Global Indemnity plc
Form 10-Q
May 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended March 31, 2011

OR

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

For the Transition Period From __________ to __________

001-34809
Commission File Number
GLOBAL INDEMNITY PLC
(Exact name of registrant as specified in its charter)

Ireland	**98-0664891**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

ARTHUR COX BUILDING
EARLSFORT TERRACE
DUBLIN 2
IRELAND
(Address of principal executive office including zip code)
353 (0) 1 618 0517
(Registrant s telephone number, including area code)

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

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

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

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

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

As of April 27, 2011, the registrant had outstanding 18,354,550 Class A Ordinary Shares and 12,061,370 Class B Ordinary Shares.

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As used in this quarterly report, unless the context requires otherwise:

1)

Global Indemnity refers to Global Indemnity plc, an exempted company incorporated with limited liability under the laws of Ireland, and its U.S. and Non-U.S. Subsidiaries;

2) we, us, our, and the Company refer to Global Indemnity and its subsidiaries or, prior to July 2, 2010, to United America Indemnity;
3) ordinary shares refers to Global Indemnity Class A and Class B ordinary shares, or, prior to July 2, 2010, to United America Indemnity Class A and Class B common shares;
4) United America Indemnity refers to United America Indemnity, Ltd., a Cayman Islands exempted company that, on July 2, 2010, became a direct, wholly-owned subsidiary of Global Indemnity plc, and its subsidiaries;
5) our U.S. Subsidiaries refers to Global Indemnity Group, Global Indemnity Group Services, LLC, AIS, Penn-America Group, Inc., and our Insurance Operations;
6) our United States Based Insurance Operations and Insurance Operations refer to the insurance and related operations conducted by the U.S. Insurance Companies, American Insurance Adjustment Agency, Inc., Global Indemnity Collectibles Insurance Services, LLC, United America Insurance Services, LLC, and J.H. Ferguson & Associates, LLC;
7) our U.S. Insurance Companies refers to the insurance and related operations conducted by United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company and Penn-Patriot Insurance Company;

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8) our Non-U.S. Subsidiaries refers to Global Indemnity Services Ltd., Global Indemnity (Gibraltar) Ltd., Global Indemnity (Cayman) Ltd., Global Indemnity (Luxembourg) Ltd., Wind River Reinsurance, the Luxembourg Companies, and U.A.I. (Ireland) Ltd.;
9) Wind River Reinsurance refers to Wind River Reinsurance Company, Ltd.;
10) the Luxembourg Companies refers to U.A.I. (Luxembourg) I S.à r.l., U.A.I. (Luxembourg) II S.à r.l., U.A.I. (Luxembourg) III S.à r.l., U.A.I. (Luxembourg) IV S.à r.l., U.A.I. (Luxembourg) Investment S.à r.l., and Wind River (Luxembourg) S.à r.l.;
11) AIS refers to American Insurance Service, Inc.;
12) our Predecessor Insurance Operations refers to Wind River Investment Corporation, which was dissolved on May 31, 2006, AIS, American Insurance Adjustment Agency, Inc., Emerald Insurance Company, which was dissolved on March 24, 2008, United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, and J.H. Ferguson & Associates, LLC;
13) our International Reinsurance Operations and Reinsurance Operations refer to the reinsurance and related operations of Wind River Reinsurance;
14) Global Indemnity Group refers to Global Indemnity Group, Inc., (fka United America Indemnity Group, Inc.);
15) Penn-America refers to our product classification that includes property and general liability products for small commercial businesses distributed through a select network of wholesale general agents with specific binding authority;
16) United National refers to our product classification that includes property, general liability, and professional liability lines products distributed through program administrators with specific binding authority;
17) Diamond State refers to our product classification that includes property, casualty, and professional liability lines products distributed through wholesale brokers and program administrators with specific binding authority;
18) the Statutory Trusts refers to United National Group Capital Trust I, United National Group Capital Statutory Trust II, Penn-America Statutory Trust I, whose registration was cancelled effective January 15, 2008, and Penn-America Statutory Trust II, whose registration was cancelled effective February 2, 2009;
19) Fox Paine & Company refers to Fox Paine & Company, LLC and affiliated investment funds;
20) GAAP refers to accounting principles generally accepted in the United States of America; and
21) $ or dollars refers to U.S. dollars.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL INDEMNITY PLC
Consolidated Balance Sheets
(In thousands, except share amounts)

	(Unaudited) March 31, 2011	December 31, 2010
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,414,836 and $1,393,655)	$ 1,457,717	$ 1,444,392
Equity securities:		
Preferred stocks:		
Available for sale, at fair value (cost: $930 and $930)	2,346	2,252
Common stocks:		
Available for sale, at fair value (cost: $126,691 and $120,674)	154,325	145,274
Other invested assets		
Available for sale, at fair value (cost: $14,126 and $4,255)	16,724	4,268
Securities classified as trading, at fair value (cost: $0 and $1,112)		1,112
Total investments	1,631,112	1,597,298
Cash and cash equivalents	108,170	119,888
Accounts receivable, net	68,097	56,657
Reinsurance receivables	390,574	422,844
Deferred federal income taxes	8,044	6,926
Deferred acquisition costs	38,037	35,344
Intangible assets	18,987	19,082
Goodwill	4,820	4,820
Prepaid reinsurance premiums	8,046	11,104
Other assets	25,911	20,720
Total assets	$ 2,301,798	$ 2,294,683
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,035,088	$ 1,052,743
Unearned premiums	139,957	135,872
Ceded balances payable	9,531	12,376
Contingent commissions	4,819	9,260
Payable for securities purchased	10,916	4,768
Federal income taxes payable	8,128	55
Notes and debentures payable	121,214	121,285
Other liabilities	30,780	29,655
Total liabilities	1,360,433	1,366,014

Commitments and contingencies (Note 10)				
Shareholders equity:				
Ordinary shares, \$0.0001 par value, 900,000,000 ordinary shares authorized; Class A ordinary shares issued: 21,388,550 and 21,340,821, respectively; Class A ordinary shares outstanding: 18,341,910 and 18,300,544, respectively; Class B ordinary shares issued and outstanding: 12,061,370 and 12,061,370, respectively		3		3
Additional paid-in capital		623,181		622,725
Accumulated other comprehensive income, net of taxes		55,787		57,211
Retained earnings		363,427		349,642
Class A ordinary shares in treasury, at cost: 3,046,640 and 3,040,277 shares, respectively		(101,033)		(100,912)
Total shareholders equity		941,365		928,669
Total liabilities and shareholders equity	$	2,301,798	$	2,294,683

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
Consolidated Statements of Operations
(In thousands, except shares and per share data)

	(Unaudited) Quarters Ended March 31,			
	2011		2010	
Revenues:				
Gross premiums written	$	87,666	$	92,853
Net premiums written	$	83,108	$	81,481
Net premiums earned	$	75,969	$	70,788
Net investment income		14,414		14,579
Net realized investment gains:				
Other-than-temporary impairment losses on investments		(553)		(89)
Other-than-temporary impairment losses on investments recognized in other comprehensive income				47
Other net realized investment gains		12,550		14,246
Total net realized investment gains		11,997		14,204
Other income		11,669		
Total revenues		114,049		99,571
Losses and Expenses:				
Net losses and loss adjustment expenses		58,342		41,789
Acquisition costs and other underwriting expenses		29,852		30,148
Corporate and other operating expenses		2,780		4,896
Interest expense		1,752		1,739
Income before income taxes		21,323		20,999
Income tax expense		7,591		2,069
Income before equity in net income (loss) of partnerships		13,732		18,930
Equity in net income (loss) of partnerships, net of taxes		53		(29)
Net income	$	13,785	$	18,901
Per share data (1):				
Net income				
Basic	$	0.45	$	0.63

Diluted	$ 0.45	$ 0.63
Weighted-average number of shares outstanding		
Basic	30,301,293	30,184,544
Diluted	30,338,413	30,204,420

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

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
Consolidated Statements of Comprehensive Income
(In thousands)

	(Unaudited) Quarters Ended March 31,	
	2011	**2010**
Net income	$ 13,785	$ 18,901
Other comprehensive loss, net of tax:		
Unrealized holding gains arising during period	7,335	9,978
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of tax	(4)	(1)
Recognition of previously unrealized holding gains	(8,755)	(10,993)
Unrealized foreign currency translation losses		(113)
Other comprehensive loss, net of tax	(1,424)	(1,129)
Comprehensive income, net of tax	$ 12,361	$ 17,772

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
Consolidated Statements of Changes in Shareholders Equity
(In thousands, except share amounts)

	(Unaudited) Quarter Ended March 31, 2011	Year Ended December 31, 2010
Number of Class A ordinary shares issued:		
Number at beginning of period	21,340,821	21,243,345
Ordinary shares issued under share incentive plans	33,558	20,828
Ordinary shares issued to directors	14,171	76,648
Number at end of period	21,388,550	21,340,821
Number of Class B ordinary shares issued:		
Number at beginning and end of period	12,061,370	12,061,370
Par value of Class A ordinary shares:		
Balance at beginning and end of period	$ 2	$ 2
Par value of Class B ordinary shares:		
Balance at beginning and end of period	$ 1	$ 1
Additional paid-in capital:		
Balance at beginning of period	$ 622,725	$ 619,473
Share compensation plans	456	3,252
Balance at end of period	$ 623,181	$ 622,725
Accumulated other comprehensive income, net of deferred income tax:		
Balance at beginning of period	$ 57,211	$ 48,481
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period	(1,422)	8,703
Unrealized foreign currency translation losses		(43)
Other comprehensive income (loss)	(1,422)	8,660
Change in other-than-temporary impairment losses recognized in other comprehensive income, net of taxes	(2)	70
Balance at end of period	$ 55,787	$ 57,211

Retained earnings:				
Balance at beginning of period	$	349,642	$	264,739
Net income		13,785		84,903
Balance at end of period	$	363,427	$	349,642
Number of Treasury Shares:				
Number at beginning of period		3,040,277		3,028,106
Class A ordinary shares purchased		6,363		12,171
Number at end of period		3,046,640		3,040,277
Treasury Shares, at cost:				
Balance at beginning of period	$	(100,912)	$	(100,720)
Class A ordinary shares purchased, at cost		(121)		(192)
Balance at end of period	$	(101,033)	$	(100,912)
Total shareholders equity	$	941,365	$	928,669

Share amounts have been retrospectively restated to reflect the 1-for-2 stock exchange effective July 2, 2010 when the Company completed its re-domestication to Ireland.

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
Consolidated Statements of Cash Flows
(In thousands)

	(Unaudited) Quarter Ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	$ 13,785	$ 18,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of trust preferred securities issuance costs	20	20
Amortization and depreciation	522	528
Restricted stock expense	562	1,167
Deferred federal income taxes	(435)	(865)
Amortization of bond premium and discount, net	940	657
Net realized investment gains	(11,997)	(14,204)
Equity in net (income) loss of partnerships	(53)	29
Changes in:		
Accounts receivable, net	(11,440)	953
Reinsurance receivables	32,270	22,643
Unpaid losses and loss adjustment expenses	(17,655)	(25,100)
Unearned premiums	4,085	6,890
Ceded balances payable	(2,845)	(13,983)
Other assets and liabilities, net	(4,512)	(9,236)
Contingent commissions	(4,441)	(5,692)
Federal income taxes payable	8,073	3,124
Deferred acquisition costs	(2,693)	(474)
Prepaid reinsurance premiums	3,058	3,803
Net cash provided by (used for) operating activities	7,244	(10,839)
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	220,016	275,773
Proceeds from sale of stocks	29,365	10,324
Proceeds from maturity of fixed maturities	22,845	17,925
Proceeds from sale of other invested assets	1,348	68
Purchases of fixed maturities	(253,112)	(356,759)
Purchases of stocks	(29,100)	(10,937)
Purchases of other invested assets	(10,026)	
Net cash used for investing activities	(18,664)	(63,606)
Cash flows from financing activities:		
Tax expense associated with share-based compensation plans	(106)	(192)
Purchases of Class A ordinary shares	(121)	(120)
Principal payments of term debt	(71)	(71)

Net cash used for financing activities	(298)	(383)
Effect of exchange rates on cash and cash equivalents		(113)
Net change in cash and cash equivalents	(11,718)	(74,941)
Cash and cash equivalents at beginning of period	119,888	186,087
Cash and cash equivalents at end of period	$ 108,170	$ 111,146

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Principles of Consolidation and Basis of Presentation

Global Indemnity plc (Global Indemnity or the Company) was incorporated on March 9, 2010 and is domiciled in Ireland. Global Indemnity replaced the Company s predecessor; United America Indemnity, Ltd., as the ultimate parent company as a result of a re-domestication transaction. See Note 2 below for details regarding the re-domestication. United America Indemnity, Ltd. was incorporated on August 26, 2003, and is domiciled in the Cayman Islands. United America Indemnity, Ltd. is now a subsidiary of the Company and an Irish tax resident. The Company s Class A ordinary shares are publicly traded on the NASDAQ Global Select Market. On July 6, 2010, the Company changed its trading symbol on the NASDAQ Global Select Market from INDM to GBLI.

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

The unaudited consolidated financial statements include all adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair statement of results for the interim periods. Results of operations for the quarters ended March 31, 2011 and 2010 are not necessarily indicative of the results of a full year. The accompanying notes to the unaudited consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company s 2010 Annual Report on Form 10-K.

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

The Company s wholly owned business trust subsidiaries, United National Group Capital Trust I (UNG Trust I) and United National Group Capital Statutory Trust II (UNG Trust II), are not consolidated pursuant to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). The Company s business trust subsidiaries have issued $30.0 million in floating rate capital securities (Trust Preferred Securities) and $0.9 million of floating rate common securities. The sole assets of the Company s business trust subsidiaries are $30.9 million of junior subordinated debentures issued by the Company, which have the same terms with respect to maturity, payments, and distributions as the Trust Preferred Securities and the floating rate common securities.

2. Redomestication

In February 2010, the Company s Board of Directors approved a plan for the Company to re-domesticate from the Cayman Islands to Ireland. At a special shareholders meeting held on May 27, 2010, the Company s shareholders voted in favor of completing the re-domestication proposal pursuant to which all United America Indemnity, Ltd. ordinary shares would be cancelled and all holders of such shares would receive ordinary shares of Global Indemnity plc, a newly formed Irish company that was incorporated on March 9, 2010, on a one-for-two basis (two United America Indemnity, Ltd. shares exchanged for one Global Indemnity plc share). The re-domestication transaction was completed on July 2, 2010, following approval from the Grand Court of the Cayman Islands, at which time Global Indemnity plc replaced United America Indemnity, Ltd. as the ultimate parent company, and United America Indemnity, Ltd. became a wholly-owned subsidiary of Global Indemnity plc. Shares of United America Indemnity, Ltd. previously traded on the NASDAQ Global Select Market under the symbol INDM. Shares of the Irish company, Global Indemnity plc, began trading on the NASDAQ Global Select Market on July 6, 2010 under the symbol GBLI.

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GLOBAL INDEMNITY PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
(Unaudited)

3. Profit Enhancement Initiative

On November 2, 2010, we committed to a Profit Enhancement Initiative with respect to our U.S. Insurance Operations. The plan was initiated on November 4, 2010, and is part of our efforts to streamline our operations in response to the continuing impact of the domestic recession as well as the competitive landscape within the excess and surplus lines market. This initiative is intended to enhance profitability and earnings by aligning corporate overhead costs with changes in our business. In the fourth quarter of 2010, the Company reduced its U.S. based census by approximately 25%, closed underperforming U.S. facilities, and supplemented staffing in Bermuda and in Ireland. All action items relating to this initiative were implemented by December 31, 2010.

The total cost of implementing this initiative was recorded in our consolidated statements of operations within our Insurance Operations segment in the fourth quarter of 2010. Components of the initiative included: (1) employee termination and severance charges of $1.71 million; (2) expenses of $1.53 million relating to discontinuing use of leased office space, net of expected sublease income; (3) restructuring expenses of $0.63 million for related asset and leasehold improvement impairments; and (4) expenses of $2.91 million relating to the curtailment of our workers compensation product initiative, consisting of a minimum ceded premium charge of $1.48 million on our workers compensation reinsurance treaty and $1.43 million in asset impairments.

The following table summarizes charges incurred in 2010 by expense type and the remaining liability as of December 31, 2010 and March 31, 2011:

(Dollars in thousands)	Employee Termination	Operating Leases	Asset Impairments	Workers Compensation	Total
Charges incurred in 2010	$ 1,711	$ 1,532	$ 631	$ 2,907	$ 6,781
Cash payments for 2010 actions	(758)			(985)	(1,743)
Non-cash adjustments	176		(631)	(1,430)	(1,885)
Liability at December 31, 2010	$ 1,129	$ 1,532	$	$ 492	$ 3,153
Cash payments for 2010 actions	(504)			(492)	(996)
Non-cash adjustments		(190)			(190)
Liability at March 31, 2011	$ 625	$ 1,342	$	$	$ 1,967

There were no charges incurred related to the Profit Enhancement Initiative in our statement of operations for the periods ended March 31, 2011 or 2010.

4. Investments

The Company s investments in fixed maturities, preferred stock, and common stock are classified as available for sale and are carried at their fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the Company s available for sale portfolio, other invested assets, are determined on the basis of quoted market prices where available. If quoted market prices are not available, the Company uses third party pricing services to assist in determining fair value. In many instances, these services examine the pricing of similar instruments to estimate fair value. The Company purchases bonds with the expectation of holding them to their maturity; however, changes to the portfolio are sometimes required to assure it is appropriately matched to liabilities. In addition, changes in financial market conditions and tax considerations may cause the Company to sell an investment before it matures. Corporate loans have stated maturities; however, they generally do not reach their final maturity due to borrowers refinancing.

The difference between amortized cost and fair value of the Company s available for sale investments, excluding the Company s convertible bond and convertible preferred stock portfolios, net of the effect of deferred income taxes, is reflected in accumulated other comprehensive income in shareholders equity and, accordingly, has no effect on net income other than for the credit loss component of impairments deemed to be other than temporary. The difference between amortized cost and fair value of the convertible bonds and convertible preferred stocks is included in income.

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GLOBAL INDEMNITY PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
(Unaudited)

The Company s investments in other invested assets are comprised of limited liability partnership interests and a mutual fund. Partnership interests where we owned more than 3% at any time are carried at their fair value. The change in the difference between amortized cost and fair value of partnership interests of 3% ownership or greater, net of the effect of deferred income taxes, is reflected in income. The mutual fund and partnership interests of less than 3% ownership are carried at their fair value. The change in the difference between amortized cost and the fair value of the mutual fund and partnership interests of less than 3% ownership, net of the effect of deferred income taxes, is reflected in accumulated other comprehensive income in shareholders equity and, accordingly, has no effect on net income other than for impairments deemed to be other than temporary.

The amortized cost and estimated fair value of investments were as follows as of March 31, 2011 and December 31, 2010:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of March 31, 2011					
Fixed maturities:					
U.S. treasury and agency obligations	$ 109,762	$ 5,196	$ (4)	$ 114,954	$
Obligations of states and political subdivisions	240,985	5,080	(602)	245,463	
Mortgage-backed securities	333,133	10,103	(136)	343,100	(17)
Asset-backed securities	111,335	2,368	(122)	113,581	(38)
Commercial mortgage-backed securities	38,353	5	(173)	38,185	
Corporate bonds and loans	529,366	19,922	(595)	548,693	(134)
Foreign corporate bonds	51,902	1,885	(46)	53,741	
Total fixed maturities	1,414,836	44,559	(1,678)	1,457,717	(189)
Common stock	126,691	29,024	(1,390)	154,325	
Preferred stock	930	1,416		2,346	
Other invested assets	14,126	3,021	(423)	16,724	
Total	$ 1,556,583	$ 78,020	$ (3,491)	$ 1,631,112	$ (189)

(1) Represents the total amount of other than temporary impairment losses recognized in accumulated other comprehensive income (AOCI) due to the adoption of the recent guidance on other than temporary impairments in 2009. Per the accounting guidance, these items were not included in earnings as of March 31, 2011.

	Amortized	Gross Unrealized	Gross Unrealized	Estimated	Other than temporary impairments recognized in

(Dollars in thousands)	Cost	Gains	Losses	Fair Value	AOCI (2)
As of December 31, 2010					
Fixed maturities:					
U.S. treasury and agency obligations	$ 192,746	$ 9,948	$ (4)	$ 202,690	$
Obligations of states and political subdivisions	239,872	5,756	(616)	245,012	
Mortgage-backed securities	239,265	9,864	(49)	249,080	(19)
Asset-backed securities	112,626	2,548	(75)	115,099	(41)
Commercial mortgage-backed securities	38,963	9	(239)	38,733	
Corporate bonds and loans	511,754	21,594	(564)	532,784	(134)
Foreign corporate bonds	58,429	2,570	(5)	60,994	
Total fixed maturities	1,393,655	52,289	(1,552)	1,444,392	(194)
Common stock	120,674	25,300	(700)	145,274	
Preferred stock	930	1,322		2,252	
Other invested assets	5,367	13		5,380	
Total	$ 1,520,626	$ 78,924	$ (2,252)	$ 1,597,298	$ (194)

(2) Represents the total amount of other than temporary impairment losses recognized in accumulated other comprehensive income (AOCI) due to the adoption of the recent guidance on other than temporary impairments in 2009. Per the accounting guidance, these items were not included in earnings as of December 31, 2010.

The Company holds a mortgage-backed security (MBS) issued by Government National Mortgage Association (GNMA) which represented approximately 8% of shareholders equity as of March 31, 2011 and December 31, 2010. Excluding U.S. treasury, agency bonds, and the MBS issued by GNMA, the Company did not hold any debt or equity investments in a single issuer that was in excess of 4.0% and 2.0% of shareholders equity at March 31, 2011 or December 31, 2010, respectively.

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GLOBAL INDEMNITY PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
(Unaudited)

The amortized cost and estimated fair value of the Company s fixed maturities portfolio classified as available for sale at March 31, 2011, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 69,569	$ 70,842
Due after one year through five years	604,897	627,804
Due after five years through ten years	197,630	203,381
Due after ten years through fifteen years	17,898	18,622
Due after fifteen years	42,021	42,202
Mortgaged-backed securities	333,133	343,100
Asset-backed securities	111,335	113,581
Commercial mortgage-backed securities	38,353	38,185
	$ 1,414,836	$ 1,457,717

The following table contains an analysis of the Company s securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of March 31, 2011:

	Less than 12 months		12 months or longer (1)		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	$ 1,012	$ (4)	$	$	$ 1,012	$ (4)
Obligations of states and political subdivisions	47,382	(537)	1,614	(65)	48,996	(602)
Mortgage-backed securities	33,876	(114)	547	(22)	34,423	(136)
Asset-backed securities	16,447	(71)	819	(51)	17,266	(122)
Commercial mortgage-backed securities	32,846	(173)			32,846	(173)
Corporate bonds and loans	62,331	(591)	754	(4)	63,085	(595)
Foreign corporate bonds	5,300	(46)			5,300	(46)
Total fixed maturities	199,194	(1,536)	3,734	(142)	202,928	(1,678)
Common stock	25,611	(1,361)	361	(29)	25,972	(1,390)
Other invested assets	9,577	(423)			9,577	(423)
Total	$ 234,382	$ (3,320)	$ 4,095	$ (171)	$ 238,477	$ (3,491)

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

The following table contains an analysis of the Company s securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of December 31, 2010:

	Less than 12 months		12 months or longer (1)		Total	
(Dollars in thousands)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Fixed maturities:						
U.S. treasury and agency obligations	$ 1,015	$ (4)	$	$	$ 1,015	$ (4)
Obligations of states and political subdivisions	38,601	(553)	1,651	(63)	40,252	(616)
Mortgage-backed securities	2,298	(29)	561	(20)	2,859	(49)
Asset-backed securities	7,021	(17)	880	(58)	7,901	(75)
Commercial mortgage-backed securities	32,889	(239)			32,889	(239)
Corporate bonds and loans	35,063	(559)	1,014	(5)	36,077	(564)
Foreign corporate bonds	1,990	(5)			1,990	(5)
Total fixed maturities	118,877	(1,406)	4,106	(146)	122,983	(1,552)
Common stock	12,580	(700)			12,580	(700)
Total	$ 131,457	$ (2,106)	$ 4,106	$ (146)	$ 135,563	$ (2,252)

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

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

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

(1) the issuer is in financial distress;

(2) the investment is secured;

(3) a significant credit rating action occurred;

(4) scheduled interest payments were delayed or missed;

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

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

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

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

For equity securities, management carefully reviews all securities with unrealized losses and further focuses on securities that have either:

(1) persisted for more than twelve consecutive months or

(2) the value of the investment has been 20% or more below cost for six continuous months or more to determine if the security should be impaired.

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

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

U.S. treasury and agency obligations As of March 31, 2011, gross unrealized losses related to U.S. treasury and agency obligations were $0.004 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All of these securities are rated AAA. The Company s investment manager s analysis for this sector includes on-site visits and meetings with officials in addition to the standard rigorous analysis that determines the financial condition of the issuer.

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Obligations of states and political subdivisions As of March 31, 2011, gross unrealized losses related to obligations of states and political subdivisions were $0.6 million. Of this amount, $0.07 million has been in an unrealized loss position for twelve months or greater. These securities are rated investment grade. The Company s investment manager s analysis for this sector includes on-site visits and meetings with officials in addition to the standard rigorous analysis that determines the financial condition of the issuer.

Mortgage-backed securities As of March 31, 2011, gross unrealized losses related to mortgage-backed securities were $0.14 million. Of this amount, $0.02 million has been in an unrealized loss position for twelve months or greater. All of these securities are rated AA+. The Company s investment manager models each mortgage-backed security to project principal losses under downside, base, and upside scenarios for the economy and home prices. The primary assumption that drives the security and loan level modeling is the Home Price Index (HPI) projection. The Company s investment manager first projects HPI at the national level, then at the Metropolitan Statistical Area (MSA) level based on the historical relationship between the individual MSA HPI and the national HPI, using inputs from its macroeconomic team, mortgage portfolio management team, and structured analyst team. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and content loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs.

Asset backed securities (ABS) As of March 31, 2011, gross unrealized losses related to asset backed securities were $0.1 million. Of this amount, $0.05 million has been in an unrealized loss position for twelve months or greater. These securities are rated investment grade. The weighted average credit enhancement for the Company s asset backed portfolio is 29.8. The Company s investment manager analyzes every ABS transaction on a stand-alone basis. This analysis involves a thorough review of the collateral, prepayment, and structural risk in each transaction. Additionally, their analysis includes an in-depth credit analysis of the originator and servicer of the collateral. The Company s investment manager projects an expected loss for a deal given a set of assumptions specific to the asset type. These assumptions are used to calculate at what level of losses that the deal will incur a dollar of loss. The major assumptions used to calculate this ratio are loss severities, recovery lags, and no advances on principal and interest.

Commercial mortgage-backed securities (CMBS) As of March 31, 2011, gross unrealized losses related to CMBS were $0.2 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All of these securities are rated AAA. The weighted average credit enhancement for the Company s CMBS portfolio is 23.2. This represents the percentage of pool losses that can occur before a mortgage-backed security will incur its first dollar of principle losses. For the Company s CMBS portfolio, a loan level analysis is utilized where every underlying CMBS loan is re-underwritten based on the Company s investment manager s internally generated set of assumptions that reflect their expectation for the future path of the economy. In the analysis, the focus is centered on stressing the significant variables that influence commercial loan defaults and collateral losses in CMBS deals. These variables include: (1) occupancies are projected to drop; (2) capitalization rates vary by property type and are forecasted to return to more normalized levels as the capital markets repair and capital begins to flow again; and (3) property value was stressed by using projected property performance and projected capitalization rates. Term risk is triggered if projected debt service coverage rate falls below 1x. Balloon risk is triggered if a property s projected performance does not satisfy new, tighter mortgage standards.

Corporate bonds and loans As of March 31, 2011, gross unrealized losses related to corporate bonds and loans were $0.6 million. Of this amount, $0.004 million has been in an unrealized loss position for twelve months or greater. All of these securities are rated below investment grade. The Company s investment manager s analysis for this sector includes maintaining detailed financial models that include a projection of each issuer s future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, issuer s current competitive position, vulnerability to changes in the competitive environment, regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

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Foreign bonds As of March 31, 2011, gross unrealized losses related to foreign bonds were $0.05 million. All unrealized losses have been in an unrealized loss position for less than twelve months. These securities are rated investment grade. The Company s investment manager maintains financial models for the Company s bond issuers. These models include a projection of each issuer s future financial performance including prospective debt servicing capabilities and capital structure composition. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, issuer s current competitive position, vulnerability to changes in the competitive environment, regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection.

Common stocks As of March 31, 2011, gross unrealized losses related to common stock were $1.39 million. Of this amount, $0.03 million has been in an unrealized loss position for twelve months or greater. To determine if an other than temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

The Company recorded the following other than temporary impairments (OTTI) on its investment portfolio for the quarters ended March 31, 2011 and 2010:

	Quarters Ended March 31,			
(Dollars in thousands)	**2011**		**2010**	
Fixed maturities:				
OTTI losses, gross	$		$	(89)
Portion of loss recognized in other comprehensive income (pre-tax)				47
Net impairment losses on fixed maturities recognized in earnings				(42)
Common stock		(553)		
Total	$	(553)	$	(42)

The following table is an analysis of the credit losses recognized in earnings on debt securities held by the Company for the quarters ended March 31, 2011 and 2010 for which a portion of the OTTI loss was recognized in other comprehensive income.

	Quarters Ended March 31,			
(Dollars in thousands)	**2011**		**2010**	
Balance at beginning of period	$	115	$	50
Additions where no OTTI was previously recorded				31
Additions where an OTTI was previously recorded				11
Reductions for securities for which the company intends to sell or more likely than not will be required to sell before recovery				
Reductions reflecting increases in expected cash flows to be collected				
Reductions for securities sold during the period		(29)		
Balance at end of period	$	86	$	92

Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of March 31, 2011 and December 31, 2010 was as follows:

(Dollars in thousands)	**March 31, 2011**	**December 31, 2010**
Net unrealized gains (losses) from:		
Fixed maturities	$ 42,881	$ 50,737
Preferred stock	1,416	1,322
Common stock	27,634	24,600
Mutual Fund	(423)	
Partnerships < 3% owned	3,021	13
Deferred taxes	(18,742)	(19,461)
Accumulated other comprehensive income	$ 55,787	$ 57,211

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Net Realized Investment Gains

The components of net realized investment gains for the quarters ended March 31, 2011 and 2010 were as follows:

(Dollars in thousands)	Quarters Ended March 31, 2011	2010
Fixed maturities	$ 5,715	$ 11,691
Convertibles		3
Common stock	6,282	2,510
Total	$ 11,997	$ 14,204

The proceeds from sales of available-for-sale securities resulting in net realized investment gains (losses) for the three months ended March 31, 2011 and 2010 were as follows:

(Dollars in thousands)	Three Months Ended March 31, 2011	2010
Fixed maturities	$ 220,016	$ 275,773
Equity securities	29,365	10,324

Net Investment Income

The sources of net investment income for the quarters ended March 31, 2011 and 2010 were as follows:

(Dollars in thousands)	Quarters Ended March 31, 2011	2010
Fixed maturities	$ 14,683	$ 15,580
Preferred and common stocks	777	361
Cash and cash equivalents	17	77
Total investment income	15,477	16,018
Investment expense	(1,063)	(1,439)
Net investment income	$ 14,414	$ 14,579

The Company s total investment return on an after-tax basis for the quarters ended March 31, 2011 and 2010 were as follows:

(Dollars in thousands)	Quarters Ended March 31, 2011	2010
Net investment income	$ 12,536	$ 12,283

Net realized investment gains	8,755	10,993
Net equity in net income (loss) of partnership	53	(29)
Net unrealized investment losses	(1,424)	(1,017)