insurer's Registration

An insurer's registration may be canceled by the BMA on certain grounds specified in the Bermuda Insurance Act, including failure of the insurer to comply with its obligations under the Bermuda Insurance Act or if, in the opinion of the BMA, the insurer has not been carrying on business in accordance with sound insurance principles.

Principal Representative and Principal Office

Every registered insurer or reinsurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda, subject to certain prescribed requirements under the Bermuda Insurance Act.

Further, any registered insurer that is a Class 3A insurer or above is required to maintain a head office in Bermuda and direct and manage its insurance business from Bermuda. The recent amendments to the Bermuda Insurance Act provide that in considering whether an insurer satisfies the requirements of having its head office in Bermuda, the BMA may consider (a) where the underwriting, risk management, and operational decision making occurs; (b) whether the presence of senior executives who are responsible for, and involved in, the decision making are located in Bermuda; and (c) where meetings of the board of directors occur. The BMA will also consider (a) the location where management meets to effect policy decisions; (b) the residence of the officers, insurance managers or employees; and (c) the residence of one or more directors in Bermuda.

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Global Indemnity Reinsurance maintains its principal office in Hamilton, Bermuda and its external management firm has been appointed as its principal representative.

It is the duty of the principal representative upon reaching the view that there is a likelihood of the insurer for which the principal representative acts becoming insolvent or that a reportable "event" has, to the principal representative's knowledge, occurred or is believed to have occurred, to immediately notify the BMA and to make a report in writing to the BMA within 14 days of the prior notification setting out all the particulars of the case that are available to the principal representative.

Where there has been a significant loss which is reasonably likely to cause the insurer to fail to comply with its enhanced capital requirement (in respect of its general business, as described below under the Enhanced Capital Requirement (“ECR”) and Minimum Solvency Margin (“MSM”) section), the principal representative must also furnish the BMA with a capital and solvency return reflecting an enhanced capital requirement prepared using post-loss data. The principal representative must provide this within 45 days of notifying the BMA regarding the loss.

Furthermore, where a notification has been made to the BMA regarding a material change to an insurer's business or structure (including a merger or amalgamation), the principal representative has 30 days from the date of such notification to furnish the BMA with unaudited interim statutory financial statements in relation to such period if so requested by the BMA, together with a general business solvency certificate in respect to those statements.

Independent Approved Auditor

Every registered insurer, such as Global Indemnity Reinsurance, must appoint independent auditors who will audit and report annually on the statutory financial statements, the statutory financial return of the insurer and U.S. GAAP statements, which are required to be filed annually with the BMA.

Loss Reserve Specialist

As a registered Class 3B insurer, Global Indemnity Reinsurance is required to submit an opinion of its approved loss reserve specialist in respect of its technical provisions contained within its Economic Balance Sheet (see below).

Annual Financial Statements and Annual Statutory Financial Return

As prescribed by the Insurance Act, Global Indemnity Reinsurance, a Class 3B insurer, must prepare annual statutory financial statements. The statutory financial return shall consist of an insurer information sheet, a report of the approved independent auditor on the GAAP financial statements, a statutory balance sheet, a statutory statement of income, a statutory statement of capital and surplus, notes to the statutory financial statements and a statutory declaration of compliance.

In addition to preparing statutory financial statements, Global Indemnity Reinsurance must file financial statements prepared in accordance with GAAP in respect of each financial year. Such statements must be filed with the BMA within a period of four months from the end of the financial year or such longer period, not exceeding seven months, as the BMA may determine. The audited financial statements will be published by the BMA.

For financial years after January 1, 2016, commercial insurers are also required to prepare a Financial Condition Report providing details of, among other things, measures governing the business operations, corporate governance framework, solvency and financial performance of the insurer.

Enhanced Capital Requirement (“ECR”) and Minimum Solvency Margin (“MSM”)

The BMA has promulgated the Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment Rules 2008, as amended (the "Rules") which, among other things, mandate that a Class 3B insurer's ECR be calculated by either (a) the model set out in Schedule I to the Rules, or (b) an internal capital model which the BMA has approved for use for this purpose. For 2018, Global Indemnity Reinsurance used the BMA's model to calculate its capital and solvency requirements.

The risk-based regulatory capital adequacy and solvency requirements implemented with effect from December 31, 2008 (termed the Bermuda Solvency Capital Requirement or "BSCR") provide a risk-based capital model as a tool to assist the BMA both in measuring risk and in determining appropriate levels of capitalization. BSCR employs a standard mathematical model that correlates the risk underwritten by Bermuda insurers to the capital that is dedicated to their business. The framework that has been developed applies a standard measurement format to the risk associated with an insurer's assets, liabilities and premiums, including a formula to take account of catastrophe risk exposure.

Where an insurer believes that its own internal model for measuring risk and determining appropriate levels of capital better reflects the inherent risk of its business, it may apply to the BMA for approval to use its internal capital model in substitution for the BSCR model. The BMA may approve an insurer's internal model, provided certain conditions have been established, and may revoke approval of an internal model in the event that the conditions are no longer met or where it feels that the revocation is appropriate. The BMA will review the internal model regularly to confirm that the model continues to meet the conditions.

In order to minimize the risk of a shortfall in capital arising from an unexpected adverse deviation, the BMA seeks that insurers operate at or above a threshold capital level (termed the Target Capital Level or "TCL"), which exceeds the BSCR or approved internal model minimum amounts. The Rules provide prudential standards in relation to the ECR and Capital and Solvency Return ("CSR"). The ECR is determined using the BSCR or an approved internal model, provided that at all times the ECR must be an amount equal to, or exceeding the MSM. The CSR is the return setting out the insurer's risk management practices and other information used by the insurer to calculate its approved internal model ECR. The capital requirements require Class 3B insurers to hold available statutory capital and surplus equal to, or exceeding ECR and set TCL at 120% of ECR. In circumstances where an insurer has failed to comply with an ECR given by the BMA, such insurer is prohibited from declaring or paying any dividends until the failure is rectified.

The risk-based solvency capital framework referred to above represents a modification of the minimum solvency margin test set out in the Insurance Returns and Solvency Amendment Regulations 1980 (as amended). While it must calculate its ECR annually by reference to either the BSCR or an approved internal model, Global Indemnity Reinsurance must also ensure at all times that its ECR is at least equal to the MSM for a Class 3B insurer in respect of its general business, which is the greater of:

(i) $1.0 million;
(ii) 50% of net premiums written;
(iii) 15% of net losses and loss adjustment expense reserves and other general business insurance reserves.
(iv) 25% of the insurer's enhanced capital requirement.

The BMA has also introduced a three-tiered capital system for Class 3B insurers designed to assess the quality of capital resources that an insurer has available to meet its capital requirements. The tiered capital system classifies all capital instruments into one of three tiers based on their "loss absorbency" characteristics, with the highest quality capital classified as Tier 1 Capital and lesser quality capital classified as either Tier 2 or Tier 3 Capital. Only Tier 1 and Tier 2 Capital may be used to support an insurer's MSM. Certain percentages of each of Tier 1, 2 and 3 Capital may be used to satisfy an insurer's ECR. Any combination of Tier 1, 2 or 3 Capital may be used to meet the TCL.

The Rules introduced a regime that requires Class 3B insurers to perform an assessment of their own risk and solvency requirements, referred to as a Commercial Insurer's Solvency Self-Assessment ("CISSA"). The CISSA will allow the BMA to obtain an insurer's view of the capital resources required to achieve its business objectives and to assess the company's governance, risk management and controls surrounding this process. The Rules also introduced a Catastrophe Risk Return, which must be filed with the BMA, which assesses an insurer's reliance on vendor models in assessing catastrophe exposure.

Economic Balance Sheet Framework

The Economic Balance Sheet ("EBS") framework is an accounting balance sheet approach using market consistent values for all current assets and current obligations relating to in-force business which applies to Class 3B and 4 insurers and has been in effect since the 2016 financial year end. The EBS framework is embedded as part of the Capital and Solvency Return and forms the basis for the insurer's ECR.

Minimum Liquidity Ratio

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

Restrictions on Dividends and Distributions

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

Global Indemnity Reinsurance is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital or 25% or more of its total statutory capital and surplus as set out in its previous year's financial statements, and any application for such approval must include such information as the BMA may require. In addition, if at any time it fails to meet its minimum margin of solvency, Global Indemnity Reinsurance is required within 30 days after becoming aware of such failure or having reason to believe that such failure has occurred, to file with the BMA a written report containing certain information.

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

Supervision, Investigation and Intervention

The BMA has wide powers of investigation and document production in relation to Bermuda insurers under the Insurance Act. For example, the BMA may appoint an inspector with extensive powers to investigate the affairs of Global Indemnity Reinsurance if the BMA believes that such an investigation is in the best interests of its policyholders or persons who may become policyholders. Further, the BMA has the power to appoint a professional person to prepare a report on any aspect of any matter about which the BMA has or could require information. If it appears to the BMA that there is a risk of Global Indemnity Reinsurance becoming insolvent, or that Global Indemnity Reinsurance is in breach of the Insurance Act or any conditions imposed upon its registration, the BMA may, among other things, direct Global Indemnity Reinsurance not to take on any new business, not to vary any current treaties if the effect would be to increase its liabilities, not to make certain investments, to realize or not realize certain investments, to maintain in, or transfer to, the custody of a specified bank, certain assets, not to declare or pay any dividends or other distributions or to restrict the making of such payments, or to limit its premium income or remove an officer.

The BMA may also make additional rules prescribing prudential standards in relation to the ECR, CSR, insurance reserves and eligible capital which Global Indemnity Reinsurance must comply with.

Bermuda Code of Conduct

The BMA has implemented the Insurance Code of Conduct (the "Bermuda Code of Conduct") which came into effect on July 1, 2010. The BMA established July 1, 2011 as the date of compliance for commercial insurers. The Bermuda Code of Conduct is divided into six categories: (I) Proportionality Principal, (ii) Corporate Governance, (iii) Risk Management, (iv) Governance Mechanism, (v) Outsourcing, and (vi) Market Discipline and Disclosure. These categories contain the duties, requirements and compliance standards to which all insurers must adhere. It stipulates that in order to achieve compliance with the Bermuda Code of Conduct, insurers are to develop and apply policies and procedures capable of assessment by the BMA. Global Indemnity Reinsurance is in compliance with the Bermuda Code of Conduct.

Group Supervision

Emerging international norms in the regulation of global insurance groups are trending increasingly towards the imposition of group-wide supervisory regimes by one principal “home” regulator over all the legal entities in the group, no matter where incorporated. Amendments to the Insurance Act in 2010 introduced such a regime into Bermuda insurance regulation.

The Insurance Act contains provisions regarding group supervision, the authority to exclude specified entities from group supervision, the power for the BMA to withdraw as a group supervisor, the functions of the BMA as group supervisor and the power of the BMA to make rules regarding group supervision.

The BMA has issued the Insurance (Group Supervision) Rules 2011 (the “Group Supervision Rules”) and the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 (the “Group Solvency Rules”) each effective December 31, 2011. The Group Supervision Rules set out the rules in respect of the assessment of the financial situation and solvency of an insurance group, the system of governance and risk management of the insurance group, and supervisory reporting and disclosures of the insurance group. The Group Solvency Rules set out the rules in respect of the capital and solvency return and enhanced capital requirements for an insurance group. The BMA also intends to publish an insurance code of conduct in relation to group supervision.

Global Indemnity Reinsurance was notified by the BMA that, having considered the matters set out in the 2010 amendments to the Insurance Act, it had determined that it would not be Global Indemnity Reinsurance's group supervisor.

Notifications to the BMA

In the event that the share capital of an insurer (or its parent) is traded on any stock exchange recognized by the BMA, then any shareholder must notify the BMA within 45 days of becoming a 10%, 20%, 33% or 50% shareholder of such insurer. An insurer must also provide written notice to the BMA that a person has become, or ceased to be, a "Controller" of that insurer. A Controller for this purpose means a managing director, chief executive or other person in accordance with whose directions or instructions the Directors of Global Indemnity Reinsurance are accustomed to act, including any person who holds, or is entitled to exercise, 10% or more of the voting shares or voting power or is otherwise able to exercise significant influence over the management of Global Indemnity Reinsurance.

Global Indemnity Reinsurance is also required to notify the BMA in writing in the event any person has become or ceased to be an officer of it, an officer being a director, chief executive or senior executive performing duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters. Failure to give required notice is an offense under the Insurance Act.

An insurer, or designated insurer in respect of the group of which it is a member, must notify the BMA in writing that it proposes to take measures that are likely to be of material significance for the discharge, in relation to the insurer or the group, of the BMA's functions under the Insurance Act. Measures that are likely to be of material significance include:

- acquisition or transfer of insurance business being part of a scheme falling within section 25 of the Insurance Act or section 99 of the Companies Act;
- amalgamation with or acquisition of another firm; and
- a material change in the insurer's business plan not otherwise reported to the BMA.

In respect of the forgoing, the BMA will typically object to the material change unless it is satisfied that:

- the interest of the policyholders and potential policyholders of the insurer or the group would not in any manner be threatened by the material change; and
- without prejudice to the first point, that, having regard to the material change, the requirements of the Insurance Act would continue to be complied with, or, if any of those requirements are not complied with, that the insurer concerned is likely to undertake adequate remedial action.

Failure to give such notice constitutes an offence under the Insurance Act. It is possible to appeal a notice of objection served by the BMA.

Disclosure of Information

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

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

Certain Other Bermuda Law Considerations

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

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

Taxation of Global Indemnity and Subsidiaries

Cayman Islands

The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

Global Indemnity is an exempted company incorporated with limited liability under the laws of the Cayman Islands. Global Indemnity has received an undertaking from the Governor in Cabinet of the Cayman Islands to the effect that, for a period of twenty years from the date of the undertaking, which was February 9, 2016, no law that thereafter is enacted in the Cayman Islands imposing any tax or duty to be levied on profits, income or on gains or appreciation, or any tax in the nature of estate duty or inheritance tax, will apply to any property comprised in or any income arising in respect of Global Indemnity, or to the shareholders thereof, in respect of any such property or income.

Ireland

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

U.A.I. (Ireland) Unlimited, U.A.I. (Ireland) II Unlimited Company, GBLI (Ireland) Limited, and Global Indemnity Group Limited, all indirect wholly-owned subsidiaries, are companies incorporated under the laws of Ireland. Each company is a resident taxpayer fully subject to Irish corporate income tax laws.

Bermuda

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

The Company has received a written assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act of 1966 of Bermuda, that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of that tax would not be applicable to Global Indemnity Reinsurance or GBLI (Bermuda) Limited or to any of its operations, shares, debentures or obligations through March 31, 2035; provided that such assurance is subject to the condition that it will not be construed to prevent the application of such tax to people ordinarily resident in Bermuda, or to prevent the application of any taxes payable by Global Indemnity Reinsurance or GBLI (Bermuda) Limited in respect of real property or leasehold interests in Bermuda held by them. Given the limited duration of the assurance, the Company cannot be certain that the Company will not be subject to any Bermuda tax after March 31, 2035.

Luxembourg

U.A.I. (Luxembourg) I S.à.r.l., U.A.I. (Luxembourg) II S.à.r.l., U.A.I. (Luxembourg) III S.à.r.l., U.A.I. (Luxembourg) IV S.à.r.l., U.A.I. (Luxembourg) Investment S.à.r.l., and Wind River (Luxembourg) S.à.r.l. (the "Luxembourg Companies") are indirect wholly-owned subsidiaries and private limited liability companies incorporated under the laws of Luxembourg. These are taxable companies, which may carry out any activities that fall within the scope of their corporate object clause. In accordance with Luxembourg regulations, the companies are resident taxpayers fully subject to Luxembourg corporate income tax at a rate of 26.01% and net worth tax at a rate of 0.5%. The companies are entitled to benefits of the tax treaties concluded between Luxembourg and other countries and European Union Directives.

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

The Luxembourg Companies have received advance tax confirmations ("ATCs") from the Luxembourg Administration des Contributions Directes (the "Luxembourg tax authorities") that the financing activities of the Luxembourg Companies do not lead to taxation in Luxembourg except for the taxation as provided in the ATCs. The financing activities of the Luxembourg Companies should not lead to taxation in Luxembourg other than for such tax as provided for in the financial statements. The Luxembourg Companies have in their files transfer pricing documentation substantiating the arm's length nature of the financing activities. It is however not guaranteed that the Luxembourg Companies cannot be subject to higher Luxembourg taxes.

Barbados

GBLI (Barbados) Limited, an indirect wholly owned subsidiary, is incorporated under the Companies Act, Cap. 308 of the Laws of Barbados. It is a duly licensed international business company under the International Business Companies Act, Cap. 77 of the Laws of Barbados and subject to a corporate income tax rate as follows:

- 2.5% on all profits and gains up to $5,000,000;
- 2% on all profits and gains exceeding $5,000,000 but not exceeding $10,000,000;
- 1.5% on all profits and gains exceeding $10,000,000 but not exceeding $15,000,000; and
- 0.25% on all profits and gains exceeding $15,000,000. In 2019, this rate will increase to 1.00% on all profits and gains exceeding $15,000,000.

United States

The following discussion is a summary of the material U.S. federal income tax considerations relating to the Company's operations. The Company manages its business in a manner that seeks to mitigate the risk that either Global Indemnity, Global Indemnity Reinsurance, or GBLI (Ireland) Limited will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes. However, whether business is being conducted in the United States is an inherently factual determination. Because the United States Internal Revenue Code (the "Code"), regulations and court decisions fail to identify definitively activities that constitute being engaged in a trade or business in the United States, the Company cannot be certain that the Internal Revenue Service ("IRS") will not contend successfully that Global Indemnity, Global Indemnity Reinsurance, or GBLI (Ireland) Limited is or has been engaged in a trade or business in the United States. A non-U.S. corporation deemed to be so engaged would be subject to U.S. income tax at regular corporate rates, as well as the branch profits tax, on its income that is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a non-U.S. corporation is generally entitled to deductions and credits only if it timely files a U.S. federal income tax return. Global Indemnity, Global Indemnity Reinsurance, and GBLI (Ireland) Limited are filing protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that it is subject to U.S. federal income tax. The highest marginal federal income tax rates, which took effect in 2018, are 21% for a corporation's effectively connected income and 30% for the branch profits tax.

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

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

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

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

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

The Company’s U.S. subsidiaries are each subject to taxation in the United States at regular corporate rates. On December 22, 2017, the United States enacted the TCJA, which contains provisions that can materially affect the tax treatment of the Company's U.S. subsidiaries. Although the TCJA reduced the U.S. corporate income tax rate to 21 percent, it also imposed a 10 percent base erosion minimum tax, or BEAT, on a U.S. corporation's modified taxable income, which generally is the corporation's taxable income calculated without regard to certain otherwise deductible payments made to certain foreign affiliates (including interest payments as well as gross premium or other consideration paid or accrued to a related foreign reinsurance company for reinsurance). In addition to BEAT, the TCJA limits the deductibility of interest expense and executive compensation by the Company's U.S. subsidiaries.

Available Information

The Company maintains a website at www.global-indemnity.com. The information on the Company's website is not incorporated herein by reference. The Company will make available, free of charge on its website, the most recent annual report on Form 10-K and subsequently filed quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company files such material with, or furnishes it to, the United States Securities and Exchange Commission.

The public may also read and copy any materials the Company files with the U.S. Securities and Exchange Commission (“SEC”) at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. The SEC maintains, free of charge, an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. RISK FACTORS

The risks and uncertainties described below are those the Company believes to be material. If any of the following actually occur, the Company’s business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected.

Risks Related to the Company’s Business

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

The Company’s success depends upon its ability to accurately assess the risks associated with the insurance and reinsurance policies that it writes. The Company establishes reserves on an undiscounted basis to cover its estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to premiums earned on the insurance policies that it writes. Reserves do not represent an exact calculation of liability. Rather, reserves are estimates of what the Company expects to be the ultimate cost of resolution and administration of claims under the insurance policies that it writes. These estimates are based upon actuarial and statistical projections, the Company’s assessment of currently available data, as well as estimates and assumptions as to future trends in claims severity and frequency, judicial theories of liability and other factors. The Company continually refines its reserve estimates in an ongoing process as experience develops and claims are reported and settled. The Company’s insurance subsidiaries obtain an annual statement of opinion from an independent actuarial firm on the reasonableness of these reserves.

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

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

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

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

Catastrophic events can have a significant impact on the Company's financial and operational condition.

Results of operations of property and casualty insurers are subject to man-made and natural catastrophes. The Company has experienced, and expects to experience in the future, catastrophe losses. It is possible that a catastrophic event or a series of multiple catastrophic events could have a material adverse effect on the Company's operating results and financial condition. The Company's operating results could be negatively impacted if it experiences losses from catastrophes that are in excess of the catastrophe reinsurance coverage of its Insurance Operations. The Company's Reinsurance Operations also have exposure to losses from catastrophes as a result of the reinsurance treaties that it writes. Operating results could be negatively impacted if losses and expenses related to property catastrophe events exceed premiums assumed. Catastrophes, the severity of which may be impacted by continued climate change, include windstorms, hurricanes, typhoons, floods, earthquakes, tornadoes, tsunamis, hail, severe winter weather, fires and may include terrorist events such as the attacks of September 11, 2001. The Company cannot predict how severe a particular catastrophe may be until after it occurs. The extent of losses from catastrophes is a function of the total amount and type of losses incurred, the number of insureds affected, the frequency of the events and the severity of the particular catastrophe. Most catastrophes occur in small geographic areas. However, some catastrophes may produce significant damage in large, heavily populated areas.

The benefits of acquiring American Reliable may not be realized which could have a material adverse effect on the Company's business operations and financial results.

There may be difficulties in the continued integration of American Reliable business, which could result in a failure to realize the potential benefits of the acquisition. Achieving the anticipated benefits of the acquisition will depend in part upon whether the common aspects of the business can continue to be integrated in an efficient and effective manner with Global Indemnity's existing businesses. Furthermore, the risk that the Company's or American Reliable's prospective insurance premiums, investment yield, or net earnings are less than anticipated (including as a result of unexpected events including but not limited to catastrophe events, competition, costs, charges or outlays whether as a consequence of the transaction or otherwise) could negatively impact the Company's profitability and results of operations.

A failure in the Company's operational systems or infrastructure or those of third parties, including security breaches or cyber-attacks, could disrupt the Company's business, its reputation, and / or cause losses which would have a material effect on the Company's business operations and financial results.

The Company's business is dependent upon the secure processing, storage, and transmission of information over computer networks using applications, systems and other technologies. The business depends on effective information security and systems to perform accounting, policy administration, claims, underwriting, actuarial and all aspects of day to day operations necessary to service the Company's customers and agents, to value the Company's investments and to timely and accurately report the Company's financial results.

The information systems the Company relies upon must ensure confidentiality, integrity and availability of the data, including systems maintained by the Company as well as data in and assets held through third-party service providers and systems. The Company employs various measures, systems, applications and software to address the data security. The Company reviews its existing security measures and systems on a continuing basis through internal and independent evaluations. The Company has implemented administrative and technical controls and takes protective actions in an attempt to reduce the risk of cyber incidents.

The Company's internal and external controls, processes, and the vendors used to protect networks, systems and applications, individually or together, may be insufficient to prevent a security incident. Employee or third party vendor errors, malicious acts, unauthorized access, computer viruses, malware, the introduction of malicious code, system failures and disruptions and or cyber-attacks can result in business interruption, compromise of data and loss of assets and that could have security consequences. Complexity of the Company's technology increases regularly and has increased the risk of a security incident involving data, network, systems and applications.

The Company has, from time to time, experienced security incidents, none of which had a material adverse impact on the Company's business, results of operations, or financial condition. Security incidents have the potential to interrupt business, cause delays in processes and procedures directly affecting the Company, and jeopardize the Company's, insureds, claimants, agents and others confidential data resulting in data loss and loss of assets and reputational damages. If this occurs it could have a material adverse effect on the Company's business operations and financial results.

Security incidents could require significant resources, both internal and external, to resolve or remediate and could result in financial losses that may not be covered by insurance or not fully recoverable under any insurance. The Company may be subject to litigation and damages or regulatory action under data protection and privacy laws and regulations enacted by federal, state and foreign governments, or other regulatory bodies. As a result, the Company's ability to conduct its business and its results of operations might be materially and adversely affected.

The Company's failure to adequately protect personal information could have a material adverse effect on its business.

A wide variety of local, state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data, including laws mandating the privacy and security of personal health and financial data. These data protection and privacy-related laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. The Company's failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against it, including fines, imprisonment of company officials and public censure, claims for damages by customers and other affected individuals, damage to the Company's reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could have a material adverse effect on its operations, financial performance and business.

Evolving and changing definitions of personal data and personal information within the European Union, the United States, and elsewhere may limit or inhibit the Company's ability to operate or expand its business, including limiting technology alliance partners that may involve the sharing of data. Additionally, there is a risk that failures in systems designed to protect private, personal or proprietary data held by the Company will allow such data to be disclosed to or acquired or seen by others, resulting in potential regulatory investigations, enforcement actions, or penalties, remediation obligations and/or private litigation by parties whose data were improperly disclosed. There is also a risk that the Company could be found to have failed to comply with U.S. or foreign laws or regulations regarding the collection, consent, handling, transfer, or disposal of such privacy, personal or proprietary data, which could subject it to fines or other sanctions, as well as adverse reputational impact. Even the perception of privacy concerns, whether or not valid, may harm the Company's reputation, inhibit adoption of its products by current and future customers, or adversely impact its ability to attract and retain workforce talent.

A decline in rating for any of the Company's insurance or reinsurance subsidiaries could adversely affect its position in the insurance market; making it more difficult to market its insurance products and cause premiums and earnings to decrease.

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

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

The Company cannot guarantee that its reinsurers will pay in a timely fashion, if at all, and as a result, the Company could experience losses.

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

See Note 8 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding the Company's reinsurance receivable balances as of December 31, 2018 and 2017.

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

The Company derives a significant portion of its income from its invested assets. As a result, the Company's operating results depend in part on the performance of its investment portfolio. The Company's operating results are subject to a variety of investment risks, including risks relating to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk. The fair value of fixed income investments can fluctuate depending on changes in interest rates and the credit quality of underlying issuers. Generally, the fair market value of these investments has an inverse relationship with changes in interest rates, while net investment income earned by the Company from future investments in fixed maturities will generally increase or decrease with changes in interest rates. Additionally, with respect to certain of its investments, the Company is subject to pre-payment or reinvestment risk.

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

With respect to its longer-term liabilities, the Company strives to structure its investments in a manner that recognizes liquidity needs for its future liabilities. However, if the Company's liquidity needs or general and specific liability profile unexpectedly changes, it may not be successful in continuing to structure its investment portfolio in that manner. To the extent that the Company is unsuccessful in correlating its investment portfolio with its expected liabilities, the Company may be forced to liquidate its investments at times and prices that are not optimal, which could have a material adverse effect on the performance of its investment portfolio. The Company refers to this risk as liquidity risk, which is when the fair value of an investment is not able to be realized due to low demand by outside parties in the marketplace.

The Company is also subject to credit risk due to non-payment of principal or interest. Several classes of securities that the Company holds have default risk. As interest rates rise for companies that are deemed to be less creditworthy, there is a greater risk that they will be unable to pay contractual interest or principal on their debt obligations.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the Company's control. Although the Company attempts to take measures to manage the risks of investing in a changing interest rate environment, the Company may not be able to mitigate interest rate sensitivity effectively. A significant increase in interest rates could have a material adverse effect on the market value of the Company's fixed maturities securities.

The Company also has an equity portfolio. The performance of the Company's equity portfolio is dependent upon a number of factors, including many of the same factors that affect the performance of its fixed income investments, although those factors sometimes have the opposite effect on the performance of the equity portfolio. Individual equity securities have unsystemic risk. The Company could experience market declines on these investments. The Company also has systemic risk, which is the risk inherent in the general market due to broad macroeconomic factors that affect all companies in the market. If the market indexes were to decline, the Company anticipates that the value of its portfolio would be negatively affected.

The Company has investments in limited partnerships which are not liquid. The Company does not have the contractual option to redeem its limited partnership interests 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 interests without consent from the general partner. The Company's returns could be negatively affected if the market value of the partnerships declines. If the Company needs liquidity, it might be forced to liquidate other investments at a time when prices are not optimal.

See Note 4 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding the Company's investments as of December 31, 2018 and 2017.

Deterioration in the debt and equity markets could result in a margin call which could have a material adverse effect on the Company's financial condition and/or results of operations.

The collateral backing the Company's margin borrowing facility currently consist of equity securities but could also include fixed income securities in the future. Declines in financial markets could negatively impact the value of the Company's collateral. Adverse changes in market value could result in a margin call which would require the posting of additional collateral thereby reducing liquidity. Additionally, if such a margin call is not met, the Company could be required to liquidate securities and incur realized losses or it could potentially decrease the Company's borrowing capacity.

Borrowings under the Company's margin borrowing facility are based upon a variable rate of interest, which could result in higher expense in the event of increases in interest rates.

As of December 31, 2018, $65.8 million of the Company's outstanding indebtedness bore interest at a rate that varies depending upon the Fed Funds Effective rate. If Fed Funds Effective rate rises, the interest rates on outstanding debt will increase resulting in increased interest payment obligations under the Company's margin borrowing facility. This could have a negative effect on the Company's cash flow and financial condition.

The Company's outstanding indebtedness could adversely affect its financial flexibility and a failure by the Company or its co-obligor, Global Indemnity Group, Inc. to make periodic payments related to the Subordinated Notes could adversely affect the Company.

In 2015, the Company sold $100 million aggregate principal amount of its 7.75% Subordinated Notes due in 2045. In 2017, the Company sold $130 million aggregate principal amount of its 7.875% Subordinated Notes due in 2047. In 2018, the Company's indirect subsidiary, Global Indemnity Group, Inc. became a co-obligor on both notes. The level of debt outstanding could adversely affect the Company's financial flexibility, including:

- increasing vulnerability to changing economic, regulatory and industry conditions;
- limiting the ability to borrow additional funds; and
- requiring the Company to dedicate a substantial portion of cash flow from operations to debt payments, thereby, reducing funds available for working capital, capital expenditures, acquisitions and other purposes.

Furthermore, failure to make periodic payments related to outstanding indebtedness could impact rating agencies and regulators assessment of the Company's capital position, adequacy and flexibility and therefore, the financial strength ratings of rating agencies, and regulators' assessment of the solvency of the Company and its subsidiaries.

The Company is dependent on its senior executives and the loss of any of these executives or the Company's inability to attract and retain other key personnel could adversely affect its business.

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

Employee error and misconduct may be difficult to detect and prevent and could adversely affect the Company's business, results of operations, financial condition and reputation.

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

Since the Company depends on professional general agencies, brokers, other insurance companies and other reinsurance companies for a significant portion of its revenue, a loss of any one of them could adversely affect the Company.

The Company markets and distributes its insurance products through a group of approximately 405 professional general agencies that have specific quoting and binding authority and that in turn sell the Company's insurance products to insureds through retail insurance brokers. The Company also markets and distributes its reinsurance products through third-party brokers, insurance companies and reinsurance companies. A loss of all or substantially all of the business produced by any one of these general agencies, brokers, insurance companies or reinsurance companies could have an adverse effect on the Company's results of operations.

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

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

The Company's financial and business results may fluctuate as a result of many factors, including cyclical changes in the insurance industry.

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

- competition;
- capital capacity;
- rising levels of actual costs that are not foreseen by companies at the time they price their products;
- volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks;
- changes in loss reserves resulting from the general claims and legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop; and
- fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested assets and may affect the ultimate payout of losses.

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

The Company faces significant competitive pressures in its business that could cause demand for its products to fall and adversely affect the Company's profitability.

The Company competes with a large number of other companies in its selected lines of business. The Company competes, and will continue to compete, with major U.S. and non-U.S. insurers and other regional companies, as well as mutual companies, specialty insurance companies, reinsurance companies, underwriting agencies and diversified financial services companies. The Company's competitors include, among others: American International Group, American Modern Insurance Group, Argo Group International Holdings, Ltd., Berkshire Hathaway, Everest Re

Group, Ltd., Foremost Insurance Group, Great American Insurance Group, HCC Insurance Holdings, Inc., IFG Companies, Markel Corporation, Nationwide Insurance, Navigators Insurance Group, RLI Corporation, Selective Insurance Group, Inc., The Travelers Companies, Inc., and W.R. Berkley Corporation. Some of the Company's competitors have greater financial and marketing resources than the Company does. The Company's profitability could be adversely affected if it loses business to competitors offering similar products at or below the Company's prices.

Many of the Company’s general agencies pay the insurance premiums on business they have bound to the Company on a monthly basis. This accumulation of balances due to the Company exposes it to credit risk.

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

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

Assumed premiums on reinsurance treaties generally flow from the ceding companies to the Company on a quarterly basis. In some instances, the reinsurance treaties allow for funds to be withheld for longer periods as specified in the treaties. Consequently, the Company assumes a degree of credit risk on the aggregate amount of these balances that have been collected by the reinsured but have yet to reach the Company.

Because the Company provides its general agencies with specific quoting and binding authority, if any of them fail to comply with pre-established guidelines, the Company’s results of operations could be adversely affected.

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

The Company’s holding company structure and regulatory constraints limit its ability to receive dividends from subsidiaries in order to meet its cash requirements.

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

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

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

In addition, the Company's U.S. insurance subsidiaries, which are indirect subsidiaries of Global Indemnity Reinsurance, are subject to significant regulatory restrictions limiting their ability to declare and pay dividends, which must first pass through Global Indemnity Reinsurance before being paid to Global Indemnity. See "Regulation – U.S. Regulation" in Item 1 of Part I of this report. Also, see Note 18 of the notes to consolidated financial statements in Item 8 of Part II of this report for the maximum amount of dividends that could be paid by the Company's U.S. insurance subsidiaries in 2019.

The Company's businesses are heavily regulated and changes in regulation may limit the way it operates.

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

- standards of solvency, including risk-based capital measurements;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the types of terms that the Company can include or exclude in the insurance policies it offers;
- restrictions on the way rates are developed and the premiums the Company may charge;
- standards for the manner in which general agencies may be appointed or terminated;
- credit for reinsurance;
- certain required methods of accounting;
- reserves for unearned premiums, losses and other purposes; and
- potential assessments for the provision of funds necessary for the settlement of covered claims under certain insurance policies provided by impaired, insolvent or failed insurance companies.

The statutes or the state insurance department regulations may affect the cost or demand for the Company's products and may impede the Company from obtaining rate increases or taking other actions it might wish to take to increase profitability. Further, the Company may be unable to maintain all required licenses and approvals and its business may not fully comply with the wide variety of applicable laws and regulations or the relevant authority's interpretation of the laws and regulations. Also, regulatory authorities have discretion to grant, renew or revoke licenses and approvals subject to the applicable state statutes and appeal process. If the Company does not have the requisite licenses and approvals (including in some states the requisite secretary of state registration) or do not comply with applicable regulatory requirements, the insurance regulatory authorities could stop or temporarily suspend the Company from carrying on some or all of its activities or monetarily penalize the Company.

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

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

The interests of holders of A ordinary shares may conflict with the interests of the Company's controlling shareholder.

U.N. Co-Investment Fund III (Cayman), L.P. and Fox Paine Capital Fund II International L.P. (collectively, the "Fox Paine Funds"), which are investment funds managed by Fox Paine & Company, LLC, beneficially own approximately 81% of the Company's total voting power. Fox Mercury Investments, L.P. and certain of its affiliates (collectively, the "FM Entities") separately beneficially own approximately 2% of the Company's total voting power. The percentage of the Company's total voting power that the Fox Paine Funds may exercise is greater than the percentage of the Company's total shares that the Fox Paine Funds beneficially own because the Fox Paine Funds beneficially own all of the Company's B ordinary shares, which have ten votes per share as opposed to A ordinary shares, which have one vote per share. The A ordinary shares and the B ordinary shares generally vote together as a single class on matters presented to the Company's shareholders. Based on the ownership structure of the Fox Paine Funds and affiliates that own these shares, which entities are entitled to vote the shares, these affiliated entities are not subject to the voting restriction contained in the Company's articles of association. As a result, the Fox Paine Funds have and will continue to have control over the outcome of certain matters requiring shareholder approval, including the power to, among other things:

- elect all of the Company's directors;
- amend the Company's articles of association (as long as their voting power is greater than 66%);
- ratify the appointment of the Company's auditors;
- increase the Company's share capital; and
- resolve to pay dividends or distributions;

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

In addition, the Company has agreed to pay Fox Paine & Company, LLC an annual management fee of $1.9 million, adjusted annually to reflect change in the consumer price index published by the US Department of Labor Bureau of Labor Statistics "CPI-U", in exchange for management services. The Company has also agreed to pay a termination fee of cash in an amount to be agreed upon, plus reimbursement of expenses, upon the termination of Fox Paine & Company, LLC's management services in connection with the consummation of a change of control transaction that does not involve Fox Paine & Company, LLC and its affiliates. The Company has also agreed to pay Fox Paine & Company, LLC a transaction advisory fee of cash in an amount to be agreed upon, plus reimbursement of expenses upon the consummation of a change of control transaction that does not involve Fox Paine & Company, LLC and its affiliates in exchange for advisory services to be provided by Fox Paine & Company, LLC in connection therewith. The Fox Paine Funds, FM Entities and Fox Paine & Company, LLC (collectively, "Fox Paine Entities") may in the future make significant investments in other insurance or reinsurance companies. Some of these companies may compete with the Company or its subsidiaries. The Fox Paine Entities are not obligated to advise the Company of any investment or business opportunities of which they are aware, and they are not prohibited or restricted from competing with the Company or its subsidiaries.

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

While the Fox Paine Funds have the right under the terms of the memorandum and articles of association to appoint a certain number of directors of the Board of Directors, dependent on the Fox Paine Entities' percentage beneficial ownership of voting shares in the Company for so long as the Fox Paine Entities beneficially own shares representing an aggregate 25% or more of the voting power in the Company, it also controls the election of all directors to the Board of Directors due to its controlling share ownership. The Company's Board of Directors currently consists of eight directors, all of whom were identified and proposed for consideration for the Board of Directors by the Fox Paine Funds.

The Company's Board of Directors, in turn, and subject to its fiduciary duties under Cayman Island law, appoints the members of the Company's senior management, who also have fiduciary duties to the Company. As a result, the Fox Paine Funds effectively have the ability to control the appointment of the members of the Company's senior management and to prevent any changes in senior management that other shareholders or other members of the Board of Directors may deem advisable.

Because the Company relies on certain services provided by Fox Paine & Company, LLC, the loss of such services could adversely affect its business.

Fox Paine & Company, LLC provides certain management services to the Company. To the extent that Fox Paine & Company, LLC is unable or unwilling to provide similar services in the future, and the Company is unable to perform those services itself or is unable to secure replacement services, the Company's business could be adversely affected.

U.S., global economic, and financial industry downturns could harm the Company's business, its liquidity and financial condition, and its stock price.

In past years, global market and economic conditions were severely disrupted. New disruptions may potentially affect (among other aspects of the Company's business) the demand for and claims made under the Company's products, the ability of customers, counterparties and others to establish or maintain their relationships with the Company, its ability to access and efficiently use internal and external capital resources, the availability of reinsurance protection, the risks the Company assumes under reinsurance programs, and the Company's investment performance. Volatility in the U.S. and other securities markets may adversely affect the Company's stock price.

If the Company is unable to maintain effective internal control over financial reporting, the Company's business may be adversely affected, investors may lose confidence in the accuracy and completeness of the Company's financial reports and the market price of the Company's common stock could be adversely affected.

Global Indemnity is required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. The Sarbanes-Oxley Act requires that the Company evaluate and determine the effectiveness of its internal control over financial reporting, provide a management report on internal control over financial reporting and requires that the Company's internal control over financial reporting be attested to by its independent registered public accounting firm.

Global Indemnity may discover material weaknesses in the future which may lead to its financial statements being materially misstated. As a result, , the market price of the Company's common stock could be adversely affected, and the Company could become subject to investigations by the stock exchange on which its securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources. The cost of remediating a potential material weakness could materially adversely affect the Company's business and financial condition.

The Company's operating results and shareholders' equity may be adversely affected by currency fluctuations.

The Company's functional currency is the U.S. dollar. The Reinsurance Operations conducts business with some customers in foreign currencies and several of the Company's U.S. and non-U.S. subsidiaries maintains investments and cash accounts in foreign currencies. At period-end, the Company re-measures non-U.S. currency financial assets to their current U.S. dollar equivalent. The resulting gain or loss for foreign denominated investments is reflected in accumulated other comprehensive income in shareholders' equity; whereas, the gain or loss on foreign denominated cash accounts is reflected in income during the period. Financial liabilities, if any, are generally adjusted within the reserving process. However, for known losses on claims to be paid in foreign currencies, the Company re-measures the liabilities to their current U.S. dollar equivalent each period end with the resulting gain or loss reflected in income during the period. Foreign exchange risk is reviewed as part of the Company's risk management process. The Company may experience losses resulting from fluctuations in the values of non-U.S. currencies relative to the strength of the U.S. dollar, which could adversely impact the Company's results of operations and financial condition.

The Company is incorporated in the Cayman Islands and some of its assets are located outside the United States. As a result, it might not be possible for shareholders to enforce civil liability provisions of the federal or state securities laws of the United States.

The Company is organized under the laws of the Cayman Islands and some of its assets are located outside the United States. A judgment for the payment of money rendered by a court in the United States based on civil liability would not be automatically enforceable in the Cayman Islands. There is no treaty between the Cayman Islands, or the United Kingdom (of which the Cayman Islands is an Overseas Territory) and the United States providing for the reciprocal enforcement of foreign judgments. Similarly, judgments might not be enforceable in countries other than the United States where the Company has assets.

The laws in the Cayman Islands differ from the laws in effect in the United States and might afford less protection to shareholders.

The Company's shareholders could have more difficulty protecting their interests than would shareholders of a corporation incorporated in a jurisdiction of the United States. It may be difficult for a shareholder to effect service of process within the U.S. or to enforce judgments obtained against the Company in U.S. courts. The Company has irrevocably agreed that it may be served with process with respect to actions based on offers and sales of securities made in the U.S. by having Global Indemnity Group, Inc. be the Company's U.S. agent appointed for that purpose. A Cayman court may impose civil liability on the Company or its directors or officers in a suit brought in the Cayman courts against the Company or such persons with respect to a violation of U.S. federal securities laws, provided that the facts surrounding such violation would constitute or give rise to a cause of action under Cayman law.

Risks Related to Taxation

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

The Company's tax position could be adversely impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof. Legislative action may be taken by the U.S. Congress which, if ultimately enacted, could, among other things, override tax treaties upon which the Company relies or could broaden the circumstances under which the Company would be considered a U.S. resident, any of which could materially and adversely affect the Company's effective tax rate and cash tax position.

Recent changes in U.S. tax law may increase taxes of the Company's U.S. Subsidiaries.

On December 22, 2017, the United States enacted a budget reconciliation act amending the Internal Revenue Code of 1986, the TCJA. The TCJA contains provisions that can materially affect the tax treatment of the Company's U.S. subsidiaries. Among other things, the TCJA reduces the U.S. corporate income tax rate to 21 percent, imposes a 10 percent base erosion minimum tax ("BEAT") on income of a U.S. corporation determined without regard to certain otherwise deductible payments made to certain foreign affiliates (including interest payments as well as gross premium or other consideration paid or accrued to a related foreign reinsurance company for reinsurance), and limits the deductibility of interest expense and executive compensation.

It is possible that the TCJA may reduce the benefits of lower effective tax rates enjoyed as a non-U.S. company, add expense and have an adverse effect on the Company's results of operations.

Interest paid by the Company's U.S. subsidiaries to their foreign affiliates is subject to multiple tax-related risks including risks that the interest may become subject to a minimum U.S. federal income tax under BEAT, subject to a 30% U.S. withholding tax, subject to foreign income tax, and be non-deductible in whole or in part for U.S. federal income tax purposes.

The TCJA has created new rules that limit the deductibility of interest for U.S. federal income tax purposes, which may cause some or all of the deduction for interest paid by the Company's U.S. subsidiaries to be denied for U.S. federal income tax purposes. To the extent interest paid to a foreign affiliate is deductible by the Company's U.S. Subsidiaries, such U.S. subsidiaries may become subject to a minimum U.S. federal income tax charge under BEAT. Should interest paid by the Company's U.S. subsidiaries to their foreign affiliates become ineligible under an applicable income tax treaty between the United States and the recipient's jurisdiction of tax residence, such interest could become subject to a 30% U.S. withholding tax. Finally, interest paid by the Company's U.S. subsidiaries to their foreign affiliates may become subject to income tax in the recipient's jurisdiction of tax residence, without regard to whether there is any corresponding tax deduction in the United States, potentially subjecting such interest payments to double taxation.

Global Indemnity, Global Indemnity Reinsurance, or GBLI (Ireland) Limited may be subject to U.S. tax that may have a material adverse effect on Global Indemnity's, Global Indemnity Reinsurance's, or GBLI (Ireland) Limited's results of operations.

Global Indemnity is a Cayman Island company, Global Indemnity Reinsurance is a Bermuda company, and GBLI (Ireland) Limited is an Irish company. The Company seeks to manage its business in a manner designed to reduce the risk that Global Indemnity, Global Indemnity Reinsurance, and GBLI (Ireland) Limited will be treated as being engaged in a U.S. trade or business for U.S. federal income tax purposes. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, the Company cannot be certain that the U.S. Internal Revenue Service will not contend successfully that Global Indemnity, Global Indemnity Reinsurance, or GBLI (Ireland)

Limited is or has been engaged in a trade or business in the United States. If Global Indemnity, Global Indemnity Reinsurance, or GBLI (Ireland) Limited were considered to be engaged in a business in the United States, the Company could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case its results of operations could be materially adversely affected.

U.S. persons who hold shares in the Company may be subject to U.S. income taxation at ordinary income rates on certain income of the Company and the Company’s non-U.S. subsidiaries.

If a foreign corporation is a controlled foreign corporation (“CFC”), each “United States shareholder” of such corporation who owns shares in the corporation directly, or indirectly through non-U.S. entities, on the last day in such year on which such corporation is a CFC must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC’s “subpart F income,” even if the subpart F income is not distributed. A “United States shareholder” for this purpose is a U.S. person that owns, or is treated as owning, at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation or 10 percent or more of the total value of shares of all classes of stock of such foreign corporation. In addition, each United States shareholder of any controlled foreign corporation is required to include in gross income such shareholder's global intangible low-taxed income for such taxable year, which is generally equal to the excess of its pro rata share of each CFC’s non-subpart F income for the taxable year over a deemed return on the tangible assets of such CFC. Moreover, any gain realized on a sale of common shares by a United States shareholder may also be taxed as a dividend to the extent of the Company’s and its non-U.S. subsidiaries’ earnings and profits attributed to such shares during the period that the shareholder held the shares and while the Company was a CFC (with certain adjustments).

Generally, a foreign corporation is considered a CFC if United States shareholders own (directly, indirectly through foreign entities or constructively pursuant to the application of certain constructive ownership rules) more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or the total value of all stock of such corporation. For purposes of taking into account insurance income, however, a CFC also generally includes a foreign corporation of which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned (directly, indirectly through foreign entities or constructively pursuant to the application of certain constructive ownership rules) by United States shareholders, on any day during the taxable year of such corporation.

“Subpart F income” generally includes passive investment income and certain insurance income earned by CFCs. The Company anticipates that, while the income earned from its U.S. insurance and investment operations through Global Indemnity's U.S. subsidiaries would not be subpart F income, substantially all of the income earned by Global Indemnity's non-U.S. subsidiaries and by Global Indemnity itself (if any) from their non-U.S. insurance and investment activities would be subpart F income to the extent it or its non-U.S. subsidiaries were to be treated as CFCs for any taxable year.

Related Person Insurance Income: If the related person insurance income (“RPII”) of any of the Company’s non-U.S. insurance subsidiaries were to equal or exceed 20% of that subsidiary’s gross insurance income in any taxable year, and U.S. persons were treated as owning 25% or more of the subsidiary’s stock, by vote or value, a U.S. person who directly or indirectly owns any common shares on the last day of such taxable year on which the 25% threshold is met would be required to include in income for U.S. federal income tax purposes that person’s ratable share of that subsidiary’s RPII for the taxable year. The amount to be included in income is determined as if the RPII were distributed proportionately to U.S. shareholders on that date, regardless of whether that income is distributed. The amount of RPII to be included in income is limited by such shareholder’s share of the subsidiary’s current-year earnings and profits, and possibly reduced by the shareholder’s share of prior year deficits in earnings and profits. The amount of RPII earned by a subsidiary will depend on several factors, including the identity of persons directly or indirectly insured or reinsured by that subsidiary. Although the Company does not believe that the 20% threshold will be met for its non-U.S. insurance subsidiaries, some of the factors that might affect that determination in any period may be beyond the Company’s control. Consequently, the Company cannot assure that it will not exceed the RPII threshold in any taxable year.

If a U.S. person disposes of shares in a non-U.S. insurance corporation that had RPII (even if the 20% threshold was not met) and the 25% threshold is met at any time during the five-year period ending on the date of disposition, and the U.S. person owned any shares at such time, any gain from the disposition will generally be treated as a dividend to the extent of the holder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the holder owned the shares (possibly whether or not those earnings and profits are attributable to RPII). In addition, the shareholder will be required to comply with specified reporting requirements, regardless of the amount of shares owned. The Company believes that those rules should not apply to a disposition of common shares because the Company is not itself directly engaged in the insurance business. The Company cannot assure, however, that the IRS will not successfully assert that those rules apply to a disposition of its shares.

U.S. persons who hold shares in the Company could be subject to adverse tax consequences if the Company is considered a passive foreign investment company for U.S. federal income tax purposes.

If the Company is considered a passive foreign investment company ("PFIC") for U.S. federal income tax purposes, a U.S. person who owns shares in the Company could be subject to adverse tax consequences, including a greater tax liability than might otherwise apply and an interest charge on certain taxes that are deferred as a result of the Company's non-U.S. status. The Company does not believe that it was a PFIC for U.S. federal income tax purposes for the taxable year ending on December 31, 2018 because the Company believes that it should be considered, through Global Indemnity Reinsurance Company, Ltd., to be engaged in the active conduct of a global insurance and reinsurance business. The Company cannot provide assurance that the Company will not be deemed to be a PFIC by the IRS.

Further, TCJA limited the exception applicable to corporations engaged in the active conduct of an insurance business by requiring that the applicable insurance liabilities of such corporation exceed 25 percent of its total assets for the exception to apply. It is unclear regarding how liability reserves are measured and taken into account for purposes of determining the applicable insurance liabilities. In addition, there are no currently effective Treasury Regulations regarding the application of the PFIC provisions to an insurance company, although proposed regulations were published in April 2015, which do not take into account the recent changes to the PFIC provisions by the TCJA. Due to ambiguities in the application of the relevant provisions of the TCJA and the PFIC provisions in general, there can be no assurance with respect to the Company's status as a PFIC for the current or any future taxable years of the Company.

The Organization for Economic Cooperation and Development ("OECD") and the European Union ("EU") are considering measures that might encourage countries to change their tax laws which could have a negative impact on the Company.

The OECD has published an action plan to address base erosion and profit shifting ("BEPS") impacting its member countries and other jurisdictions. It is possible that jurisdictions in which the Company does business could react to the BEPS initiative or their own concerns by enacting tax legislation that could adversely affect the Company or its shareholders. In addition, the EU issued its Anti Tax Avoidance Directive in 2016 and 2017 requiring the adoption by EU Member States of rules relating to, among other things, interest limitation rules, anti-hybrid rules, CFC rules and exit taxes. Some of these came in to force on January 1, 2019 and others have yet to come in to force in various Member States. Likewise, the OECD Multilateral Convention is in the process of implementing tax treaty related measures to prevent BEPS, better known as the 'multilateral instrument' (MLI) which has been signed by over 80 jurisdictions and will effectively modify bilateral tax treaties between countries having ratified the MLI. It introduces a general anti-abuse provision with the principal purpose test being is a minimum standard and the possibility to apply other specific measures when both countries have opted for them. The implementation of these measures could have a negative impact on the Company.

A number of multilateral organizations, including the EU and the OECD have, in recent years, expressed concern about some countries not participating in adequate tax information exchange arrangements and have threatened those that do not agree to cooperate with punitive sanctions by member countries. It is as yet unclear what all of these sanctions might be, which countries might adopt them, and when or if they might be imposed. The Company cannot assure, however, that the Tax Information Exchange Agreements (TIEAs) that have been or will be entered into by the countries where the Company and its subsidiaries are located will be sufficient to preclude all of the sanctions described above, which, if ultimately adopted, could adversely affect the Company or its shareholders.

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

The Company and its subsidiaries which have been incorporated under the laws of the Cayman Islands as exempted companies and, as such, obtained an undertaking from the Governor in Council of the Cayman Islands substantially that, for a period of 20 years from the date of such undertaking, which is February 9, 2016, no law that is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to the Company and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on the Company’s ordinary shares. This undertaking would not, however, prevent the imposition of taxes on any person ordinarily resident in the Cayman Islands or any company in respect of its ownership of real property or leasehold interests in the Cayman Islands. Given the limited duration of the undertaking, the Company cannot be certain that it will not be subject to Cayman Islands tax after the expiration of the 20-year period.

Global Indemnity Reinsurance was formed in 2006 through the amalgamation of Wind River Barbados and Wind River Bermuda. The Company received an assurance from the Bermuda Minister of Finance, under the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended, that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to Global Indemnity Reinsurance or any of its operations, shares, debentures or other obligations through March 31, 2035. Given the limited duration of the assurance, the Company cannot be certain that it will not be subject to any Bermuda tax after March 31, 2035.

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

The impact of the Letters of Commitment by the Cayman Islands and Bermuda or other concessions to the Organization for Economic Co-operation and Development to eliminate harmful tax practices is uncertain and could adversely affect the tax status of the Company's subsidiaries in the Cayman Islands or Bermuda.

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

There is a risk that interest paid by the Company's U.S. subsidiary to non-U.S. subsidiaries of the Company may be subject to 30% U.S. withholding tax.

Certain non-U.S. subsidiaries of Global Indemnity Reinsurance own and have owned certain loans and notes issued by Global Indemnity Group, Inc., a Delaware corporation. Under U.S. federal income tax law, interest paid by a U.S. corporation to a non-U.S. person is generally subject to a 30% withholding tax, unless reduced by treaty. Certain income tax treaties between the United States and other countries generally eliminate the withholding tax on interest paid to qualified residents of the applicable country. Were the IRS to contend successfully that such a non-U.S. subsidiary is not eligible for benefits under the applicable income tax treaty, interest paid to such a non-U.S. subsidiary by Global Indemnity Group, Inc. would be subject to the 30% withholding tax. Such tax may be applied retroactively to all previous years for which the statute of limitations has not expired, with interest and penalties. Such a result may have a material adverse effect on the Company's financial condition and results of operation.

There is a risk that interest income imputed to the Company's Irish affiliates may be subject to 25% Irish income tax.

U.A.I. (Ireland) Unlimited, U.A.I. (Ireland) II Unlimited Company, GBLI (Ireland) Limited, and Global Indemnity Group Limited are companies incorporated under the laws of Ireland. The companies are resident taxpayers fully subject to Irish corporate income tax of 12.5% on any trading income and 25.0% on any non-trading income, including interest and dividends from foreign companies. The Company believes it has, to date, managed its operations in such way that there will not be any material taxable income generated in Ireland under Irish law for these entities. However, there can be no assurance from the Irish authorities that a law may not be enacted that would impute income to U.A.I. (Ireland) Unlimited, U.A.I. (Ireland) II Unlimited Company, GBLI (Ireland) Limited, and Global Indemnity Group Limited in the future or retroactively arising out of the Companies' current operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

At December 31, 2018, office space leased in Bala Cynwyd, Pennsylvania, holds the Commercial Lines' principal executive offices and headquarters. Additional office space leased in California, Georgia, Illinois, and Texas, serve as field offices for Commercial Lines. Some of the office space in California also serves as office space for Commercial Lines' claims operations. Office space in Hamilton, Bermuda used by Reinsurance Operations is shared with one of Global Indemnity Reinsurance's service providers per an agreement between the two. Office space leased in Arizona and Nebraska, is used by Personal Lines. Office space leased in Cavan, Ireland is used to support the operating needs of the Insurance and Reinsurance Operations. The leases for the properties listed are held by various Company subsidiaries. The Company believes the properties listed are suitable and adequate to meet its needs.

Item 3. LEGAL PROCEEDINGS

The Company is, from time to time, involved in various legal proceedings in the ordinary course of business. The Company purchased insurance and reinsurance coverage for 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.

Item 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Market for the Company’s A Ordinary Shares

The Company’s A ordinary shares, par value $0.0001 per share, began trading on the NASDAQ Global Select Market, formerly the NASDAQ National Market, under the symbol “UNGL” on December 16, 2003. On March 14, 2005, the Company changed its symbol to “INDM.” On July 6, 2010, the Company changed its symbol to “GBLI” as part of a redomestication transaction whereby all shares of “INDM” were replaced with shares of “GBLI” on a one-for-two basis. On November 7, 2016, in connection with a redomestication from Ireland to Cayman Islands, all of Global Indemnity plc’s ordinary shares were cancelled and replaced with one ordinary share of Global Indemnity Limited on a one for one basis. The ordinary shares of Global Indemnity Limited continue to trade under the symbol “GBLI”. The following table sets forth, for the periods indicated, the high and low intraday sales prices of the Company’s A ordinary shares as reported by the NASDAQ Global Select Market.

	High	Low
Fiscal Year Ended December 31, 2018:		
First Quarter	$43.49	$32.22
Second Quarter	42.24	34.18
Third Quarter	42.00	34.23
Fourth Quarter	39.40	31.78
Fiscal Year Ended December 31, 2017:		
First Quarter	$40.96	$34.00
Second Quarter	41.55	36.04
Third Quarter	42.96	37.27
Fourth Quarter	49.91	40.11

There is no established public trading market for the Company’s B ordinary shares, par value $0.0001 per share.

As of March 1, 2019, there were 4 holders of record of the Company’s B ordinary shares, all of whom are affiliated investment funds of Fox Paine & Company, LLC or an affiliate of an investment fund. The number of holders of record, including individual owners of the Company’s A ordinary shares, was approximately 700 as of March 1, 2019. The Company believes that the actual number of beneficial owners of the Company’s A ordinary shares is much higher than the number of record holders as shares are held in “street name” by brokers and others on behalf of individual owners.

See Note 15 to the consolidated financial statements in Item 8 of Part II of this report for information regarding securities authorized under the Company’s equity compensation plans.

Performance of the Company's A Ordinary Shares

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

	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Global Indemnity Limited	$ 100.0	$ 112.1	$ 114.7	$ 151.0	$ 166.1	$ 143.2
NASDAQ Insurance Index	100.0	108.5	115.6	133.6	137.9	126.1
NASDAQ Composite Index	100.0	113.4	119.9	128.9	165.3	158.9

Recent Sales of Unregistered Securities

None.

Company Purchases of Ordinary Shares

The Company's Share Incentive Plan allows employees to surrender A ordinary shares as payment for the tax liability incurred upon the vesting of restricted stock that was issued under the Share Incentive Plan. During 2018, the Company purchased an aggregate 45,233 of surrendered A ordinary shares from employees for $1.8 million. All shares purchased from employees are held as treasury stock and recorded at cost until formally retired.

See Note 12 to the consolidated financial statements in Item 8 of Part II of this report for additional information on the retirement of the Company's A ordinary shares as well as a tabular disclosure of the Company's share repurchases by month.

Dividend Policy

On December 27, 2017, the Company adopted a dividend program with an anticipated dividend rate of $0.25 per share per quarter ($1.00 per share per year). Continued payment of dividends is subject to future determinations by the Board of Directors based on the Company's results, financial conditions, amounts required to grow the Company's business, and other factors deemed relevant by the Board.

During each quarter of 2018, the Board of Directors approved a dividend payment of $0.25 per ordinary share to all shareholders of record on the close of business on March 21, 2018, June 22, 2018, September 27, 2018, December 24, 2018. Quarterly dividends of $3.5 million were paid on March 29, 2018, June 29, 2018, and October 1, 2018, and December 31, 2018.

The Company did not declare or pay cash dividends on any class of its ordinary shares in 2017.

The Company is a holding company and has no direct operations. The ability of Global Indemnity Limited to pay dividends is subject to Cayman Islands regulations and depends, in part, on the ability of its subsidiaries to pay dividends. Global Indemnity Reinsurance and the U.S. insurance subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. See "Management's Discussion and Analysis of Financial Condition – Liquidity and Capital Resources – Sources and Uses of Funds" in Item 7 of Part II of this report for dividend limitation and Note 18 of the notes to the consolidated financial statement in Item 8 of Part II of this report for the dividends declared and paid by the U.S. insurance subsidiaries and Global Indemnity Reinsurance in 2018 and the maximum amount of distributions that they could pay as dividends in 2019.

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

For 2019, the Company believes that Global Indemnity Reinsurance should have sufficient liquidity and solvency to pay dividends. In the future, the Company anticipates using dividends from Global Indemnity Reinsurance to fund obligations of Global Indemnity. Global Indemnity Reinsurance is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital or 25% or more of its total statutory capital and surplus as set out in its previous year's statutory financial statements, and any application for such approval must include such information as the BMA may require. Based upon the total statutory capital plus the statutory surplus as set out in its 2018 statutory financial statements that will be filed in 2019, Global Indemnity Reinsurance could pay a dividend of up to $223.9 million in 2019 without requesting BMA approval. Global Indemnity Reinsurance is dependent on receiving distributions from its subsidiaries in order to pay the full dividend in cash. In 2018, Global Indemnity Reinsurance declared and paid a dividend of $50.0 million to its parent, Global Indemnity. In addition, Global Indemnity Reinsurance paid a dividend of $20.0 million in 2018, which was previously declared in 2017, to Global Indemnity.

Barbados resident companies are subject to a 15% withholding tax on dividends to a nonresident company or individual, with a 25% rate for dividends paid out of tax-exempt profits. Dividends paid by Barbados resident companies classified as International Business Companies ("IBCs") to nonresidents are exempt from withholding tax. GBLI (Barbados) Limited is an IBC.

In 2018, profit distributions (not in respect to liquidations) by the Luxembourg Companies were generally subject to Luxembourg dividend withholding tax at a rate of 15%, unless a domestic law exemption or a lower tax treaty rate applies. Dividends paid by any of the Luxembourg Companies to their Luxembourg resident parent company are exempt from Luxembourg dividend withholding tax, provided that at the time of the dividend distribution, the resident parent company has held (or commits itself to continue to hold) 10% or more of the nominal paid up capital of the distributing entity or, in the event of a lower percentage participation, a participation having an acquisition price of EUR 1.2 million or more for a period of at least twelve months. The Barbados Luxembourg Tax Treaty allows Luxembourg resident companies to pay dividends free of withholding tax to Barbados resident companies so long as the Barbados resident company is the beneficial owner of at least 10% of the capital of the Luxembourg resident company and has held such capital for an uninterrupted period of at least twelve months prior to the dividend distribution.

For a discussion of factors affecting the Company's ability to pay dividends, see "Business – Regulation" in Item 1 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Sources and Uses of Funds" in Item 7 of Part II, and Note 18 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated historical financial data for the Company and should be read together with the consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report. Cash dividends totaling $1.00 per share were declared and paid on common stock in 2018. No cash dividends were declared or paid on common stock during the years ended December 31, 2017, 2016, 2015, and 2014.

	For the Years Ended December 31,				
(Dollars in thousands, except shares and per share data)	2018	2017	2016	2015	2014
Consolidated Statements of Operations Data:					
Gross premiums written	$547,897	$516,334	$565,845	$590,233	$291,253
Net premiums written	472,547	450,180	470,940	501,244	273,181
Net premiums earned	467,775	438,034	468,465	504,143	268,519
Net realized investment gains (losses)	(16,907)	1,576	21,721	(3,374)	35,860
Total revenues	498,938	485,515	534,514	538,778	333,755
Net income (loss)	(56,696)	(9,551)	49,868	41,469	62,856
Per share data:					
Net income (loss) available to common shareholders (1)	$(56,696)	$(9,551)	$49,868	$41,469	$62,856
Basic	$(4.02)	$(0.55)	$2.89	$1.71	$2.50
Diluted	$(4.02)	$(0.55)	$2.84	$1.69	$2.48
Weighted-average number of shares outstanding					
Basic	14,088,883	17,308,663	17,246,717	24,253,657	25,131,811
Diluted	14,088,883	17,308,663	17,547,061	24,505,851	25,331,420
Cash dividends declared per share	$1.00	$-	$-	$-	$-

(1) For the years ended December 31, 2018 and 2017, "diluted" loss per share is the same as "basic" loss per share since there was a net loss for the period.

Consolidated Insurance Operating Ratios

based on the Company's GAAP Results: (1)	2018	2017	2016	2015	2014
Loss ratio (2) (3)	71.5	61.5	56.4	54.6	51.2
Expense ratio	40.8	41.9	42.0	39.9	40.8
Combined ratio (2) (3)	112.3	103.4	98.4	94.5	92.0
Net / gross premiums written	86.2	87.2	83.2	84.9	93.8
Financial Position as of Last Day of Period:					
Total investments and cash and cash equivalents	$1,510,152	$1,533,900	$1,501,819	$1,516,093	$1,498,009
Reinsurance receivables, net of allowance	114,418	105,060	143,774	115,594	125,718
Total assets	1,960,266	2,001,669	1,972,946	1,957,294	1,930,033
7.75% Subordinated notes payable	96,742	96,619	96,497	96,388	—
7.875% Subordinated notes payable	126,005	125,864	—	—	—
Margin borrowing facility	65,818	72,230	66,646	75,646	174,673
Unpaid losses and loss adjustment expenses	680,031	634,664	651,042	680,047	675,472
Total shareholders' equity	629,059	718,394	797,951	749,926	908,290
Book value per share	44.21	50.57	45.42	42.98	35.86

(1) The Company's insurance operating ratios are GAAP financial measures that are generally viewed in the insurance industry as indicators of underwriting profitability. The loss ratio is the ratio of net losses and loss adjustment expenses to net premiums earned. The expense ratio is the ratio of acquisition costs and other underwriting expenses to net premiums earned. The combined ratio is the sum of the loss and expense ratios. The ratios presented here represent the consolidated results of the Company's Commercial Lines, Personal Lines, and Reinsurance Operations.

(2) A summary of prior accident year adjustments is summarized as follows:

- 2018 loss and combined ratios reflect a $28.8 million reduction of net losses and loss adjustment expenses
- 2017 loss and combined ratios reflect a $53.9 million reduction of net losses and loss adjustment expenses
- 2016 loss and combined ratios reflect a $57.3 million reduction of net losses and loss adjustment expenses
- 2015 loss and combined ratios reflect a $34.7 million reduction of net losses and loss adjustment expenses
- 2014 loss and combined ratios reflect a $16.4 million reduction of net losses and loss adjustment expenses

See "Results of Operations" in Item 7 of Part II of this report for details of these items and their impact on the loss and combined ratios.

(3) The Company's loss and combined ratios for 2018, 2017, 2016, 2015, and 2014 include $80.6 million, $61.1 million, $72.1 million, $45.0 million, and $14.0 million, respectively, of catastrophic losses on a current accident year basis from the Insurance Operations. See "Results of Operations" in Item 7 of Part II of this report for a discussion of the impact of these losses on the loss and combined ratios.

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

The following discussion and analysis of the Company’s financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes of Global Indemnity included elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to the Company’s plans and strategy, constitutes forward-looking statements that involve risks and uncertainties. Please see "Cautionary Note Regarding Forward-Looking Statements" at the end of this Item 7 and “Risk Factors” in Item 1A above for more information. You should review “Risk Factors” in Item 1A above for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

Recent Developments

During the quarter ended March 31, 2018, the Company received regulatory approval to terminate the quota share agreement between Global Indemnity Reinsurance and the Company’s U.S. insurance companies effective January 1, 2018.

During each quarter of 2018, the Board of Directors approved a dividend payment of $0.25 per ordinary share to all shareholders of record on the close of business on March 21, 2018, June 22, 2018, September 27, 2018, and December 24, 2018. Quarterly dividends of $3.5 million were paid on March 29, 2018, June 29, 2018, October 1, 2018 and December 31, 2018.

On April 25, 2018, the Company and Global Indemnity Group, Inc., an indirect wholly owned subsidiary of the Company, entered into an agreement pursuant to which Global Indemnity Group, Inc. agreed to become a subordinated co-obligor with respect to the 7.75% subordinated notes due 2045 and the 7.875% subordinated notes due 2047. Please see Note 11 of the notes to consolidated financial statements contained in Item 8 of Part II of this report for further discussion on this transaction.

On January 8, 2019, A.M. Best affirmed the financial strength rating of “A” (Excellent) for Global Indemnity Reinsurance and its U.S. insurance subsidiaries.

Overview

The Company operates and manages its business through three business segments: Commercial Lines, Personal Lines, and Reinsurance Operations.

The Company’s Commercial Lines segment distribute property and casualty insurance products through a group of approximately 130 professional general agencies that have limited quoting and binding authority, as well as a number of wholesale insurance brokers who in turn sell the Company’s insurance products to insureds through retail insurance brokers. Commercial Lines operates predominantly in the excess and surplus lines marketplace. The Company manages its Commercial Lines segment via product classification. These product classifications are: 1) Penn-America, which includes property and general liability products for small commercial businesses distributed through a select network of wholesale general agents with specific binding authority; 2) United National, which includes property, general liability, and professional lines products distributed through program administrators with specific binding authority; 3) Diamond State, which includes property, casualty, and professional lines products distributed through wholesale brokers and program administrators with specific binding authority; and 4) Vacant Express, which primarily insures dwellings which are currently vacant, undergoing renovation, or are under construction and is distributed through aggregators, brokers, and retail agents.

The Company’s Personal Lines segment, via American Reliable, offers specialty personal lines and agricultural coverage through a group of approximately 275 agents, primarily comprised of wholesale general agents, with specific binding authority in the admitted marketplace.

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

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

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

Critical Accounting Estimates and Policies

The Company’s consolidated financial statements are prepared in conformity with GAAP, which require it to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. See Note 3 of the notes to consolidated financial statements contained in Item 8 of Part II of this report. Actual results could differ from those estimates and assumptions.

The Company believes that of the Company’s significant accounting policies, the following may involve a higher degree of judgment and estimation.

Liability for Unpaid Losses and Loss Adjustment Expenses

Although variability is inherent in estimates, the Company believes that the liability for unpaid losses and loss adjustment expenses reflects Management’s best estimate for future amounts needed to pay losses and related loss adjustment expenses and the impact of its reinsurance coverage with respect to insured events.

In developing losses and loss adjustment expense ("loss" or "losses") reserve estimates for the U.S. Insurance Operations, the Company’s actuaries perform detailed reserve analyses each quarter. To perform the analysis, the data is organized at a "reserve category" level. A reserve category can be a line of business such as commercial automobile liability, or it can be a particular type of claim such as construction defect. The reserves within a reserve category level are characterized as long-tail or short-tail. For long-tail business, it will generally be several years between the time the business is written and the time when all claims are settled. The Company’s long-tail exposures include general liability, professional liability, products liability, commercial automobile liability, and excess and umbrella. Short-tail exposures include property, commercial automobile physical damage, and equine mortality. To manage its insurance operations, the Company differentiates by product classifications, which are Penn-America, United National, Diamond State, American Reliable, and Vacant Express. For further discussion about the Company’s product classifications, see “General – Business Segments – Insurance Operations” in Item 1 of Part I of this report. Each of the Company’s product classifications contain both long-tail and short-tail exposures. Every reserve category is analyzed by the Company’s actuaries each quarter. Management is responsible for the final determination of loss reserve selections.

Loss reserve estimates for the Company’s Reinsurance Operations are developed by independent, external actuaries; at least annually; however, management is responsible for the final determination of loss reserve selections. The data for this analysis is organized by treaty and treaty year. As with the Company's reserves for its Insurance Operations, reserves for its Reinsurance Operations are characterized as long-tail or short-tail. Long-tail exposures include workers compensation, professional liability, and excess and umbrella liability. Short-tail exposures are primarily catastrophe exposed property and marine accounts.

In addition to the Company's internal reserve analysis, independent external actuaries perform a full, detailed review of the Insurance and Reinsurance Operations' reserves annually. The Company reviews both the internal and external actuarial analyses in determining its reserve position.

The actuarial methods used to project ultimate losses for both long-tail and short-tail reserve categories include, but are not limited to, the following:

- Paid Development method;
- Incurred Development method;
- Expected Loss Ratio method;
- Bornhuetter-Ferguson method using premiums and paid loss;
- Bornhuetter-Ferguson method using premiums and incurred loss; and
- Average Loss method.

The Paid Development method estimates ultimate losses by reviewing paid loss patterns and applying them to accident years with further expected changes in paid loss. Selection of the paid loss pattern requires analysis of several factors including the impact of inflation on claims costs, the rate at which claims professionals make claim payments and close claims, the impact of judicial decisions, the impact of underwriting changes, the impact of large claim payments and other factors. Claim cost inflation itself requires evaluation of changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors. Because this method assumes that losses are paid at a consistent rate, changes in any of these factors can impact the results. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.

For many reserve categories, paid loss data for recent periods may be too immature or erratic for reliable loss projections. This situation often exists for long-tail exposures. In addition, changes in the factors described above may result in inconsistent payment patterns. Finally, estimating the paid loss pattern subsequent to the most mature point available in the data analyzed often involves considerable uncertainty for long-tail reserve categories.

The Incurred Development method is similar to the Paid Development method, but it uses case incurred losses instead of paid losses. Since this method uses more data (case reserves in addition to paid losses) than the Paid Development method, the incurred development patterns may be less variable than paid development patterns. However, selection of the incurred loss pattern requires analysis of all of the factors listed in the description of the Paid Development method. In addition, the inclusion of case reserves can lead to distortions if changes in case reserving practices have taken place and the use of case incurred losses may not eliminate the issues associated with estimating the incurred loss pattern subsequent to the most mature point available.

The Expected Loss Ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for each accident year. This method may be useful if loss development patterns are inconsistent, losses emerge very slowly, or there is relatively little loss history from which to estimate future losses. The selection of the expected loss ratio requires analysis of loss ratios from earlier accident years or pricing studies and analysis of inflationary trends, frequency trends, rate changes, underwriting changes, and other applicable factors.

The Bornhuetter-Ferguson method using premiums and paid losses is a combination of the Paid Development method and the Expected Loss Ratio method. This method normally determines expected loss ratios similar to the method used for the Expected Loss Ratio method and requires analysis of the same factors described above. The method assumes that only future losses will develop at the expected loss ratio level. The percent of paid loss to ultimate loss implied from the Paid Development method is used to determine what percentage of ultimate loss is yet to be paid. The use of the pattern from the Paid Development method requires consideration of all factors listed in the description of the Paid Development method. The estimate of losses yet to be paid is added to current paid losses to estimate the ultimate loss for each accident year. This method will react very slowly if actual ultimate loss ratios are different from expectations due to changes not accounted for by the Expected Loss Ratio calculation.

The Bornhuetter-Ferguson method using premiums and incurred losses is similar to the Bornhuetter-Ferguson method using premiums and paid losses except that it uses case incurred losses. The use of case incurred losses instead of paid losses can result in development patterns that are less variable than paid development patterns. However, the inclusion of case reserves can lead to distortions if changes in case reserving practices have taken place. The method requires analysis of all the factors that need to be reviewed for the Expected Loss Ratio and Incurred Development methods.

The Average Loss method multiplies a projected number of ultimate incurred claims by an estimated ultimate average loss for each accident year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss, this method can provide more reliable results for reserve categories where loss development patterns are inconsistent or too variable to be relied on exclusively. In addition, this method can more directly account for changes in coverage that impact the number and size of claims. However, this method can be difficult to apply to situations where very large claims or a substantial number of unusual claims result in volatile average claim sizes. Projecting the ultimate number of claims requires analysis of several factors including the rate at which policyholders report claims to the Company, the impact of judicial decisions, the impact of underwriting changes and other factors. Estimating the ultimate average loss requires analysis of the impact of large losses and claim cost trends based on changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors.

For many reserve categories, especially those that can be considered long-tail, a particular accident year may not have a sufficient volume of paid losses to produce a statistically reliable estimate of ultimate losses. In such a case, the Company’s actuaries typically assign more weight to the Incurred Development method than to the Paid Development method. As claims continue to settle and the volume of paid losses increases, the actuaries may assign additional weight to the Paid Development method. For most of the Company’s reserve categories, even the case incurred losses for accident years that are early in the claim settlement process will not be of sufficient volume to produce a reliable estimate of ultimate losses. In these cases, the Company will not assign any weight to the Paid and Incurred Development methods and will use the Bornhuetter-Ferguson and Expected Loss Ratio methods. For short-tail exposures, the Paid and Incurred Development methods can often be relied on sooner primarily because the Company’s history includes a sufficient number of accident years to cover the entire period over which paid and incurred losses are expected to change. However, the Company may also assign weights to the Expected Loss Ratio, Bornhuetter-Ferguson and Average Loss methods for short-tail exposures when developing estimates of ultimate losses.

Generally, reserves for long-tail lines give more weight to the Expected Loss Ratio method in the more recent immature years. As the accident years mature, weight shifts to the Bornhuetter-Ferguson methods and eventually to the Incurred and/or Paid Development method. Claims related to umbrella business are usually reported later than claims for other long-tail lines. For umbrella business, the shift from the Expected Loss Ratio method to the Bornhuetter-Ferguson methods to the Loss Development method may be more protracted than for most long-tailed lines. Reserves for short-tail lines tend to make the shift across methods more quickly than the long-tail lines.

For other more complex reserve categories where the above methods may not produce reliable indications, the Company uses additional methods tailored to the characteristics of the specific situation. Such reserve categories include losses from construction defect and A&E claims.

For construction defect losses, the Company’s actuaries organize losses by the year in which they were reported to develop an IBNR provision for development on known cases. To estimate losses from claims that have occurred but have not yet been reported to the Company (pure IBNR), various extrapolation techniques are applied to the pattern of claims that have been reported to estimate the number of claims yet to be reported. This process requires analysis of several factors including the rate at which policyholders report claims to the Company, the impact of judicial decisions, the impact of underwriting changes and other factors. An average claim size is determined from past experience and applied to the number of unreported claims to estimate reserves for these claims.

Establishing reserves for A&E and other mass tort claims involves considerably more judgment than other types of claims due to, among other things, inconsistent court decisions, bankruptcy filings as a result of asbestos-related liabilities, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage. The insurance industry continues to receive a substantial number of asbestos-related bodily injury claims, with an increasing focus being directed toward other parties, including installers of products containing asbestos rather than against asbestos manufacturers. This shift has resulted in significant insurance coverage litigation implicating applicable coverage defenses or determinations, if any, including but not limited to, determinations as to whether or not an asbestos-related bodily injury claim is subject to aggregate limits of liability found in most comprehensive general liability policies. The Company continues to closely monitor its asbestos exposure and make adjustments where they are warranted.

Reserve analyses performed by the Company's internal and external actuaries result in actuarial point estimates. The results of the detailed reserve reviews were summarized and discussed with the Company's senior management to determine the best estimate of reserves. This group considered many factors in making this decision. The factors included, but were not limited to, the historical pattern and volatility of the actuarial indications, the sensitivity of the actuarial indications to changes in paid and incurred loss patterns, the consistency of claims handling processes, the consistency of case reserving practices, changes in the Company's pricing and underwriting, and overall pricing and underwriting trends in the insurance market.

Management's best estimate at December 31, 2018 was recorded as the loss reserve. Management's best estimate is as of a particular point in time and is based upon known facts, the Company's actuarial analyses, current law, and the Company's judgment. This resulted in carried gross and net reserves of $680.0 million and $570.7 million, respectively, as of December 31, 2018. A breakout of the Company's gross and net reserves as of December 31, 2018 is as follows:

	Gross Reserves		
(Dollars in thousands)	Case	IBNR (1)	Total
Commercial Lines	$114,334	$302,841	$417,175
Personal Lines	58,248	75,397	133,645
Reinsurance Operations	30,422	98,789	129,211
Total	$203,004	$477,027	$680,031

	Net Reserves (2)		
(Dollars in thousands)	Case	IBNR (1)	Total
Commercial Lines	$94,746	$255,018	$349,764
Personal Lines	31,797	60,151	91,948
Reinsurance Operations	30,422	98,555	128,977
Total	$156,965	$413,724	$570,689

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

The Company continually reviews these estimates and, based on new developments and information, includes adjustments of the estimated ultimate liability in the operating results for the periods in which the adjustments are made. The establishment of losses and loss adjustment expense reserves makes no provision for the possible broadening of coverage by legislative action or judicial interpretation, or the emergence of new types of losses not sufficiently represented in the Company's historical experience or that cannot yet be quantified or estimated. The Company regularly analyzes its reserves and reviews reserving methodologies so that future adjustments to prior accident year reserves can be minimized. However, given the complexity of this process, reserves require continual updates and the ultimate liability may be higher or lower than previously indicated. Changes in estimates for losses and loss adjustment expense reserves are recorded in the period that the change in these estimates is made. See Note 10 to the consolidated financial statements in Item 8 of Part II of this report for details concerning the changes in the estimate for incurred losses and loss adjustment expenses related to prior accident years.

The detailed reserve analyses that the Company's internal and external actuaries complete use a variety of generally accepted actuarial methods and techniques to produce a number of estimates of ultimate loss. The Company determines its best estimate of ultimate loss by reviewing the various estimates provided by its actuaries and other relevant information. The reserve estimate is the difference between the estimated ultimate loss and the losses paid to date. The difference between the estimated ultimate loss and the case incurred loss (paid loss plus case reserve) is considered to be IBNR. IBNR calculated as such includes a provision for development on known cases (supplemental development) as well as a provision for claims that have occurred but have not yet been reported to the Company (pure IBNR).

In light of the many uncertainties associated with establishing the estimates and making the assumptions necessary to establish reserve levels, the Company reviews its reserve estimates on a regular basis and makes adjustments in the period that the need for such adjustments is determined.

The key assumptions fundamental to the reserving process are often different for various reserve categories and accident years. Some of these assumptions are explicit assumptions that are required of a particular method, but most of the assumptions are implicit and cannot be precisely quantified. An example of an explicit assumption is the pattern employed in the Paid Development method. However, the assumed pattern is itself based on several implicit assumptions such as the impact of inflation on medical costs and the rate at which claim professionals close claims. Loss frequency is a measure of the number of claims per unit of insured exposure, and loss severity is a measure of the average size of claims. Each reserve category has an implicit frequency and severity for each accident year as a result of the various assumptions made.

Previous reserve analyses have resulted in the Company's identification of information and trends that have caused it to increase or decrease frequency and severity assumptions in prior periods and could lead to the identification of a need for additional material changes in losses and loss adjustment expense reserves, which could materially affect results of operations, equity, business and insurer financial strength and debt ratings. Factors affecting loss frequency include, among other things, the effectiveness of loss controls and safety programs and changes in economic activity or weather patterns. Factors affecting loss severity include, among other things, changes in policy limits and deductibles, rate of inflation and judicial interpretations. Another factor affecting estimates of loss frequency and severity is the loss reporting lag, which is the period of time between the occurrence of a loss and the date the loss is reported to the Company. The length of the loss reporting lag affects the Company's ability to accurately predict loss frequency (loss frequencies are more predictable for short-tail lines) as well as the amount of reserves needed for IBNR.

If the actual levels of loss frequency and severity are higher or lower than expected, the ultimate losses will be different than management's best estimate. For most of its reserve categories, the Company believes that frequency can be predicted with greater accuracy than severity. Therefore, the Company believes management's best estimate is more likely influenced by changes in severity than frequency. The following table, which the Company believes reflects a reasonable range of variability around its best estimate based on historical loss experience and management's judgment, reflects the impact of changes (which could be favorable or unfavorable) in frequency and severity on the Company's current accident year net loss estimate of $363.4 million for claims occurring during the year ended December 31, 2018:

		Severity Change				
(Dollars in thousands)		-10%	-5%	0%	5%	10%
Frequency Change	-5%	$(52,693)	$(35,432)	$(18,170)	$(909)	$16,353
	-3%	(46,152)	(28,527)	(10,902)	6,723	24,348
	-2%	(42,881)	(25,075)	(7,268)	10,539	28,345
	-1%	(39,611)	(21,622)	(3,634)	14,354	32,343
	0%	(36,340)	(18,170)	—	18,170	36,340
	1%	(33,069)	(14,718)	3,634	21,986	40,337
	2%	(29,799)	(11,265)	7,268	25,801	44,335
	3%	(26,528)	(7,813)	10,902	29,617	48,332
	5%	(19,987)	(909)	18,170	37,249	56,327

The Company's net reserves for losses and loss adjustment expenses of $570.7 million as of December 31, 2018 relate to multiple accident years. Therefore, the impact of changes in frequency and severity for more than one accident year could be higher or lower than the amounts reflected above.

Recoverability of Reinsurance Receivables

The Company regularly reviews the collectability of its reinsurance receivables, and includes adjustments resulting from this review in earnings in the period in which the adjustment arises. A.M. Best ratings, financial history, available collateral, and payment history with the reinsurers are several of the factors that the Company considers when judging collectability. Changes in loss reserves can also affect the valuation of reinsurance receivables if the change is related to loss reserves that are ceded to reinsurers. Certain amounts may be uncollectible if the Company's reinsurers dispute a loss or if the reinsurer is unable to pay. If its reinsurers do not pay, the Company remains legally obligated to pay the loss.

See Note 8 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding the Company's reinsurance receivable balances and collectability as of December 31, 2018 and 2017. For a listing of the ten reinsurers for which the Company has the largest reinsurance asset amounts as of December 31, 2018, see "Reinsurance of Underwriting Risk" in Item 1 of Part I of this report.

Investments

The carrying amount of the Company's investments approximates their fair value. The Company regularly performs various analytical valuation procedures with respect to investments, including reviewing each fixed maturity security in an unrealized loss position to determine the amount of unrealized loss related to credit loss and the amount related to all other factors, such as changes in interest rates. The credit loss represents the portion of the amortized book value in excess of the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The credit loss component of the other than temporary impairment is recorded through earnings, whereas the amount relating to factors other than credit losses are recorded in other comprehensive income, net of taxes. During its review, 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 to estimate the credit loss to be recognized in earnings, if any. See Note 3 of the notes to consolidated financial statements in Item 8 of Part II of this report for the specific methodologies and significant assumptions used by asset class. Upon identification of such securities and periodically thereafter, a detailed review is performed to determine whether the decline is considered other than temporary. This review includes an analysis of several factors, including but not limited to, the credit ratings and cash flows of the securities, and the magnitude and length of time that the fair value of such securities is below cost.

For an analysis of the Company's securities with gross unrealized losses as of December 31, 2018 and 2017, and for other than temporary impairment losses that the Company recorded for the years ended December 31, 2018, 2017, and 2016, please see Note 4 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

Fair Value Measurements

The Company categorizes its invested assets and derivative instruments that are accounted for at fair value in the consolidated statements into a fair value hierarchy. The fair value hierarchy is directly related to the amount of subjectivity associated with the inputs utilized to determine the fair value of these assets. The reported value of financial instruments not carried at fair value, principally cash and cash equivalents and margin borrowing facility approximate fair value. See Note 6 of the notes to the consolidated financial statements in Item 8 of Part II of this report for further information about the fair value hierarchy and the Company's assets that are accounted for at fair value.

Goodwill and Intangible Assets

The Company tests for impairment of goodwill at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of goodwill for impairment using both qualitative and quantitative factors. Impairment of goodwill is recognized only if the carrying amount of the reporting unit, including goodwill, exceeds the fair value of the reporting unit. The amount of the impairment loss would be equal to the excess carrying value of the goodwill over the implied fair value of the reporting unit goodwill. Based on the qualitative assessment performed, there was no impairment of goodwill as of December 31, 2018.

Impairment of intangible assets with indefinite useful lives is tested at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of intangible assets for impairment using both qualitative and quantitative factors. Impairment of indefinite lived intangible assets is recognized only if the carrying amount of the intangible assets exceeds the fair value of said assets. The amount of the impairment loss would be equal to the excess carrying value of the assets over the fair value of said assets. Based on the qualitative assessment performed, there were no impairments of indefinite lived intangible assets as of December 31, 2018.

Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. The carrying amounts of definite lived intangible assets are regularly reviewed for indicators of impairment in accordance with applicable accounting guidance. Impairment is recognized only if the carrying amount of the intangible asset is in excess of its undiscounted projected cash flows. The impairment is measured as the difference between the carrying amount and the estimated fair value of the asset. As of December 31, 2018, there were no triggering events that occurred during the year that would result in an impairment of definite lived intangible assets.

See Note 7 of the notes to the consolidated financial statements in Item 8 of Part II of this report for more details concerning the Company's goodwill and intangible assets.

Deferred Acquisition Costs

The costs of acquiring new and renewal insurance and reinsurance contracts include commissions, premium taxes and certain other costs that are directly related to the successful acquisition of new and renewal insurance and reinsurance contracts. The excess of the Company's costs of acquiring new and renewal insurance and reinsurance contracts over the related ceding commissions earned from reinsurers is capitalized as deferred acquisition costs and amortized over the period in which the related premiums are earned.

In accordance with accounting guidance for insurance enterprises, the method followed in computing such amounts limits them to amounts recoverable from premium to be earned, related investment income, losses and loss adjustment expenses, and certain other costs expected to be incurred as the premium is earned. A premium deficiency is recognized if the sum of expected losses and loss adjustment expenses and unamortized acquisition costs exceeds related unearned premium. This evaluation is done at a distribution and product line level in Insurance Operations and at a treaty level in Reinsurance Operations. Any future expected loss on the related unearned premium is recorded first by impairing the unamortized acquisition costs on the related unearned premium followed by an increase to losses and loss adjustment expense reserves on additional expected loss in excess of unamortized acquisition costs. The Company calculates deferred acquisition costs for Insurance Operations separately by distribution lines and for its Reinsurance Operations separately for each treaty.

Taxation

The Company provides for income taxes in accordance with applicable accounting guidance. The Company's deferred tax assets and liabilities primarily result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Company's assets and liabilities.

At each balance sheet date, management assesses the need to establish a valuation allowance that reduces deferred tax assets when it is more likely than not that all, or some portion, of the deferred tax assets will not be realized. A valuation allowance would be based on all available information including the Company's assessment of uncertain tax positions and projections of future taxable income from each tax-paying component in each jurisdiction, principally derived from business plans and available tax planning strategies. There are no valuation allowances as of December 31, 2018 and 2017. The deferred tax asset balance is analyzed regularly by management. This assessment requires significant judgment and considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of carryforward periods, and tax planning strategies and/or actions. Based on these analyses, the Company has determined that its deferred tax asset is recoverable. Projections of future taxable income incorporate several assumptions of future business and operations that are apt to differ from actual experience. If, in the future, the Company's assumptions and estimates that resulted in the forecast of future taxable income for each tax-paying component prove to be incorrect, a valuation allowance may be required. This could have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

The Company applies a more likely than not recognition threshold for all tax uncertainties, only allowing the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. Please see Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report for a discussion of the Company's tax uncertainties.

Business Segments

The Company manages its business through three business segments: Commercial Lines, Personal Lines, and Reinsurance Operations. The Commercial Lines and Personal Lines segments comprise the Company's U.S. Insurance Operations, which currently includes the operations of United National Insurance Company, Diamond State Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company, American Reliable Insurance Company, American Insurance Adjustment Agency, Inc., Collectibles Insurance Services, LLC, Global Indemnity Insurance Agency, LLC, and J.H. Ferguson & Associates, LLC. Reinsurance Operations includes the operations of Global Indemnity Reinsurance Company, Ltd.

The Company evaluates the performance of these three segments based on gross and net premiums written, revenues in the form of net premiums earned, and expenses in the form of (1) net losses and loss adjustment expenses, (2) acquisition costs, and (3) other underwriting expenses.

During the 1st quarter of 2017, the Company re-evaluated its Commercial Lines and Personal Lines segments and determined that certain portions of business will be managed, operated and reported by including them in the other segment. As a result, the composition of the Company's reportable segments changed slightly. Premium that is written through a wholly owned agency that mainly sells to individuals, which was previously included as part of the Commercial Lines segment, is now included within the Personal Lines segment. In addition, one of the small commercial programs written by American Reliable Insurance Company, which was previously included within the Personal Lines segment, is now aggregated within the Commercial Lines segment. Accordingly, the segment results for the year ended December 31, 2016 have been revised to reflect these changes.

See "Business Segments" in Item 1 of Part I of this report for a description of the Company's segments.

Results of Operations

The following table summarizes the Company's results for the years ended December 31, 2018, 2017, and 2016:

	Years Ended			Years Ended		
	December 31,		%	December 31,		%
(Dollars in thousands)	2018	2017	Change	2017	2016 (4)	Change
Gross premiums written	$547,897	$516,334	6.1 %	$516,334	$565,845	(8.7 %)
Net premiums written	$472,547	$450,180	5.0 %	$450,180	$470,940	(4.4 %)
Net premiums earned	$467,775	$438,034	6.8 %	$438,034	$468,465	(6.5 %)
Other income	1,728	6,582	(73.7 %)			