

Global Indemnity plc
Form 10-Q
August 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2013

OR

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

For the Transition Period from _____ to _____

001-34809

Commission File Number

GLOBAL INDEMNITY PLC

(Exact name of registrant as specified in its charter)

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Ireland
(State or other jurisdiction of
incorporation or organization)

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

25/28 NORTH WALL QUAY

DUBLIN 1

IRELAND

(Address of principal executive office, including zip code)

353 (0) 1 649 2000

(Registrant's telephone number, including area code)

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

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

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

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

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

As of August 2, 2013, the registrant had outstanding 13,123,261 A Ordinary Shares and 12,061,370 B Ordinary Shares.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GLOBAL INDEMNITY PLC****Consolidated Balance Sheets**

(In thousands, except share amounts)

	(Unaudited) June 30, 2013	December 31, 2012
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: \$1,163,532 and \$1,187,094)	\$ 1,184,738	\$ 1,229,322
Equity securities:		
Available for sale, at fair value (cost: \$174,693 and \$167,179)	222,583	197,075
Other invested assets:		
Available for sale, at fair value (cost: \$3,059 and \$3,049)	3,226	3,132
Total investments	1,410,547	1,429,529
Cash and cash equivalents	111,440	104,460
Premiums receivable, net	74,027	45,162
Reinsurance receivables, net	232,645	241,827
Receivable for securities sold	5,160	
Federal income taxes receivable	1,393	6,844
Deferred federal income taxes	10,445	10,824
Deferred acquisition costs	25,980	18,265
Intangible assets	18,166	18,343
Goodwill	4,820	4,820
Prepaid reinsurance premiums	5,248	5,945
Other assets	14,951	17,684
Total assets	\$ 1,914,822	\$ 1,903,703
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 844,918	\$ 879,114
Unearned premiums	128,572	94,114
Ceded balances payable	4,628	4,201
Contingent commissions	7,302	9,911
Payable for securities purchased		2,634
Notes and debentures payable	84,929	84,929
Other liabilities	20,523	22,182
Total liabilities	1,090,872	1,097,085
Commitments and contingencies (Note 9)		

Shareholders equity:

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Ordinary shares, \$0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 16,164,587 and 16,087,939, respectively; A ordinary shares outstanding: 13,105,826 and 13,030,938, respectively; B ordinary shares issued and outstanding: 12,061,370 and 12,061,370, respectively	3	3
Additional paid-in capital	514,422	512,304
Accumulated other comprehensive income, net of taxes	47,574	53,350
Retained earnings	363,200	342,171
A ordinary shares in treasury, at cost: 3,058,761 and 3,057,001 shares, respectively	(101,249)	(101,210)
 Total shareholders' equity	 823,950	 806,618
 Total liabilities and shareholders' equity	 \$ 1,914,822	 \$ 1,903,703

See accompanying notes to consolidated financial statements.

Table of Contents**GLOBAL INDEMNITY PLC****Consolidated Statements of Operations**

(In thousands, except shares and per share data)

	(Unaudited) Quarters Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Gross premiums written	\$ 84,245	\$ 67,632	\$ 159,184	\$ 125,390
Net premiums written	\$ 78,346	\$ 61,135	\$ 149,824	\$ 111,416
Net premiums earned	\$ 58,671	\$ 57,859	\$ 114,667	\$ 122,329
Net investment income	9,765	11,071	19,799	22,488
Net realized investment gains:				
Other than temporary impairment losses on investments	(1,010)	(1,326)	(1,053)	(3,619)
Other than temporary impairment losses on investments recognized in other comprehensive income				541
Other net realized investment gains	3,816	3,267	9,616	6,780
Total net realized investment gains	2,806	1,941	8,563	3,702
Other income (loss)	247	(40)	301	(392)
Total revenues	71,489	70,831	143,330	148,127
Losses and Expenses:				
Net losses and loss adjustment expenses	34,924	36,158	66,712	78,167
Acquisition costs and other underwriting expenses	24,472	23,760	48,949	46,927
Corporate and other operating expenses	2,472	2,336	4,817	4,824
Interest expense	1,181	1,470	2,354	2,948
Income before income taxes	8,440	7,107	20,498	15,261
Income tax benefit	(224)	(2,497)	(531)	(5,205)
Net income	\$ 8,664	\$ 9,604	\$ 21,029	\$ 20,466
Per share data:				
Net income				
Basic	\$ 0.35	\$ 0.35	\$ 0.84	\$ 0.73
Diluted	\$ 0.34	\$ 0.35	\$ 0.84	\$ 0.72
Weighted-average number of shares outstanding				
Basic	25,049,888	27,829,555	25,052,488	28,223,321
Diluted	25,119,035	27,836,453	25,120,897	28,236,562

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See accompanying notes to consolidated financial statements.

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

(In thousands)

	(Unaudited) Quarters Ended		(Unaudited) Six Months	
	June 30,		Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 8,664	\$ 9,604	\$ 21,029	\$ 20,466
Other comprehensive income (loss), net of taxes:				
Unrealized holding gains (losses)	(11,407)	(6,975)	(154)	13,075
Portion of other-than-temporary impairment losses recognized in other comprehensive income (loss)	(3)	(4)	(4)	(539)
Recognition of previously unrealized holding gains	(1,881)	(1,450)	(5,652)	(3,231)
Unrealized foreign currency translation gains (losses)	66	9	34	(38)
Other comprehensive income (loss), net of taxes	(13,225)	(8,420)	(5,776)	9,267
Comprehensive income (loss), net of taxes	\$ (4,561)	\$ 1,184	\$ 15,253	\$ 29,733

See accompanying notes to consolidated financial statements.

Table of Contents**GLOBAL INDEMNITY PLC****Consolidated Statements of Changes in Shareholders Equity**

(In thousands, except share amounts)

	(Unaudited) Six Months Ended June 30, 2013	Year Ended December 31, 2012
Number of A ordinary shares issued:		
Number at beginning of period	16,087,939	21,429,683
Ordinary shares issued under share incentive plans	66,683	29,675
Ordinary shares issued to directors	9,965	
Ordinary shares retired		(5,371,419)
Number at end of period	16,164,587	16,087,939
Number of B ordinary shares issued:		
Number at beginning and end of period	12,061,370	12,061,370
Par value of A ordinary shares:		
Balance at beginning and end of period	\$ 2	\$ 2
Par value of B ordinary shares:		
Balance at beginning and end of period	\$ 1	\$ 1
Additional paid-in capital:		
Balance at beginning of period	\$ 512,304	\$ 621,917
Share compensation plans	2,118	2,582
A ordinary shares retired		(112,195)
Balance at end of period	\$ 514,422	\$ 512,304
Accumulated other comprehensive income, net of deferred income tax:		
Balance at beginning of period	\$ 53,350	\$ 40,174
Other comprehensive income (loss):		
Change in unrealized holding gains (losses)	(5,806)	13,218
Change in other than temporary impairment losses recognized in other comprehensive income	(4)	(14)
Unrealized foreign currency translation gains (losses)	34	(28)
Other comprehensive income (loss)	(5,776)	13,176
Balance at end of period	\$ 47,574	\$ 53,350
Retained earnings:		
Balance at beginning of period	\$ 342,171	\$ 307,414
Net income	21,029	34,757

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Balance at end of period	\$ 363,200	\$ 342,171
Number of Treasury Shares:		
Number at beginning of period	3,057,001	4,619,005
A ordinary shares purchased	1,760	3,809,415
A ordinary shares retired		(5,371,419)
Number at end of period	3,058,761	3,057,001
Treasury Shares, at cost:		
Balance at beginning of period	\$ (101,210)	\$ (130,444)
A ordinary shares purchased, at cost	(39)	(82,961)
A ordinary shares retired		112,195
Balance at end of period	\$ (101,249)	\$ (101,210)
Total shareholders' equity	\$ 823,950	\$ 806,618

See accompanying notes to consolidated financial statements.

Table of Contents**GLOBAL INDEMNITY PLC****Consolidated Statements of Cash Flows**

(In thousands)

	(Unaudited)	
	Six Months 2013	Ended June 30, 2012
Cash flows from operating activities:		
Net income	\$ 21,029	\$ 20,466
Adjustments to reconcile net income to net cash used for operating activities:		
Amortization of trust preferred securities issuance costs	25	33
Amortization and depreciation	385	941
Restricted stock and stock option expense	2,118	1,287
Deferred federal income taxes	(2,215)	2,111
Amortization of bond premium and discount, net	3,099	3,549
Net realized investment gains	(8,563)	(3,702)
Changes in:		
Premiums receivable, net	(28,865)	(4,852)
Reinsurance receivables, net	9,182	9,891
Unpaid losses and loss adjustment expenses	(34,196)	(30,094)
Unearned premiums	34,458	(10,847)
Ceded balances payable	427	(1,244)
Other assets and liabilities, net	599	(3,165)
Contingent commissions	(2,609)	(1,242)
Federal income tax receivable/payable	5,451	(7,539)
Deferred acquisition costs, net	(7,715)	1,377
Prepaid reinsurance premiums	697	(66)
Net cash used for operating activities	(6,693)	(23,096)
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	193,642	270,873
Proceeds from sale of equity securities	42,551	25,159
Proceeds from maturity of fixed maturities	33,530	25,460
Purchases of fixed maturities	(214,220)	(294,711)
Purchases of equity securities	(41,781)	(27,494)
Purchases of other invested assets	(10)	(6)
Net cash provided by (used for) investing activities	13,712	(719)
Cash flows from financing activities:		
Purchase of A ordinary shares	(39)	(74,850)
Principal payments of term debt		(71)
Net cash used for financing activities	(39)	(74,921)
Net change in cash and cash equivalents	6,980	(98,736)
Cash and cash equivalents at beginning of period	104,460	175,860
Cash and cash equivalents at end of period	\$ 111,440	\$ 77,124

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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. 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 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 Company manages its business through two business segments: Insurance Operations, which includes the operations of 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, Penn-Patriot Insurance Company, American Insurance Adjustment Agency, Inc., Collectibles Insurance Services, LLC, Global Indemnity Insurance Agency, LLC, and J.H. Ferguson & Associates, LLC, and Reinsurance Operations, which includes the operations of Wind River Reinsurance Company, Ltd. (Wind River Reinsurance)

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

The unaudited consolidated financial statements include all adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair statement of results for the interim periods. Results of operations for the quarters and six months ended June 30, 2013 and 2012 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 2012 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 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. Profit Enhancement Initiative

In 2010 and 2011, the Company committed to a Profit Enhancement Initiative in response to the continuing impact of the domestic recession and the competitive landscape within the excess and surplus lines market. The total cost of this initiative was recorded in the Company's statements of operations during those years. All action items related to this initiative were completed by December 31, 2011.

For further disclosure regarding the Profit Enhancement Initiative, please see Note 5 of the notes to the consolidated financial statements in Item 8 of Part II of the Company's 2012 Annual Report on Form 10-K.

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

The following table summarizes charges incurred by expense type and the remaining liability as of June 30, 2013 and December 31, 2012:

(Dollars in thousands)	Employee Termination	Operating Leases	Total
Liability at January 1, 2012	\$ 785	\$ 1,828	\$ 2,613
Cash payments	(773)	(690)	(1,463)
Non-cash adjustments		(267)	(267)
Liability at December 31, 2012	\$ 12	\$ 871	\$ 883
Cash payments	(12)	(289)	(301)
Non-cash adjustments		(108)	(108)
Liability at June 30, 2013	\$	\$ 474	\$ 474

There was a reduction in expense of \$0.04 million and \$0.1 million, respectively, related to the Profit Enhancement Initiative resulting from a revision of expected sub-lease income included in the statement of operations within the Acquisition costs and other underwriting expenses line item for the quarter and six months ended June 30, 2013.

There was a reduction in expense of \$0.18 million related to the Profit Enhancement Initiative resulting from a revision of expected sub-lease income included in the statement of operations within the Acquisition costs and other underwriting expenses line item for the quarter and six months ended June 30, 2012.

3. Investments

The amortized cost and estimated fair value of investments were as follows as of June 30, 2013 and December 31, 2012:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of June 30, 2013					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 107,669	\$ 4,755	\$ (133)	\$ 112,291	\$
Obligations of states and political subdivisions	191,641	4,948	(1,606)	194,983	
Mortgage-backed securities	255,226	4,980	(2,358)	257,848	(6)
Asset-backed securities	109,438	1,294	(503)	110,229	(21)
Commercial mortgage-backed securities	57,810	5	(980)	56,835	

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Corporate bonds and loans	391,633	10,401	(930)	401,104	
Foreign corporate bonds	50,115	1,333		51,448	
Total fixed maturities	1,163,532	27,716	(6,510)	1,184,738	(27)
Common stock	174,693	49,010	(1,120)	222,583	
Other invested assets	3,059	167		3,226	
Total	\$ 1,341,284	\$ 76,893	\$ (7,630)	\$ 1,410,547	\$ (27)

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (2)
As of December 31, 2012					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 102,186	\$ 6,559	\$ (1)	\$ 108,744	\$
Obligations of states and political subdivisions	194,326	6,883	(132)	201,077	
Mortgage-backed securities	247,639	8,492	(189)	255,942	(8)
Asset-backed securities	111,289	2,071	(9)	113,351	(24)
Commercial mortgage-backed securities	8,070	60	(13)	8,117	
Corporate bonds and loans	469,860	16,739	(428)	486,171	
Foreign corporate bonds	53,724	2,196		55,920	
Total fixed maturities	1,187,094	43,000	(772)	1,229,322	(32)
Common stock	167,179	32,847	(2,951)	197,075	
Other invested assets	3,049	83		3,132	
Total	\$ 1,357,322	\$ 75,930	\$ (3,723)	\$ 1,429,529	\$ (32)

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

Excluding U.S. treasuries and agency bonds, the Company did not hold any debt or equity investments in a single issuer that was in excess of 3% of shareholders' equity at June 30, 2013 or December 31, 2012.

The amortized cost and estimated fair value of the Company's fixed maturities portfolio classified as available for sale at June 30, 2013, 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	Fair Value
Due in one year or less	\$ 105,566	\$ 107,190
Due after one year through five years	497,413	512,713
Due after five years through ten years	108,194	109,354
Due after ten years through fifteen years	3,860	4,660
Due after fifteen years	26,025	25,909
Mortgage-backed securities	255,226	257,848
Asset-backed securities	109,438	110,229
Commercial mortgage-backed securities	57,810	56,835
Total	\$ 1,163,532	\$ 1,184,738

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 June 30, 2013:

(Dollars in thousands)	Less than 12 months Gross Fair Value Unrealized Losses		12 months or longer (1) Gross Fair Value Unrealized Losses		Total Fair Value Gross Unrealized Losses	
Fixed maturities:						
U.S. treasury and agency obligations	\$ 6,272	\$ (133)	\$	\$	\$ 6,272	\$ (133)
Obligations of states and political subdivisions	65,819	(1,543)	4,550	(63)	70,369	(1,606)
Mortgage-backed securities	117,001	(2,356)	188	(2)	117,189	(2,358)
Asset-backed securities	40,810	(502)	3	(1)	40,813	(503)
Commercial mortgage-backed securities	52,096	(980)			52,096	(980)
Corporate bonds and loans	59,032	(829)	1,628	(101)	60,660	(930)
Total fixed maturities	341,030	(6,343)	6,369	(167)	347,399	(6,510)
Common stock	16,046	(881)	1,299	(239)	17,345	(1,120)
Total	\$ 357,076	\$ (7,224)	\$ 7,668	\$ (406)	\$ 364,744	\$ (7,630)

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(1) Fixed maturities in a gross unrealized loss position for twelve months or longer are primarily comprised of non-credit losses on investment grade securities where management does not intend to sell, and it is more likely than not that the Company will not be forced to sell the security before recovery. The Company has analyzed these securities and has determined that they are not other than temporarily impaired. The following table contains an analysis of the Company's securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of December 31, 2012:

(Dollars in thousands)	Less than 12 months		12 months or longer (2)		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	\$ 2,002	\$ (1)	\$	\$	\$ 2,002	\$ (1)
Obligations of states and political subdivisions	33,204	(132)			33,204	(132)
Mortgage-backed securities	33,635	(172)	640	(17)	34,275	(189)
Asset-backed securities	5,722	(3)	4,763	(6)	10,485	(9)
Commercial mortgage-backed securities	2,839	(13)			2,839	(13)
Corporate bonds and loans	8,202	(274)	3,308	(154)	11,510	(428)
Total fixed maturities	85,604	(595)	8,711	(177)	94,315	(772)
Common stock	30,153	(2,284)	3,950	(667)	34,103	(2,951)
Total	\$ 115,757	\$ (2,879)	\$ 12,661	\$ (844)	\$ 128,418	\$ (3,723)

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

(2) Fixed maturities in a gross unrealized loss position for twelve months or longer are primarily comprised of non-credit losses on investment grade securities where management does not intend to sell, and it is more likely than not that the Company will not be forced to sell the security before recovery. The Company has analyzed these securities and has determined that they are not other than temporarily impaired. The Company regularly performs various analytical valuation procedures with respect to its investments, including reviewing each fixed maturity security in an unrealized loss position to assess whether the security is a candidate for credit loss. Specifically, the Company considers credit rating, market price, and issuer specific financial information, among other factors, to assess the likelihood of collection of all principal and interest as contractually due. Securities for which the Company determines that a credit loss is likely are subjected to further analysis through discounted cash flow testing to estimate the credit loss to be recognized in earnings, if any. The specific methodologies and significant assumptions used by asset class are discussed below. Upon identification of such securities and periodically thereafter, a detailed review is performed to determine whether the decline is considered other than temporary. This review includes an analysis of several factors, including but not limited to, the credit ratings and cash flows of the securities and the magnitude and length of time that the fair value of such securities is below cost.

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

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

(7) the investment failed cash flow projection testing to determine if anticipated principal and interest payments will be realized. According to accounting guidance, for debt securities in an unrealized loss position, the Company is required to assess whether it has the intent to sell the debt security or more likely than not will be required to sell the debt security before the anticipated recovery. If either of these conditions is met the Company must recognize an other than temporary impairment with the entire unrealized loss being recorded through earnings. For debt securities in an unrealized loss position not meeting these conditions, the Company assesses whether the impairment of a security is other than temporary. If the impairment is deemed to be other than temporary, the Company must separate the other than temporary impairment into two components: 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

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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 to determine if a security should be impaired with a focus on securities that have either:

- (1) persisted with unrealized losses for more than twelve consecutive months or
- (2) the value of the investment has been 20% or more below cost for six continuous months or more.

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

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 June 30, 2013, gross unrealized losses related to U.S. treasury and agency obligations were \$0.133 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All of these securities are rated AA+. The Company's investment manager conducts extensive macroeconomic and market analysis which are driven by moderate interest rate anticipation, yield curve management, and security selection.

Obligations of states and political subdivisions As of June 30, 2013, gross unrealized losses related to obligations of states and political subdivisions were \$1.606 million. Of this amount, \$0.063 million have been in an unrealized loss position for twelve months or greater. All of these securities are rated AAA. The Company's investment manager considers all factors that influence performance of the municipal bond market, including investor expectations, supply and demand patterns, and current versus historical yield and spread relationships. The manager relies on the output of its fixed income credit analysts, including dedicated municipal bond analysts. The dedicated municipal analysts perform extensive in-house fundamental analysis on each issuer, regardless of their rating by the major agencies.

Mortgage-backed securities (MBS) As of June 30, 2013, gross unrealized losses related to mortgage-backed securities were \$2.358 million. Of this amount, \$0.002 million have been in an unrealized loss position for twelve months or greater. All of the securities in an unrealized loss position for twelve months or greater are rated BB or higher. 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 zip code level based on the historical relationship between the individual zip code 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 current loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs. The model also includes the explicit treatment of silent second liens, utilization of loan modification history, and the application of roll rate adjustments.

Asset-backed securities (ABS) As of June 30, 2013, gross unrealized losses related to asset-backed securities were \$0.503 million. Of this amount, \$0.001 million have been in an unrealized loss position for twelve months or greater. All of these securities are rated A. The weighted average credit enhancement for the Company's asset-backed portfolio is 30.1. This represents the percentage of pool losses that can occur before an asset-backed security will incur its first dollar of principle losses. 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 June 30, 2013, gross unrealized losses related to CMBS were \$0.980 million. All unrealized losses have been in an unrealized loss position for less than twelve

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

months. The weighted average credit enhancement for the Company's CMBS portfolio is 31.0. 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 June 30, 2013, gross unrealized losses related to corporate bonds and loans were \$0.930 million. Of this amount, \$0.101 million have been in an unrealized loss position for twelve months or greater. 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.

Common stocks As of June 30, 2013, gross unrealized losses related to common stock were \$1.120 million. Of this amount, \$0.239 million have 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 and six months ended June 30, 2013 and 2012:

(Dollars in thousands)	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Fixed maturities:				
OTTI losses, gross	\$ (68)	\$ (164)	\$ (111)	\$ (1,059)
Portion of loss recognized in other comprehensive income (pre-tax)				541
Net impairment losses on fixed maturities recognized in earnings	(68)	(164)	(111)	(518)
Equity securities	(942)	(1,162)	(942)	(2,560)
Total	\$ (1,010)	\$ (1,326)	\$ (1,053)	\$ (3,078)

The following table is an analysis of the credit losses recognized in earnings on debt securities held by the Company for the quarters and six months ended June 30, 2013 and 2012 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012

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Balance at beginning of period	\$ 86	\$ 141	\$ 86	\$ 86
Additions where no OTTI was previously recorded				55
Additions where an OTTI was previously recorded				
Reductions for securities for which the company intends to sell or more likely than not will be required to sell before recovery				
Reductions reflecting increases in expected cash flows to be collected				
Reductions for securities sold during the period		(55)		(55)
Balance at end of period	\$ 86	\$ 86	\$ 86	\$ 86

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)****Accumulated Other Comprehensive Income, Net of Tax**

Accumulated other comprehensive income as of June 30, 2013 and December 31, 2012 was as follows:

(Dollars in thousands)	June 30, 2013	December 31, 2012
Net unrealized gains (losses) from:		
Fixed maturities	\$ 21,206	\$ 42,228
Common stock	47,890	29,896
Other	(69)	83
Deferred taxes	(21,453)	(18,857)
Accumulated other comprehensive income, net of tax	\$ 47,574	\$ 53,350

The changes in accumulated other comprehensive income, net of tax, by component for the six months ended June 30, 2013 was as follows:

Six Months Ended June 30, 2013	Unrealized Gains and Losses on Available for Sale Securities, Net of Tax		Foreign Currency Items, Net of Tax	Accumulated Other Comprehensive Income, Net of Tax
(Dollars in thousands)	of Tax	of Tax	of Tax	of Tax
Beginning balance	\$ 53,435	\$ (85)	\$ 53,350	
Other comprehensive income (loss) before reclassification	30	(154)	(124)	
Amounts reclassified from accumulated other comprehensive income (loss)	(5,840)	188	(5,652)	
Other comprehensive income (loss)	(5,810)	34	(5,776)	
Ending balance	\$ 47,625	\$ (51)	\$ 47,574	

The reclassifications out of accumulated other comprehensive income for the quarter and six months ended June 30, 2013 were as follows:

(Dollars in thousands)	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement
Details about Accumulated Other Comprehensive Income Components	Quarter Ended June 30, 2013	Six Months Ended June 30, 2013	Where Net Income is Presented

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Unrealized gains and losses on available for sale securities	\$ (4,018)	\$ (9,906)	Other net realized investment gains
	1,010	1,053	Other than temporary impairment losses on investments
	(3,008)	(8,853)	Total before tax
	1,053	3,013	Income tax (expense) benefit
	\$ (1,955)	\$ (5,840)	Net of tax
Foreign Currency Items	202	290	Other net realized investment gains
	(71)	(102)	Income tax (expense) benefit
	\$ 131	\$ 188	Net of tax
Total reclassifications	\$ (1,824)	\$ (5,652)	Net of tax

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)****Net Realized Investment Gains**

The components of net realized investment gains for the quarters and six months ended June 30, 2013 and 2012 were as follows:

(Dollars in thousands)	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Fixed maturities:				
Gross realized gains	\$ 287	\$ 2,026	\$ 674	\$ 2,758
Gross realized losses	(339)	(781)	(396)	(1,603)
Net realized gains (losses)	(52)	1,245	278	1,155
Common stock:				
Gross realized gains	4,532	2,123	10,013	5,390
Gross realized losses	(1,674)	(1,427)	(1,728)	(2,843)
Net realized gains	2,858	696	8,285	2,547
Total net realized investment gains	\$ 2,806	\$ 1,941	\$ 8,563	\$ 3,702

The proceeds from sales of available-for-sale securities resulting in net realized investment gains for the six months ended June 30, 2013 and 2012 were as follows:

(Dollars in thousands)	Six Months Ended June 30,	
	2013	2012
Fixed maturities	\$ 193,642	\$ 270,873
Equity securities	42,551	25,159

Net Investment Income

The sources of net investment income for the quarters and six months ended June 30, 2013 and 2012 were as follows:

(Dollars in thousands)	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Fixed maturities	\$ 9,039	\$ 10,467	\$ 18,866	\$ 21,826
Equity securities	1,660	1,628	2,952	2,711
Cash and cash equivalents	31	43	81	86
Other invested assets	141		141	156

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Total investment income	10,871	12,138	22,040	24,779
Investment expense	(1,106)	(1,067)	(2,241)	(2,291)
Net investment income	\$ 9,765	\$ 11,071	\$ 19,799	\$ 22,488

The Company's total investment return on a pre-tax basis for the quarters and six months ended June 30, 2013 and 2012 were as follows:

(Dollars in thousands)	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net investment income	\$ 9,765	\$ 11,071	\$ 19,799	\$ 22,488
Net realized investment gains	2,806	1,941	8,563	3,702
Net unrealized investment gains (losses)	(15,391)	(11,951)	(3,180)	11,834
Net investment return	(12,585)	(10,010)	5,383	15,536
Total investment return	\$ (2,820)	\$ 1,061	\$ 25,182	\$ 38,024
Total investment return % (1)	(0.2%)	0.1%	1.6%	2.4%
Average investment portfolio (2)	\$ 1,532,639	\$ 1,604,406	\$ 1,529,251	\$ 1,606,186

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

Insurance Enhanced Municipal Bonds

As of June 30, 2013, the Company held insurance enhanced municipal bonds of approximately \$34.6 million, which represented approximately 2.3% of the Company's total cash and invested assets, net of payable/receivable for securities purchased and sold. These securities had an average rating of AA-. Approximately \$4.6 million of these bonds are pre-refunded with U.S. treasury securities, of which \$1.6 million are backed by financial guarantors, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond. Of the remaining \$30.0 million of insurance enhanced municipal bonds, \$15.1 million would have carried a lower credit rating had they not been insured. The following table provides a breakdown of the ratings for these municipal bonds with and without insurance.

(Dollars in thousands)		
Rating	Ratings with Insurance	Ratings without Insurance
AAA	\$ 8,837	\$
AA		8,837
A	6,277	6,277
Total	\$ 15,114	\$ 15,114

A summary of the Company's insurance enhanced municipal bonds that are backed by financial guarantors, including the pre-refunded bonds that are escrowed in U.S. government obligations, as of June 30, 2013, is as follows:

(Dollars in thousands)				Exposure Net of Pre-refunded & Government Guaranteed Securities
Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	
Ambac Financial Group	\$ 2,333	\$ 1,267	\$	\$ 1,066
Assured Guaranty Corporation	11,241			11,241
Municipal Bond Insurance Association	7,134			7,134
Gov't National Housing Association	1,948	285	1,663	
Permanent School Fund Guaranty	8,837		8,837	
Total backed by financial guarantors	31,493	1,552	10,500	19,441
Other credit enhanced municipal bonds	3,060	3,060		
Total	\$ 34,553	\$ 4,612	\$ 10,500	\$ 19,441

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In addition to the \$34.6 million of insurance enhanced municipal bonds, the Company also held insurance enhanced asset-backed and credit securities with a market value of approximately \$19.0 million, which represented approximately 1.2% of the Company's total invested assets net of receivable/payable for securities purchased and sold. The financial guarantors of the Company's \$19.0 million of insurance enhanced asset-backed and credit securities include Municipal Bond Insurance Association (\$4.5 million), Ambac (\$1.6 million), Assured Guaranty Corporation (\$7.7 million), and Other (\$5.2 million).

The Company had no direct investments in the entities that have provided financial guarantees or other credit support to any security held by the Company at June 30, 2013.

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)*****Bonds Held on Deposit***

Certain cash balances, cash equivalents, equity securities and bonds available for sale were deposited with various governmental authorities in accordance with statutory requirements, were held as collateral pursuant to borrowing arrangements, or were held in trust pursuant to intercompany reinsurance agreements. The fair values were as follows as of June 30, 2013 and December 31, 2012:

(Dollars in thousands)	Estimated Fair Value	
	June 30, 2013	December 31, 2012
On deposit with governmental authorities	\$ 41,931	\$ 42,492
Intercompany trusts held for the benefit of U.S. policyholders	570,558	553,893
Held in trust pursuant to third party requirements	116,969	132,684
Held in trust pursuant to U.S. regulatory requirements for the benefit of U.S. policyholders	6,349	6,368
Securities held as collateral for borrowing arrangements	41,236	
Total	\$ 777,043	\$ 735,437

4. Fair Value Measurements

Unless otherwise noted, the reported value of assets and liabilities approximates their fair value.

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

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

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

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

Level 3 inputs are unobservable for the asset, and include situations where there is little, if any, market activity for the asset. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

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

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The following table presents information about the Company's invested assets measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of June 30, 2013 (Dollars in thousands)	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Fixed maturities:				
U.S. treasury and agency obligations	\$ 100,098	\$ 12,193	\$	\$ 112,291
Obligations of states and political subdivisions		194,983		194,983
Mortgage-backed securities		257,848		257,848
Commercial mortgage-backed securities		56,835		56,835
Asset-backed securities		110,229		110,229
Corporate bonds and loans		401,104		401,104
Foreign corporate bonds		51,448		51,448
Total fixed maturities	100,098	1,084,640		1,184,738
Common stock	222,583			222,583
Other invested assets			3,226	3,226
Total invested assets	\$ 322,681	\$ 1,084,640	\$ 3,226	\$ 1,410,547
As of December 31, 2012 (Dollars in thousands)	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Fixed maturities:				
U.S. treasury and agency obligations	\$ 89,981	\$ 18,763	\$	\$ 108,744
Obligations of states and political subdivisions		201,077		201,077
Mortgage-backed securities		255,942		255,942
Commercial mortgage-backed securities		8,117		8,117
Asset-backed securities		113,351		113,351
Corporate bonds and loans		486,171		486,171
Foreign corporate bonds		55,920		55,920
Total fixed maturities	89,981	1,139,341		1,229,322
Common stock	197,075			197,075
Other invested assets			3,132	3,132
Total invested assets	\$ 287,056	\$ 1,139,341	\$ 3,132	\$ 1,429,529

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

The securities classified as Level 2 in the above table consist primarily of fixed maturity securities. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, security prices are derived through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. If there are no recent reported trades, matrix

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or model processes are used to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of asset-backed securities, collateralized mortgage obligations, and mortgage-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. For corporate loans, price quotes from multiple dealers along with recent reported trades for identical or similar securities are used to develop prices.

There were no transfers between Level 1 and Level 2 during the quarters and six months ended June 30, 2013 or 2012.

The following table presents changes in Level 3 investments measured at fair value on a recurring basis for the quarters and six months ended June 30, 2013 and 2012:

(Dollars in thousands)	Other Invested Assets			
	Quarters Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Beginning balance	\$ 3,105	\$ 8,632	\$ 3,132	\$ 6,617
Total gains (losses) (realized / unrealized):				
Included in accumulated other comprehensive income (loss)	121	(42)	84	1,967
Purchases			10	6
Ending balance	\$ 3,226	\$ 8,590	\$ 3,226	\$ 8,590
Losses included in earnings of the period attributable to the change in unrealized losses related to assets still held at the end of the period	\$	\$	\$	\$

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

The investments classified as Level 3 in the above table relate to investments in limited partnerships that have invested primarily in publicly traded companies. However, not all of the partnerships' investments are publicly traded, nor does the Company have access to daily valuations, therefore the estimated fair values of these limited partnerships are measured utilizing net asset value as a practical expedient for the limited partnerships. Material assumptions and factors utilized in pricing these investments include future cash flows, constant default rates, recovery rates, and any market clearing activity that may have occurred since the previous pricing period.

Fair Value of Alternative Investments

Included in "Other invested assets" in the fair value hierarchy at June 30, 2013 are limited liability partnerships measured at fair value. The following table provides the fair value and future funding commitments related to these investments at June 30, 2013.

(Dollars in thousands)	Fair Value	Future Funding Commitments
Equity Fund, LP (1)	\$ 3,226	\$ 2,497
Real Estate Fund, LP (2)		
Total	\$ 3,226	\$ 2,497

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

Pricing

The Company's pricing vendors provide prices for all investment categories except for investments in limited partnerships. One vendor provides prices for equity securities and all fixed maturity categories except for corporate loans. A second vendor provides prices for the corporate loan securities.

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

Equity prices are received from all primary and secondary exchanges.

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

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

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

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

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

For MBSs, the pricing vendor utilizes a matrix model correlation to TBA (a forward MBS trade) or benchmarking to value a security.

Corporate loans are priced using averages of bids and offers obtained from the broker/dealer community involved in trading such loans.

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

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

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

During the three and six months ending June 30, 2013, the Company has not adjusted quotes or prices obtained from the pricing vendors.

5. Income Taxes

The statutory income tax rates of the countries where the Company does business are 35.0% in the United States, 0.0% in Bermuda, 0.0% in the Cayman Islands, 0.0% in Gibraltar, 28.8% in the Duchy of Luxembourg, and 25.0% on non-trading income, 30.0% on capital gains and 12.5% on trading income in the Republic of Ireland. The statutory income tax rate of each country is applied against the expected annual taxable income of the Company in each country to estimate the annual income tax expense. Total estimated annual income tax expense is divided by total estimated annual pre-tax income to determine the expected annual income tax rate used to compute the income tax provision. On an interim basis, the expected annual income tax rate is applied against interim pre-tax income, excluding net realized gains and losses and discrete items such as limited partnership distributions, and then that amount is added to income taxes on net realized gains and losses, discrete items and limited partnership distributions. The Company's income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, including the results of the quota share and stop-loss agreements between Wind River Reinsurance and the Insurance Operations, for the quarters and six months ended June 30, 2013 and 2012 were as follows:

Quarter Ended June 30, 2013:

Eliminations

Total

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(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries		
Revenues:				
Gross premiums written	\$ 51,615	\$ 61,879	\$ (29,249)	\$ 84,245
Net premiums written	\$ 51,208	\$ 27,138	\$	\$ 78,346
Net premiums earned	\$ 36,268	\$ 22,403	\$	\$ 58,671
Net investment income	9,126	5,545	(4,906)	9,765
Net realized investment gains (losses)	(1)	2,807		2,806
Other income (loss)	(2)	249		247
Total revenues	45,391	31,004	(4,906)	71,489
Losses and Expenses:				
Net losses and loss adjustment expenses	17,059	17,865		34,924
Acquisition costs and other underwriting expenses	14,443	10,029		24,472
Corporate and other operating expenses	1,329	1,143		2,472
Interest expense	309	5,778	(4,906)	1,181
Income (loss) before income taxes	\$ 12,251	\$ (3,811)	\$	\$ 8,440

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)****Quarter Ended June 30, 2012:**

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	\$ 39,177	\$ 52,371	\$ (23,916)	\$ 67,632
Net premiums written	\$ 39,177	\$ 21,958	\$	\$ 61,135
Net premiums earned	\$ 37,086	\$ 20,773	\$	\$ 57,859
Net investment income	9,271	6,385	(4,585)	11,071
Net realized investment gains	539	1,402		1,941
Other income (loss)	(199)	159		(40)
Total revenues	46,697	28,719	(4,585)	70,831
Losses and Expenses:				
Net losses and loss adjustment expenses	23,239	12,919		36,158
Acquisition costs and other underwriting expenses	14,126	9,634		23,760
Corporate and other operating expenses	1,764	572		2,336
Interest expense		6,055	(4,585)	1,470
Income (loss) before income taxes	\$ 7,568	\$ (461)	\$	\$ 7,107

Six Months Ended June 30, 2013:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	\$ 100,298	\$ 112,967	\$ (54,081)	\$ 159,184
Net premiums written	\$ 99,890	\$ 49,934	\$	\$ 149,824
Net premiums earned	\$ 70,662	\$ 44,005	\$	\$ 114,667
Net investment income	18,774	10,795	(9,770)	19,799
Net realized investment gains	246	8,317		8,563
Other income (loss)	(28)	329		301
Total revenues	89,654	63,446	(9,770)	143,330
Losses and Expenses:				
Net losses and loss adjustment expenses	33,409	33,303		66,712
Acquisition costs and other underwriting expenses	29,591	19,358		48,949
Corporate and other operating expenses	2,605	2,212		4,817
Interest expense	626	11,498	(9,770)	2,354

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Income (loss) before income taxes \$ 23,423 \$ (2,925) \$ 20,498

Six Months Ended June 30, 2012:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	\$ 70,588	\$ 100,205	\$ (45,403)	\$ 125,390
Net premiums written	\$ 70,040	\$ 41,376	\$	\$ 111,416
Net premiums earned	\$ 78,841	\$ 43,488	\$	\$ 122,329
Net investment income	19,059	12,599	(9,170)	22,488
Net realized investment gains	331	3,371		3,702
Other income (loss)	(705)	313		(392)
Total revenues	97,526	59,771	(9,170)	148,127
Losses and Expenses:				
Net losses and loss adjustment expenses	50,283	27,884		78,167
Acquisition costs and other underwriting expenses	29,575	17,352		46,927
Corporate and other operating expenses	4,385	439		4,824
Interest expense		12,118	(9,170)	2,948
Income before income taxes	\$ 13,283	\$ 1,978	\$	\$ 15,261

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The following table summarizes the components of income tax benefit:

(Dollars in thousands)	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Current income tax expense (benefit):				
Foreign	\$ 37	\$ 45	\$ 74	\$ (629)
U.S. Federal	2,248	(2,185)	1,610	(6,687)
Total current income tax expense (benefit)	2,285	(2,140)	1,684	(7,316)
Deferred income tax expense (benefit):				
U.S. Federal	(2,509)	(357)	(2,215)	2,111
Total deferred income tax expense (benefit)	(2,509)	(357)	(2,215)	2,111
Total income tax benefit	\$ (224)	\$ (2,497)	\$ (531)	\$ (5,205)

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

The following tables summarize the differences between the tax provisions under accounting guidance applicable to interim financial statement periods and the expected tax provision at the weighted average tax rate:

(Dollars in thousands)	Quarters Ended June 30,		2012	
	2013	%	2012	%
	Amount	of Pre-Tax Income	Amount	of Pre-Tax Income
Expected tax provision at weighted average rate	\$ (1,297)	(15.4%)	\$ (256)	(3.6%)
Adjustments:				
Tax exempt interest	(261)	(3.1)	(372)	(5.2)
Dividend exclusion	(336)	(4.0)	(297)	(4.2)
Effective tax rate adjustment	1,641	19.4	(1,588)	(22.3)
Other	29	0.4	16	0.2
Income tax benefit	\$ (224)	(2.7%)	\$ (2,497)	(35.1%)

The effective income tax benefit rate for the quarter ended June 30, 2013 was 2.7%, compared to an effective income tax benefit rate of 35.1% for the quarter ended June 30, 2012. The decrease in the effective tax benefit rate is primarily due to an increase in projected income in 2013 compared to 2012. Any difference between the actual tax rate on an interim basis compared to the expected annual tax rate is reflected in the effective tax rate adjustment. The effective income tax benefit rate of 2.7% differed from the weighted average expected income tax benefit rate

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of 15.4% for the quarter ended June 30, 2013 due to the fact that the Company records income tax expense on an interim basis using the projected annual effective tax rate, net of tax-exempt interest and dividends. The effective income tax benefit rate of 35.1% differed from the weighted average expected income tax benefit rate of 3.6% for the quarter ended June 30, 2012 due to the fact that the Company records income tax expense using an expected annual effective tax rate, net of tax-exempt interest and dividends.

(Dollars in thousands)	Six Months Ended June 30,			
	2013		2012	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Expected tax provision at weighted average rate	\$ (950)	(4.6%)	\$ 279	1.8%
Adjustments:				
Tax exempt interest	(556)	(2.7)	(779)	(5.1)
Dividend exclusion	(588)	(2.9)	(532)	(3.5)
Effective tax rate adjustment	1,532	7.5	(4,175)	(27.3)
Other	31	0.1	2	
Income tax benefit	\$ (531)	(2.6%)	\$ (5,205)	(34.1%)

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

The effective income tax benefit rate for the six months ended June 30, 2013 was 2.6%, compared to an effective income tax benefit rate of 34.1% for the six months ended June 30, 2012. The decrease in the effective tax benefit rate is primarily due to an increase in projected income in 2013 compared to 2012. Any difference between the actual tax rate on an interim basis compared to the expected annual tax rate is reflected in the effective tax rate adjustment. The effective income tax benefit rate of 2.6% differed from the weighted average expected income tax benefit rate of 4.6% for the six months ended June 30, 2013 due to the fact that the Company records income tax expense on an interim basis using the projected annual effective tax rate, net of tax-exempt interest and dividends. The effective income tax benefit rate of 34.1% differed from the weighted average expected income tax expense rate of 1.8% for the six months ended June 30, 2012 due to the fact that the Company records income tax expense using an expected annual effective tax rate, net of tax-exempt interest and dividends.

The Company had an alternative minimum tax credit carry forward of \$9.2 million as of June 30, 2013 and December 31, 2012, respectively, and \$6.0 million as of June 30, 2012, which can be carried forward indefinitely.

6. Liability for Unpaid Losses and Loss Adjustment Expenses

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

(Dollars in thousands)	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 864,167	\$ 960,924	\$ 879,114	\$ 971,377
Less: Ceded reinsurance receivables	237,960	279,341	240,546	283,652
Net balance at beginning of period	626,207	681,583	638,568	687,725
Incurred losses and loss adjustment expenses related to:				
Current year	35,629	36,776	70,087	80,285
Prior years	(705)	(618)	(3,375)	(2,118)
Total incurred losses and loss adjustment expenses	34,924	36,158	66,712	78,167
Paid losses and loss adjustment expenses related to:				
Current year	14,131	12,936	19,264	19,252
Prior years	31,898	37,700	70,913	79,534
Total paid losses and loss adjustment expenses	46,029	50,636	90,177	98,786
Net balance at end of period	615,103	667,105	615,103	667,105
Plus: Ceded reinsurance receivables	229,815	274,178	229,815	274,178
Balance at end of period	\$ 844,918	\$ 941,283	\$ 844,918	\$ 941,283

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

impact reserve estimates.

In the second quarter of 2013, the Company reduced its prior accident year loss reserves by \$0.7 million, which consisted of a \$0.4 million decrease related to Insurance Operations and a \$0.3 million decrease related to Reinsurance Operations.

The \$0.4 million decrease related to Insurance Operations primarily consisted of the following:

Property: A \$2.2 million reduction primarily driven by \$1.1 million of better than expected development from accident year 2012 catastrophes as well as lower than expected non-catastrophe severity from accident years 2010 and 2012.

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

General liability: A \$1.8 million reduction primarily due to better than expected emergence from accident years 2007 through 2011 partially offset by an increase to accident year 2012 due to higher than anticipated loss emergence.

Asbestos: A \$3.5 million increase primary related to policies written prior to 1990.

In the second quarter of 2012, the Company reduced its prior accident year loss reserves by \$0.6 million, which consisted of a \$0.7 million decrease related to Insurance Operations and a \$0.1 million increase related to Reinsurance Operations.

The \$0.7 million decrease related to Insurance Operations primarily consisted of the following:

General liability: A \$0.6 million reduction primarily consisting of net reductions of \$2.9 million in accident years 2008 and prior due to continued favorable emergence in small business packages. The Company also decreased its reinsurance allowance by \$0.2 million in this line due to changes in its reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of \$2.5 million in accident years 2009 to 2011 primarily driven by loss emergence on certain construction defect claims.

Professional liability: A \$0.4 million reduction primarily related to recent favorable development on lawyer and real estate exposures.

Marine: A \$0.4 million increase primarily driven by unexpected loss emergence in protection and indemnity coverage in accident year 2011.

In the first six months of 2013, the Company reduced its prior accident year loss reserves by \$3.4 million, which consisted of a \$3.2 million decrease related to Insurance Operations and a \$0.2 million decrease related to Reinsurance Operations.

The \$3.2 million decrease related to Insurance Operations primarily consisted of the following:

Property: A \$5.0 million reduction primarily driven by better than expected development from accident year 2012 catastrophes as well as lower than expected non-catastrophe severity from accident years 2008 through 2012.

General liability: A \$1.8 million reduction primarily due to better than expected emergence from accident years 2007 through 2011 partially offset by an increase to accident year 2012 due to higher than anticipated loss emergence.

Asbestos: A \$3.5 million increase primary related to policies written prior to 1990.

In the first six months of 2012, the Company reduced its prior accident year loss reserves by \$2.1 million, which was primarily related to Insurance Operations and primarily consisted of the following:

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General liability: A \$3.1 million reduction primarily consisting of net reductions of \$5.5 million in accident years 2008 and prior due to continued favorable emergence. Incurred losses for these years have developed at a rate lower than the Company's historical averages. The Company also decreased its reinsurance allowance by \$0.2 million in this line due to changes in its reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of \$2.6 million in accident years 2009 through 2011 primarily driven by loss emergence on certain construction defect claims.

Marine: A \$0.9 million increase primarily related to accident year 2011 due to greater than expected loss emergence on hull claims and protection and indemnity claims.

Property: A \$0.5 million increase primarily related to accident year 2011 due to greater than expected loss emergence on a large sinkhole claim.

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)****7. Shareholders Equity****Repurchases of the Company's A ordinary shares**

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the quarter ended June 30, 2013:

Period(1)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program(2)
April 1 30, 2013		\$		\$ 16,857,963
May 1 31, 2013		\$		\$ 16,857,963
June 1 30, 2013	507(3)	\$ 23.03		\$ 16,857,963
Total	507	\$ 23.03		

(1) Based on settlement date.

(2) Approximate dollar value of shares that may yet be purchased is as of the last date of the applicable month.

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

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the quarter ended June 30, 2012:

Period(1)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program(2)
April 1 30, 2012	54,419(3), (5)	\$ 18.83	54,334	\$ 60,902,382
May 1 31, 2012				\$ 60,902,382
June 1 30, 2012	2,913,959(4), (5)	\$ 21.75	2,913,464	\$
Total	2,968,378	\$ 21.70	2,967,798	

- (1) Based on settlement date.
- (2) Approximate dollar value of shares that may yet be purchased is as of the last date of the applicable month.
- (3) Includes 85 shares surrendered by employees as payment of taxes withheld on the vesting of restricted stock.
- (4) Includes 495 shares surrendered by employees as payment of taxes withheld on the vesting of restricted stock.
- (5) Purchased as part of the repurchase authorization announced in September 2011.

8. Related Party Transactions

Fox Paine & Company

As of June 30, 2013, Fox Paine & Company, LLC (Fox Paine) beneficially owned shares having approximately 93% of the Company's total outstanding voting power. Fox Paine has the right to appoint a number of the Company's Directors equal in aggregate to the pro rata percentage of the voting shares beneficially held by Fox Paine of the Company, for so long as Fox Paine holds an aggregate of 25% or more of the voting power in the Company. Fox Paine controls the election of all of the Company's Directors due to its controlling share ownership. The Company's Chairman is a member of Fox Paine. The Company relies on Fox Paine to provide management services and other services related to the operations of the Company.

As of June 30, 2013 and December 31, 2012, Wind River Reinsurance was a limited partner in Fox Paine Capital Fund, II, which is managed by Fox Paine. This investment was originally made by United National Insurance Company in June 2000 and pre-dates the September 5, 2003 acquisition by Fox Paine of Wind River Investment Corporation, which was the predecessor holding company for United National Insurance Company. The Company's investment in this limited partnership was valued at \$3.2 million and \$3.1 million at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013, the Company had an unfunded capital commitment of \$2.5 million to the partnership. There were no distributions received from the limited partnership during the second quarter of 2013 or 2012.

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The Company incurred management fees of \$0.4 million in each of the quarters ended June 30, 2013 and 2012 and \$0.8 million in each of the six months ended June 30, 2013 and 2012 as part of the annual management fee that is paid to Fox Paine.

Cozen O Connor

The Company did not incur any fees for legal services rendered by Cozen O Connor during the quarters ended June 30, 2013 and 2012, respectively. The Company incurred \$0.02 million and \$0.2 million for legal services rendered by Cozen O Connor during the six months ended June 30, 2013 and 2012, respectively. Stephen A. Cozen, the chairman of Cozen O Connor, is a member of the Company's Board of Directors.

Crystal & Company

During each of the quarters and six months ended June 30, 2013 and 2012, the Company incurred \$0.1 million in brokerage fees to Crystal & Company, an insurance broker. Prior to October 15, 2012, Crystal & Company was known as Frank Crystal & Company. James W. Crystal, the chairman and chief executive officer of Crystal & Company, is a member of the Company's Board of Directors.

Hiscox Insurance Company (Bermuda) Ltd.

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

(Dollars in thousands)	Quarter Ended June 30, 2013	Six Months Ended June 30, 2013
Assumed earned premium	\$ 654	\$ 1,008
Assumed losses and loss adjustment expenses	289	378

Net balances due to Wind River Reinsurance under this agreement are as follows:

(Dollars in thousands)	As of June 30, 2013
Net balance receivable	\$ 3,228

9. Commitments and Contingencies**Legal Proceedings**

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

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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.

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)****10. Share-Based Compensation Plans**

During the six months ended June 30, 2013, the Company issued 88,162 A ordinary shares at a weighted average grant date value of \$21.97 per share to key employees and a former employee of the Company under the Global Indemnity plc Share Incentive Plan (the Plan). Of the shares issued in 2013, 81,587 were subject to certain restrictions and 6,575 were issued as a result of a former employee exercising previously granted options with a strike price of \$20.00 per share. During the six months ended June 30, 2012, the Company issued 29,675 A ordinary shares at a weighted average grant date value of \$18.60 per share to key employees under the Plan. All of the shares issued in 2012 were subject to certain restrictions.

During the quarter ended June 30, 2013, the Company issued 6,575 A ordinary shares as a result of a former employee exercising previously granted options with a strike price of \$20.00 per share. The Company did not issue any shares to key employees during the quarter ended June 30, 2012.

During the six months ended June 30, 2013 and 2012, the Company granted an aggregate of 21,865 and 28,135 fully vested A ordinary shares, respectively, subject to certain restrictions, at a weighted average grant date value of \$22.62 and \$19.66 per share, respectively, to non-employee directors of the Company under the Plan.

During the quarters ended June 30, 2013 and 2012, the Company granted an aggregate of 9,965 and 13,750 fully vested A ordinary shares, respectively, subject to certain restrictions, at a weighted average grant date value of \$23.20 and \$19.49 per share, respectively, to non-employee directors of the Company under the Plan.

11. Earnings Per Share

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

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

(Dollars in thousands, except share and per share data)	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 8,664	\$ 9,604	\$ 21,029	\$ 20,466
<i>Basic earnings per share:</i>				
Weighted average shares outstanding - basic	25,049,888	27,829,555	25,052,488	28,223,321
Net income per share	\$ 0.35	\$ 0.35	\$ 0.84	\$ 0.73
<i>Diluted earnings per share:</i>				
Weighted average shares outstanding - diluted	25,119,035	27,836,453	25,120,897	28,236,562
Net income per share	\$ 0.34	\$ 0.35	\$ 0.84	\$ 0.72

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted average shares for basic earnings per share	25,049,888	27,829,555	25,052,488	28,223,321
Non-vested restricted stock	33,178	6,880	38,759	13,223
Options	35,969	18	29,650	18
Weighted average shares for diluted earnings per share	25,119,035	27,836,453	25,120,897	28,236,562

The weighted average shares outstanding used to determine dilutive earnings per share for the quarters ended June 30, 2013 and 2012 do not include 145,450 and 565,775 shares, respectively, which were deemed to be anti-dilutive. The weighted average shares outstanding used to determine dilutive earnings per share for the six months ended June 30, 2013 and 2012 do not include 145,450 and 565,775 shares, respectively, which were deemed to be anti-dilutive.

Table of Contents**GLOBAL INDEMNITY PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)****12. Segment Information**

The following are tabulations of business segment information for the quarters and six months ended June 30, 2013 and 2012.

Quarter Ended June 30, 2013:

(Dollars in thousands)	Insurance Operations(1)	Reinsurance Operations(2)	Total
Revenues:			
Gross premiums written	\$ 61,879	\$ 22,366	\$ 84,245
Net premiums written	\$ 56,387	\$ 21,959	\$ 78,346
Net premiums earned	\$ 46,916	\$ 11,755	\$ 58,671
Other income (loss)	248	(1)	247
Total revenues	47,164	11,754	58,918
Losses and Expenses:			
Net losses and loss adjustment expenses	30,608	4,316	34,924
Acquisition costs and other underwriting expenses	20,686(3)	3,786	24,472
Income (loss) from segments	\$ (4,130)	\$ 3,652	(478)
Unallocated Items:			
Net investment income			9,765
Net realized investment gains			2,806
Corporate and other operating expenses			(2,472)
Interest expense			(1,181)
Income before income taxes			8,440
Income tax benefit			(224)
Net income			\$ 8,664
Total assets	\$ 1,245,274	\$ 669,548(4)	\$ 1,914,822

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

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

(3) Includes federal excise tax of \$246 relating to cessions from Insurance Operations to Reinsurance Operations.

(4) Comprised of Wind River Reinsurance's total assets less its investment in subsidiaries.

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Quarter Ended June 30, 2012:

(Dollars in thousands)	Insurance Operations(1)	Reinsurance Operations(2)	Total
Revenues:			
Gross premiums written	\$ 52,371	\$ 15,261	\$ 67,632
Net premiums written	\$ 45,874	\$ 15,261	\$ 61,135
Net premiums earned	\$ 43,503	\$ 14,356	\$ 57,859
Other income (loss)	159	(199)	(40)
Total revenues	43,662	14,157	57,819
Losses and Expenses:			
Net losses and loss adjustment expenses	29,871	6,287	36,158
Acquisition costs and other underwriting expenses	19,599(3)	4,161	23,760
Income (loss) from segments	\$ (5,808)	\$ 3,709	(2,099)
Unallocated Items:			
Net investment income			11,071
Net realized investment gains			1,941
Corporate and other operating expenses			(2,336)
Interest expense			(1,470)
Income before income taxes			7,107
Income tax benefit			(2,497)
Net income			\$ 9,604
Total assets	\$ 1,364,643	\$ 626,980(4)	\$ 1,991,623

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- (1) Includes business ceded to the Company's Reinsurance Operations.
(2) External business only, excluding business assumed from affiliates.
(3) Includes federal excise tax of \$227 relating to cessions from Insurance Operations to Reinsurance Operations.
(4) Comprised of Wind River Reinsurance's total assets less its investment in subsidiaries.

Six Months Ended June 30, 2013:

(Dollars in thousands)	Insurance Operations(1)	Reinsurance Operations(2)	Total
Revenues:			
Gross premiums written	\$ 112,967	\$ 46,217	\$ 159,184
Net premiums written	\$ 104,015	\$ 45,809	\$ 149,824
Net premiums earned	\$ 92,157	\$ 22,510	\$ 114,667
Other income (loss)	329	(28)	301
Total revenues	92,486	22,482	114,968
Losses and Expenses:			
Net losses and loss adjustment expenses	59,350	7,362	66,712
Acquisition costs and other underwriting expenses	41,081(3)	7,868	48,949
Income (loss) from segments	\$ (7,945)	\$ 7,252	(693)
Unallocated Items:			
Net investment income			19,799
Net realized investment gains			8,563
Corporate and other operating expenses			(4,817)
Interest expense			(2,354)
Income before income taxes			20,498
Income tax benefit			(531)
Net income			\$ 21,029
Total assets	\$ 1,245,274	\$ 669,548(4)	\$ 1,914,822

- (1) Includes business ceded to the Company's Reinsurance Operations.
(2) External business only, excluding business assumed from affiliates.
(3) Includes federal excise tax of \$482 relating to cessions from Insurance Operations to Reinsurance Operations.
(4) Comprised of Wind River Reinsurance's total assets less its investment in subsidiaries.

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Six Months Ended June 30, 2012:

(Dollars in thousands)	Insurance Operations(1)	Reinsurance Operations(2)	Total
Revenues:			
Gross premiums written	\$ 100,205	\$ 25,185	\$ 125,390
Net premiums written	\$ 86,780	\$ 24,636	\$ 111,416
Net premiums earned	\$ 91,004	\$ 31,325	\$ 122,329
Other income (loss)	313	(705)	(392)
Total revenues	91,317	30,620	121,937
Losses and Expenses:			
Net losses and loss adjustment expenses	63,022	15,145	78,167
Acquisition costs and other underwriting expenses	39,018(3)	7,909	46,927
Income (loss) from segments	\$ (10,723)	\$ 7,566	(3,157)
Unallocated Items:			
Net investment income			22,488
Net realized investment gains			3,702
Corporate and other operating expenses			(4,824)
Interest expense			(2,948)
Income before income taxes			15,261
Income tax benefit			(5,205)
Net income			\$ 20,466
Total assets	\$ 1,364,643	\$ 626,980(4)	\$ 1,991,623

- (1) Includes business ceded to the Company's Reinsurance Operations.
- (2) External business only, excluding business assumed from affiliates.
- (3) Includes federal excise tax of \$475 relating to cessions from Insurance Operations to Reinsurance Operations.
- (4) Comprised of Wind River Reinsurance's total assets less its investment in subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

13. Subsequent Events

On July 19, 2013, the Company paid the entire outstanding principal amount on its guaranteed senior notes. The payment of \$58.6 million consisted of principal of \$54.0 million and interest of \$4.6 million, which included a make-whole provision of \$2.9 million. This payment was funded by borrowing \$60.0 million pursuant to a daily credit margin borrowing facility with a borrowing rate that is tied to LIBOR and is currently less than 1%. Approximately \$75.0 million in collateral was deposited to support the borrowing. The amount borrowed against the margin account may fluctuate as routine investment transactions, such as dividends received, investment income received, maturities and pay-downs, impact cash balances. The borrowing is subject to maintenance margin, which is a minimum account balance that must be maintained. A decline in market conditions could require an additional deposit of collateral. The margin facility contains customary events of default, including, without limitation, insolvency, failure to make required payments, failure to comply with any representations or warranties, failure to adequately assure future performance, and failure of a guarantor to perform under its guarantee.

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes of Global Indemnity included elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to the Company's plans and strategy, constitutes forward-looking statements that involve risks and uncertainties. Please see "Cautionary Note Regarding Forward-Looking Statements" at the end of this Item 2 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein. For more information regarding the Company's business and operations, please see the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Recent Developments

On July 19, 2013, the Company paid the entire outstanding principal amount on its guaranteed senior notes. The payment of \$58.6 million consisted of principal of \$54.0 million and interest of \$4.6 million, which included a make-whole provision of \$2.9 million. This payment was funded by borrowing \$60.0 million pursuant to a daily credit margin borrowing facility with a borrowing rate that is tied to LIBOR and is currently less than 1%. Approximately \$75.0 million in collateral was deposited to support the borrowing. The amount borrowed against the margin account may fluctuate as routine investment transactions, such as dividends received, investment income received, maturities and pay-downs, impact cash balances. The borrowing is subject to maintenance margin, which is a minimum account balance that must be maintained. A decline in market conditions could require an additional deposit of collateral. The margin facility contains customary events of default, including, without limitation, insolvency, failure to make required payments, failure to comply with any representations or warranties, failure to adequately assure future performance, and failure of a guarantor to perform under its guarantee.

On June 14, 2013, A.M. Best affirmed the financial strength rating of A (Excellent) for Wind River Reinsurance and its U.S. insurance subsidiaries. Wind River Reinsurance and subsidiaries have a financial size category of XI with A.M. Best, which represents an adjusted policyholder's surplus of \$750 million to \$1 billion.

Overview

The Company's Insurance Operations distribute property and casualty insurance products through a group of approximately 100 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. The Company operates predominantly in the excess and surplus lines marketplace. To manage its operations, the Company differentiates them by 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; and 3) Diamond State, which includes property, casualty, and professional lines products distributed through wholesale brokers and program administrators with specific binding authority.

The Company's Reinsurance Operations segment provides reinsurance solutions through brokers, program managers and primary writers, including regional insurance companies, and consists solely of the operations of Wind River Reinsurance. Wind River Reinsurance is a Bermuda based treaty reinsurer of excess and surplus lines carriers, specialty property and casualty insurance companies and U.S. regional insurance writers. Wind River 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. Given the current pricing environment, Wind River Reinsurance continues to cautiously deploy and manage its capital while seeking to position itself as a niche reinsurance solution provider.

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 of prevailing market prices.

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The Company's expenses include losses and loss adjustment expenses, acquisition costs and other underwriting expenses, corporate and other operating expenses, interest, investment expenses, and income taxes. Losses and loss adjustment expenses are estimated by management and reflect the Company's best estimate of ultimate losses and costs arising during the reporting period and revisions of prior period estimates. The Company records losses and loss adjustment expenses based on an actuarial analysis 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. Corporate and other operating expenses are comprised primarily of outside legal fees, other professional and accounting fees, directors' fees, management fees, salaries and benefits for company personnel whose services relate to the support of corporate activities, and capital duty taxes incurred. Interest expense consists primarily of interest on senior notes payable, junior subordinated debentures, and funds held on behalf of others.

Critical Accounting Estimates and Policies

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

The Company believes that of its 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 its 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 loss and loss adjustment expense (loss or losses) reserve estimates for the Company's Insurance Operations, its 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 short-tail through long-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, and Diamond State. For further discussion about the Company's product classifications, see General Business Segments Insurance Operations in Item 1 of Part I of the Company's 2012 Annual Report on Form 10-K. 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. The analyses generally include reviews of losses gross of reinsurance and net of reinsurance.

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. As with the Company's reserves for its Insurance Operations, reserves for its Reinsurance Operations are characterized as short-tail through long-tail. Long-tail exposures include workers compensation, professional liability, and excess and umbrella liability. Short-tail exposures are primarily catastrophe exposed property accounts. Every treaty is reviewed each quarter, both gross and net of reinsurance.

In addition to the Company's internal reserve analysis, independent external actuaries will perform a full, detailed review of the Insurance and Reinsurance 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 and management.

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The methods used to project ultimate losses for both long-tail and short-tail exposures 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 accurate predictions. 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

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Development method. The estimate of losses yet to be paid is added to current paid losses to estimate the ultimate loss for each 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.

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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 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 exposures, 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 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 years to cover the entire period over which paid and incurred losses are expected to change. However, the Company may also use the Expected Loss Ratio, Bornhuetter-Ferguson and Average Loss methods for short-tail exposures.

Generally, reserves for long-tail lines use the Expected Loss Ratio method for the most recent accident year, shift to the Bornhuetter-Ferguson methods for the next two years, and then shift 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 Expected Loss Ratio and Bornhuetter-Ferguson methods are used for as many as six years before shifting to the Incurred Development method. Reserves for short-tail lines use the Bornhuetter-Ferguson methods for the most recent accident year and shift to the Incurred and/or Paid Development method in subsequent years.

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 defects and asbestos and environmental (A&E).

For construction defect losses, the Company's actuaries organize losses by the year in which they were reported. To estimate losses from claims that have not been reported, 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, 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. 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

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found in most comprehensive general liability policies. In response to these continuing developments, management increased gross and net A&E reserves during 2008 to reflect its best estimate of A&E exposures. In 2009, one of the Company's insurance companies was dismissed from a lawsuit seeking coverage from it and other unrelated insurance companies. The suit involved issues related to approximately 3,900 existing asbestos related bodily injury claims and future claims. The dismissal was the result of a settlement of a disputed claim related to accident year 1984. The settlement is conditioned upon certain legal events occurring which may trigger financial obligations by the insurance company.

On October 9, 2012, The United States District Court for the Northern District of California (District Court) issued an order confirming an amended plan of reorganization (Plan) for a named insured that included an injunction under 11 U.S.C. Section 524(g) (US bankruptcy code) related to the suit above. The injunction, also called a channeling injunction, precludes, inter alia, non-settling insurers from asserting claims against one of the Company's insurance companies and asbestos related claims by third parties against one of the Company's insurance companies that are related to the named insured. An appeal from the District Court order has been filed with the 9th Circuit Court of Appeals. A motion for stay to prevent the Plan and the channeling injunction from taking effect has been denied by the District Court. Management will continue to monitor the developments of the litigation to determine if any additional financial exposure is present.

In addition, the Company has exposure to other asbestos related matters. In 2013, two claims were reported on an excess policy that was written in 1985. Management will continue to monitor the developments of the litigation noted above as well as the new claims that have been reported to determine if any additional financial exposure is present.

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 June 30, 2013 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 \$844.9 million and \$615.1 million, respectively, as of June 30, 2013. A breakout of the Company's gross and net reserves, excluding the effects of the intercompany pooling arrangements and intercompany stop loss and quota share reinsurance agreements, as of June 30, 2013 is as follows:

(Dollars in thousands)	Gross Reserves		
	Case	IBNR(1)	Total
Insurance Operations	\$ 231,031	\$ 506,956	\$ 737,987
Reinsurance Operations	39,662	67,269	106,931
Total	\$ 270,693	\$ 574,225	\$ 844,918

	Net Reserves(2)		
	Case	IBNR(1)	Total
Insurance Operations	\$ 152,435	\$ 357,118	\$ 509,553
Reinsurance Operations	39,662	65,868	105,530
Total	\$ 192,097	\$ 422,986	\$ 615,083

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- (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 loss and loss adjustment expense reserves makes no provision for the possible

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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 pricing and reserving methodologies so that future adjustments to prior 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. See Note 6 of the notes to the consolidated financial statements in Item 1 of Part I of this report for details concerning the changes in the estimate for incurred loss 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 and assigning weight to each estimate given the characteristics of the reserve category being reviewed. 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 losses incurred but not reported (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 (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 anticipated future loss emergence continues to be reflective of historical patterns, and the selected development patterns have not changed significantly from those underlying the Company's most recent analyses.

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 segment 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 its frequency and severity assumptions in prior periods and could lead to the identification of a need for additional material changes in loss 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 reserving classes, the Company believes that frequency can be predicted with greater accuracy than severity. Therefore, the Company believes management's best estimate is more sensitive to changes in severity than frequency. The following table, which the Company believes reflects a reasonable range of variability around its best estimate based on the Company's 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 \$70.1 million for claims occurring during the six months ended June 30, 2013:

(Dollars in thousands)	Severity Change					
		10%	5%	0%	5%	10%
Frequency Change	5%	\$ (10,163)	\$ (6,833)	\$ (3,504)	\$ (175)	\$ 3,154
	3%	(8,901)	(5,502)	(2,103)	1,297	4,696
	2%	(8,270)	(4,836)	(1,402)	2,033	5,467
	1%	(7,639)	(4,170)	(701)	2,768	6,238

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	0%	(7,009)	(3,504)		3,504	7,009
	1%	(6,378)	(2,839)	701	4,240	7,780
	2%	(5,747)	(2,173)	1,402	4,976	8,551
	3%	(5,116)	(1,507)	2,103	5,712	9,322
	5%	(3,855)	(175)	3,504	7,184	10,863

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The Company's net reserves for losses and loss expenses of \$615.1 million as of June 30, 2013 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 its 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 is still legally obligated to pay the loss.

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 1 of Part I 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 June 30, 2013 and December 31, 2012, and for other than temporary impairment losses that the Company recorded for the quarters and six months ended June 30, 2013 and 2012, please see Note 3 of the notes to the consolidated financial statements in Item 1 of Part I of this report.

Fair Value Measurements

Unless otherwise noted, the reported value of assets and liabilities approximates their fair value.

The Company categorizes its investment assets 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. See Note 4 of the notes to the consolidated financial statements in Item 1 of Part I of this report for further information about the fair value hierarchy and the Company's assets that are accounted for at fair value.

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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 business 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.

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.

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.

Deferred Acquisition Costs

The costs of acquiring new and renewal insurance and reinsurance contracts include commissions, premium taxes and certain other costs that vary with and 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 their estimated realizable value that gives effect to the 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 loss and loss adjustment expenses and unamortized acquisition costs exceeds related unearned premium. 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 loss and loss adjustment expense reserves on additional expected loss in excess of unamortized acquisition costs.

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 June 30, 2013 or December 31, 2012. The deferred tax asset balance is analyzed regularly by management. 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 its 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.

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On an interim basis, the Company records its tax provision using the expected full year effective tax rate. Forecasts which compute taxable income and taxes expected to be incurred in the jurisdictions where the Company does business are prepared several times per year. The effective tax rate is computed by dividing forecasted income tax expense not including tax on net realized investment gains (losses) and discrete items by forecasted pre-tax income not including net realized investment gains (losses) and discrete items. Changes in pre-tax and taxable income in the jurisdictions where the Company does business can change the effective tax rate. To compute the Company's income tax expense on an interim basis, the Company applies its expected full year effective tax rate against its pre-tax income excluding net realized investment gains (losses) and discrete items and then adds actual tax on net realized investment gains (losses) and discrete items to that result.

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.

Business Segments

The Company manages its business through two business segments: Insurance Operations, which includes the operations of 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, Penn-Patriot Insurance Company, American Insurance Adjustment Agency, Inc., Collectibles Insurance Services, LLC, Global Indemnity Insurance Agency, LLC, and J.H. Ferguson & Associates, LLC, and Reinsurance Operations, which includes the operations of Wind River Reinsurance Company, Ltd.

The Company evaluates the performance of its Insurance Operations and Reinsurance Operations segments based on gross and net premiums written, revenues in the form of net premiums earned and commission and fee income, and expenses in the form of net losses and loss adjustment expenses, acquisition costs and other underwriting expenses.

For a description of the Company's segments, see **Business Segments** in Item 1 of Part I in the Company's 2012 Annual Report on Form 10-K.

The following table sets forth an analysis of financial data for the Company's segments during the periods indicated:

(Dollars in thousands)	Quarters Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Insurance Operations premiums written:				
Gross premiums written	\$ 61,879	\$ 52,371	\$ 112,967	\$ 100,205
Ceded premiums written	5,492	6,497	8,952	13,425
Net premiums written	\$ 56,387	\$ 45,874	\$ 104,015	\$ 86,780
Reinsurance Operations premiums written:				
Gross premiums written	\$ 22,366	\$ 15,261	\$ 46,217	\$ 25,185
Ceded premiums written	407		408	549
Net premiums written	\$ 21,959	\$ 15,261	\$ 45,809	\$ 24,636
Revenues:(1)				
Insurance Operations	\$ 47,164	\$ 43,662	\$ 92,486	\$ 91,317
Reinsurance Operations	11,754	14,157	22,482	30,620
Total revenues	\$ 58,918	\$ 57,819	\$ 114,968	\$ 121,937

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Expenses:(2)				
Insurance Operations(3)	\$ 51,294	\$ 49,470	\$ 100,431	\$ 102,040
Reinsurance Operations	8,102	10,448	15,230	23,054
Total expenses	\$ 59,396	\$ 59,918	\$ 115,661	\$ 125,094
Income (loss) from segments:				
Insurance Operations	\$ (4,130)	\$ (5,808)	\$ (7,945)	\$ (10,723)
Reinsurance Operations	3,652	3,709	7,252	7,566
Total income (loss) from segments	\$ (478)	\$ (2,099)	\$ (693)	\$ (3,157)
Insurance combined ratio analysis:(4)				
Insurance Operations				
Loss ratio	65.3	68.6	64.4	69.3
Expense ratio	44.1	45.1	44.6	42.9
Combined ratio	109.4	113.7	109.0	112.2
Reinsurance Operations				
Loss ratio	36.8	43.8	32.8	48.3
Expense ratio	32.2	29.0	35.0	25.2
Combined ratio	69.0	72.8	67.8	73.5
Consolidated				
Loss ratio	59.5	62.5	58.2	63.9
Expense ratio	41.7	41.1	42.7	38.4
Combined ratio	101.2	103.6	100.9	102.3

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- (1) Excludes net investment income and net realized investment gains, which are not allocated to the Company's segments.
- (2) Excludes corporate and other operating expenses and interest expense, which are not allocated to the Company's segments.
- (3) Includes excise tax of \$246 and \$227 for the quarters ended June 30, 2013 and 2012, respectively, and excise tax of \$482 and \$475 for the six months ended June 30, 2013 and 2012, respectively, related to cessions from the Company's Insurance Operations to the Company's Reinsurance Operations.
- (4) The Company's insurance combined ratios are non-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.

Table of Contents**GLOBAL INDEMNITY PLC****Results of Operations**

All percentage and dollar changes included in the text below have been calculated using the corresponding amounts from the applicable tables.

Quarter Ended June 30, 2013 Compared with the Quarter Ended June 30, 2012**Insurance Operations**

The components of income from the Company's Insurance Operations segment and corresponding underwriting ratios are as follows:

(Dollars in thousands)	Quarters Ended June 30,		Increase / (Decrease)	
	2013	2012	\$	%
Gross premiums written	\$ 61,879	\$ 52,371	\$ 9,508	18.2%
Net premiums written	\$ 56,387	\$ 45,874	\$ 10,513	22.9%
Net premiums earned	\$ 46,916	\$ 43,503	\$ 3,413	7.8%
Other income	248	159	89	56.0%
Total revenues	\$ 47,164	\$ 43,662	\$ 3,502	8.0%
Losses and expenses:				
Net losses and loss adjustment expenses	30,608	29,871	737	2.5%
Acquisition costs and other underwriting expenses(1)	20,686	19,599	1,087	5.5%
Loss from segment	\$ (4,130)	\$ (5,808)	\$ 1,678	28.9%
Underwriting Ratios:				
Loss ratio:				
Current accident year	66.2	70.3	(4.1)	
Prior accident year	(0.9)	(1.7)	0.8	
Calendar year loss ratio	65.3	68.6	(3.3)	
Expense ratio	44.1	45.1	(1.0)	
Combined ratio	109.4	113.7	(4.3)	

(1) Includes excise tax of \$246 and \$227 related to cessions from the Company's Insurance Operations to its Reinsurance Operations for the quarters ended June 30, 2013 and 2012, respectively.

Premiums

Gross premiums written, which represent the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions, were \$61.9 million for the quarter ended June 30, 2013, compared with \$52.4 million for the quarter ended June 30, 2012, an increase of \$9.5 million or 18.2%. The increase was primarily driven by growth in the Company's small business line of \$5.7 million, as

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well as growth in the property brokerage, programs and other lines. Growth was driven by both new business and pricing increases.

Net premiums written, which equal gross premiums written less ceded premiums written, were \$56.4 million for the quarter ended June 30, 2013, compared with \$45.9 million for the quarter ended June 30, 2012, an increase of \$10.5 million or 22.9%. The increase was primarily due to the increase in gross premiums written and a reduction of ceded premiums written as a result of an increase in retention on direct business. The ratio of net premiums written to gross premiums written was 91.1% for the quarter ended June 30, 2013 and 87.6% for the quarter ended June 30, 2012, an increase of 3.5%.

Net premiums earned were \$46.9 million for the quarter ended June 30, 2013, compared with \$43.5 million for the quarter ended June 30, 2012, an increase of \$3.4 million or 7.8%. The increase was primarily due to increases in net premiums written within the previous year. Property net premiums earned for the quarters ended June 30, 2013 and 2012 were \$27.1 million and \$22.7 million, respectively. Casualty net premiums earned for the quarters ended June 30, 2013 and 2012 were \$19.8 million and \$20.8 million, respectively.

Table of Contents**GLOBAL INDEMNITY PLC**

The Company's Insurance Operations' gross written, net written, and net earned premiums by product line are as follows:

(Dollars in thousands)	Quarter Ended June 30, 2013			Quarter Ended June 30, 2012		
	Gross Written	Net Written	Net Earned	Gross Written	Net Written	Net Earned
Small Business Binding Authority	\$ 28,055	\$ 26,204	\$ 22,720	\$ 22,358	\$ 20,693	\$ 19,340
Property Brokerage Programs	12,931	10,751	7,006	11,051	8,222	5,426
Other	15,351	14,179	12,981	14,188	12,956	11,864
	5,542	5,253	4,209	4,774	4,003	6,873
Total	\$ 61,879	\$ 56,387	\$ 46,916	\$ 52,371	\$ 45,874	\$ 43,503

Other Income

Other income was \$0.2 million for each of the quarters ended June 30, 2013 and 2012, respectively. Other income is primarily comprised of fee income.

Net Losses and Loss Adjustment Expenses

The loss ratio for the Company's Insurance Operations was 65.3% for the quarter ended June 30, 2013 compared with 68.6% for the quarter ended June 30, 2012. The decrease in the loss ratio was driven by better performance in property lines. The loss ratio is a non-GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

The current accident year loss ratio for the quarter ended June 30, 2013 was 66.2%, a decrease of 4.1% from 70.3% for the quarter ended June 30, 2012. The quarter ended June 30, 2012 net losses and acquisition costs were lower than they otherwise would have been as a result of premium deficiencies recorded in 2011. Excluding the impact of premium deficiencies, the quarter ended June 30, 2012 current accident year loss ratio was 72.4%.

The current accident year property loss ratio decreased 9.1% from 67.2% in the quarter ended June 30, 2012 to 58.1% in the quarter ended June 30, 2013.

The non-catastrophe loss ratio decreased 11.6% from 52.1% in the quarter ended June 30, 2012 to 40.5% in the quarter ended June 30, 2013. Non-catastrophe losses were \$11.0 million and \$11.8 million for the quarters ended June 30, 2013 and 2012, respectively.

The catastrophe loss ratio increased 2.5% from 15.1% in the quarter ended June 30, 2012 to 17.6% in the quarter ended June 30, 2013. Catastrophe losses were \$4.8 million and \$3.4 million for the quarters ended June 30, 2013 and 2012, respectively.

The current accident year casualty loss ratio increased 3.4% from 73.7% in the quarter ended June 30, 2012 to 77.1% in the quarter ended June 30, 2013. The increase was primarily driven by the impact of premium deficiencies noted above. Excluding the impact of premium deficiencies, the quarter ended June 30, 2012 casualty loss ratio was 78.1%.

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

In the second quarter of 2013, the Company reduced its prior accident year loss reserves by \$0.4 million, which primarily consisted of the following:

Property: A \$2.2 million reduction primarily driven by \$1.1 million of better than expected development from accident year 2012 catastrophes as well as lower than expected non-catastrophe severity from accident years 2010 and 2012.

General liability: A \$1.8 million reduction primarily due to better than expected emergence from accident years 2007 through 2011 partially offset by an increase to accident year 2012 due to higher than anticipated loss emergence.

Asbestos: A \$3.5 million increase primary related to policies written prior to 1990.

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In the second quarter of 2012, the Company reduced its prior accident year loss reserves by \$0.7 million, which primarily consisted of the following:

General liability: A \$0.6 million reduction primarily consisting of net reductions of \$2.9 million in accident years 2008 and prior due to continued favorable emergence in small business packages. The Company also decreased its reinsurance allowance by \$0.2 million in this line due to changes in its reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of \$2.5 million in accident years 2009 to 2011 primarily driven by loss emergence on certain construction defect claims.

Professional liability: A \$0.4 million reduction primarily related to recent favorable development on lawyer and real estate exposures.

Marine: A \$0.4 million increase primarily driven by unexpected loss emergence in protection and indemnity coverage in accident year 2011.

Net losses and loss adjustment expenses were \$30.6 million for the quarter ended June 30, 2013, compared with \$29.9 million for the quarter ended June 30, 2012, an increase of \$0.7 million or 2.5%. Excluding the impact of prior year adjustments, the current accident year net losses and loss adjustment expenses were \$31.0 million and \$30.6 million for the quarters ended June 30, 2013 and 2012, respectively. This increase is primarily attributable to the impact of premium deficiencies noted above. Excluding the impact of premium deficiencies, the quarter ended June 30, 2012 loss and loss adjustment expenses were \$30.8 million.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were \$20.7 million for the quarter ended June 30, 2013, compared with \$19.6 million for the quarter ended June 30, 2012, an increase of \$1.1 million or 5.5%. The increase is primarily due to the increase in earned premium volume as well as the impact of premium deficiencies noted above.

Expense and Combined Ratios

The expense ratio for the Company's Insurance Operations was 44.1% for the quarter ended June 30, 2013, compared with 45.1% for the quarter ended June 30, 2012. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The decrease in the expense ratio is primarily due to the increase in earned premium volume partially offset by the impact of premium deficiencies noted above. Excluding the impact of premium deficiencies, the quarter ended June 30, 2012 expense ratio would have been 45.8%.

The combined ratio for the Company's Insurance Operations was 109.4% for the quarter ended June 30, 2013, compared with 113.7% for the quarter ended June 30, 2012. The combined ratio is a non-GAAP financial measure and is the sum of the Company's loss and expense ratios. Excluding the impact of prior year adjustments, the combined ratio decreased from 115.4% for the quarter ended June 30, 2012 to 110.3% for the quarter ended June 30, 2013. Excluding the impact of premium deficiencies, the quarter ended June 30, 2012 combined ratio was 116.6%. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph for discussion of the decrease.

Loss from Segment

The factors described above resulted in a loss from the Company's Insurance Operations of \$4.1 million for the quarter ended June 30, 2013, compared to a loss of \$5.8 million for the quarter ended June 30, 2012.

Table of Contents**GLOBAL INDEMNITY PLC****Reinsurance Operations**

The components of income from the Company's Reinsurance Operations segment and corresponding underwriting ratios are as follows:

(Dollars in thousands)	Quarters Ended June 30,		Increase / (Decrease)	
	2013	2012	\$	%
Gross premiums written	\$ 22,366	\$ 15,261	\$ 7,105	46.6%
Net premiums written	\$ 21,959	\$ 15,261	\$ 6,698	43.9%
Net premiums earned	\$ 11,755	\$ 14,356	\$ (2,601)	(18.1%)
Other loss	(1)	(199)	198	99.5%
Total revenues	\$ 11,754	\$ 14,157	\$ (2,403)	(17.0%)
Losses and expenses:				
Net losses and loss adjustment expenses	4,316	6,287	(1,971)	(31.4%)
Acquisition costs and other underwriting expenses	3,786	4,161	(375)	(9.0%)
Income from segment	\$ 3,652	\$ 3,709	\$ (57)	(1.5%)
Underwriting Ratios:				
Loss ratio:				
Current accident year	39.1	43.1	(4.0)	
Prior accident year	(2.3)	0.7	(3.0)	
Calendar year loss ratio	36.8	43.8	(7.0)	
Expense ratio	32.2	29.0	3.2	
Combined ratio	69.0	72.8	(3.8)	

Premiums

Gross premiums written, which represent the amount received or to be received for reinsurance agreements written without reduction for reinsurance costs or other deductions, were \$22.4 million for the quarter ended June 30, 2013, compared with \$15.3 million for the quarter ended June 30, 2012, an increase of \$7.1 million or 46.6%. The increase was primarily due to several new treaties written during 2013. Wind River is primarily writing property treaties at the current time.

Net premiums written, which equal gross premiums written less ceded premiums written, were \$22.0 million for the quarter ended June 30, 2013, compared with \$15.3 million for the quarter ended June 30, 2012, an increase of \$6.7 million or 43.9%. The increase was primarily due to the increase in gross premiums written noted above.

Net premiums earned were \$11.8 million for the quarter ended June 30, 2013, compared with \$14.4 million for the quarter ended June 30, 2012, a decrease of \$2.6 million or 18.1%. The decrease was primarily due to exits of unprofitable treaties in previous years. Property net premiums earned for the quarters ended June 30, 2013 and 2012 were \$11.3 million and \$8.4 million, respectively. Casualty net premiums earned for the quarters ended June 30, 2013 and 2012 were \$0.5 million and \$6.0 million, respectively.

Other Loss

Other loss was \$0.001 million and \$0.2 million for the quarters ended June 30, 2013 and 2012, respectively. Other loss is comprised of foreign exchange gains and losses.

Net Losses and Loss Adjustment Expenses

The loss ratio for the Company's Reinsurance Operations was 36.8% for the quarter ended June 30, 2013 compared with 43.8% for the quarter ended June 30, 2012. The decrease is primarily due to runoff in 2012 of casualty treaties which were discontinued in 2011 partially offset by an increase in catastrophe activity in 2013. The loss ratio is a non-GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

The current accident year loss ratio decreased 4.0% from 43.1% for the quarter ended June 30, 2012 to 39.1% for the quarter ended June 30, 2013 primarily due to runoff in 2012 of casualty treaties which were discontinued in 2011 partially offset by an increase in property catastrophe activity in 2013. The property lines catastrophe loss ratio increased to 33.4% for the quarter ended June 30, 2013 from 14.6% for the quarter ended June 30, 2012.

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There was a decrease in net losses and loss adjustment expenses for prior accident years of \$0.3 million in the quarter ended June 30, 2013 which reduced the loss ratio by 2.3%, compared to an increase in net losses and loss adjustment expenses for prior accident years of \$0.1 million in the quarter ended June 30, 2012 which increased the loss ratio 0.7%.

Net losses and loss adjustment expenses were \$4.3 million for the quarter ended June 30, 2013, compared with \$6.3 million for the quarter ended June 30, 2012, a decrease of \$2.0 million or 31.4%. Excluding the impact of prior year adjustments, the current accident year net losses and loss adjustment expenses decreased from \$6.2 million for the quarter ended June 30, 2012 to \$4.6 million for the quarter ended June 30, 2013. This decrease is primarily attributable to the decrease in net earned premiums in 2013 and exits of unprofitable treaties in previous years.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were \$3.8 million for the quarter ended June 30, 2013, compared with \$4.2 million for the quarter ended June 30, 2012, a decrease of \$0.4 million or 9.0%. The decrease is primarily due to the decrease in earned premium volume. Excluding the impact of premium deficiencies, the quarter ended June 30, 2012 acquisition costs and other underwriting expenses would have been \$5.1 million.

Expense and Combined Ratios

The expense ratio for the Company's Reinsurance Operations was 32.2% for the quarter ended June 30, 2013, compared with 29.0% for the quarter ended June 30, 2012. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The increase is primarily due to the impact of premium deficiencies noted above. Excluding the impact of premium deficiencies, the quarter ended June 30, 2012 expense ratio would have been 35.2%.

The combined ratio for the Company's Reinsurance Operations was 69.0% for the quarter ended June 30, 2013, compared with 72.8% for the quarter ended June 30, 2012. The combined ratio is a non-GAAP financial measure and is the sum of the Company's loss and expense ratios. Excluding the impact of prior accident year adjustments, the combined ratio decreased from 72.1% for the quarter ended June 30, 2012 to 71.3% for the quarter ended June 30, 2013. Excluding the impact of premium deficiencies, the quarter ended June 30, 2012 combined ratio was 80.6%. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph for discussion of the decrease.

Income from Segment

The factors described above resulted in income from the Company's Reinsurance Operations of \$3.7 million for both of the quarters ended June 30, 2013 and June 30, 2012.

Unallocated Corporate Items

The following items are not allocated to the Company's Insurance Operations or Reinsurance Operations segments:

(Dollars in thousands)	Quarters Ended June 30,		Increase / (Decrease)	
	2013	2012	\$	%
Net investment income	\$ 9,765	\$ 11,071	\$ (1,306)	(11.8%)
Net realized investment gains	2,806	1,941	865	44.6%
Corporate and other operating expenses	(2,472)	(2,336)	136	5.8%
Interest expense	(1,181)	(1,470)	(289)	(19.7%)
Income tax benefit	224	2,497	(2,273)	(91.0%)

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Net Investment Income

Net investment income, which is gross investment income less investment expenses, was \$9.8 million for the quarter ended June 30, 2013, compared with \$11.1 million for the quarter ended June 30, 2012, a decrease of \$1.3 million or 11.8%.

Gross investment income, which excludes realized gains and losses, was \$10.9 million for the quarter ended June 30, 2013, compared with \$12.1 million for the quarter ended June 30, 2012, a decrease of \$1.3 million or 10.4%. The decrease was primarily due to a reduction in the Company's fixed income portfolio related to funding the share repurchase program in 2011 and 2012, repayment of debt, negative operating cash flow, and lower reinvestment yields.

Investment expenses were \$1.1 million for each of the quarters ended June 30, 2013 and June 30, 2012.

At June 30, 2013, the Company held agency mortgage-backed securities with a book value of \$194.1 million. Excluding the agency mortgage-backed securities, the average duration of the Company's fixed maturities portfolio was 2.2 years as of June 30, 2013 and June 30, 2012. Including cash and short-term investments, the average duration of the Company's fixed maturities portfolio, excluding agency mortgage-backed securities, was 2.0 years as of June 30, 2013, compared with 2.1 years as of June 30, 2012. Changes in interest rates can cause principal payments on certain investments to extend or shorten which can impact duration. At June 30, 2013, the Company's embedded book yield on its fixed maturities, not including cash, was 2.8% compared with 3.2% at June 30, 2012. The embedded book yield on the \$195.0 million of municipal bonds in the Company's portfolio was 2.9% at June 30, 2013, compared to an embedded book yield of 3.3% on the Company's municipal bond portfolio of \$210.7 million at June 30, 2012.

Net Realized Investment Gains

Net realized investment gains were \$2.8 million for the quarter ended June 30, 2013, compared with \$1.9 million for the quarter ended June 30, 2012. The net realized investment gains for 2013 consist primarily of net gains of \$3.8 million relative to its equity securities offset by other than temporary impairment losses of \$1.0 million. The net realized investment gains for 2012 consist primarily of net gains of \$1.4 million relative to the Company's fixed maturities and \$1.8 million relative to its equity securities, offset by other than temporary impairment losses of \$1.3 million.

See Note 3 of the notes to the consolidated financial statements in Item 1 of Part I of this report for an analysis of total investment return on a pre-tax basis for the quarters ended June 30, 2013 and 2012.

Corporate and Other Operating Expenses

Corporate and other operating expenses consist of outside legal fees, other professional fees, directors' fees, management fees, salaries and benefits for holding company personnel, development costs for new products, and taxes incurred which are not directly related to operations. Corporate and other operating expenses were \$2.5 million for the quarter ended June 30, 2013, compared with \$2.3 million for the quarter ended June 30, 2012, an increase of \$0.1 million or 5.8%.

Interest Expense

Interest expense was \$1.2 million and \$1.5 million for the quarters ended June 30, 2013 and 2012, respectively. This reduction was primarily due to a principal payment of \$18.0 million on the Company's senior notes payable made during July, 2012. See Note 13 of the notes to the consolidated financial statements in Item 8 of Part II of the Company's 2012 Annual Report on Form 10-K for details on the Company's debt.

Income Tax Benefit

The income tax benefit was \$0.2 million for the quarter ended June 30, 2013 compared to \$2.5 million for the quarter ended June 30, 2012. See Note 5 of the notes to the consolidated financial statements in Item 1 of Part I of this report for a comparison of income tax benefit between periods.

Table of Contents**GLOBAL INDEMNITY PLC*****Net Income***

The factors described above resulted in net income of \$8.7 million and \$9.6 million for the quarters ended June 30, 2013 and 2012, respectively, a decrease of \$0.9 million or 9.8%.

Six Months Ended June 30, 2013 Compared with the Six Months Ended June 30, 2012**Insurance Operations**

The components of income from the Company's Insurance Operations segment and corresponding underwriting ratios are as follows:

(Dollars in thousands)	Six Months Ended June 30,		Increase / (Decrease)	
	2013	2012	\$	%
Gross premiums written	\$ 112,967	\$ 100,205	\$ 12,762	12.7%
Net premiums written	\$ 104,015	\$ 86,780	\$ 17,235	19.9%
Net premiums earned	\$ 92,157	\$ 91,004	\$ 1,153	1.3%
Other income	329	313	16	5.1%
Total revenues	\$ 92,486	\$ 91,317	\$ 1,169	1.3%
Losses and expenses:				
Net losses and loss adjustment expenses	59,350	63,022	(3,672)	(5.8%)
Acquisition costs and other underwriting expenses(1)	41,081	39,018	2,063	5.3%
Loss from segment	\$ (7,945)	\$ (10,723)	\$ 2,778	25.9%
Underwriting Ratios:				
Loss ratio:				
Current accident year	67.9	71.6	(3.7)	
Prior accident year	(3.5)	(2.3)	(1.2)	
Calendar year loss ratio	64.4	69.3	(4.9)	
Expense ratio	44.6	42.9	1.7	
Combined ratio	109.0	112.2	(3.2)	

(1) Includes excise tax of \$482 and \$475 related to cessions from the Company's Insurance Operations to the Company's Reinsurance Operations for the six months ended June 30, 2013 and 2012, respectively.

Premiums

Gross premiums written, which represent the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions, were \$113.0 million for the six months ended June 30, 2013, compared with \$100.2 million for the six months ended

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June 30, 2012, an increase of \$12.8 million or 12.7%. The increase was primarily driven by growth in the Company's small business line of \$8.5 million, as well as growth in the property brokerage, programs and other lines. Growth was driven by both new business and pricing increases.

Net premiums written, which equal gross premiums written less ceded premiums written, were \$104.0 million for the six months ended June 30, 2013, compared with \$86.8 million for the six months ended June 30, 2012, an increase of \$17.2 million or 19.9%. The increase was primarily due to the increase in gross premiums written and a reduction of ceded premiums written as a result of an increase in retention on direct business. The ratio of net premiums written to gross premiums written was 92.1% for the six months ended June 30, 2013 and 86.6% for the six months ended June 30, 2012, an increase of 5.5 points.

Net premiums earned were \$92.2 million for the six months ended June 30, 2013, compared with \$91.0 million for the six months ended June 30, 2012, an increase of \$1.2 million or 1.3%. The increase was primarily due to increases in net premiums written within the previous year. Property net premiums earned for the six months ended June 30, 2013 and 2012 were \$53.1 million and \$46.2 million, respectively. Casualty net premiums earned for the six months ended June 30, 2013 and 2012 were \$39.1 million and \$44.8 million, respectively.

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The Company's Insurance Operations' gross written, net written, and net earned premiums by product line are as follows:

(Dollars in thousands)	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Gross Written	Net Written	Net Earned	Gross Written	Net Written	Net Earned
Small Business Binding Authority	\$ 51,132	\$ 47,837	\$ 44,273	\$ 42,591	\$ 39,676	\$ 38,989
Property Brokerage	22,367	19,776	13,891	20,328	13,811	10,865
Programs	29,896	27,412	25,725	27,824	25,375	24,013
Other	9,572	8,990	8,268	9,462	7,918	17,137
Total	\$ 112,967	\$ 104,015	\$ 92,157	\$ 100,205	\$ 86,780	\$ 91,004

Other Income

Other income was \$0.3 million for both of the six months ended June 30, 2013 and 2012, respectively. Other income is primarily comprised of fee income.

Net Losses and Loss Adjustment Expenses

The loss ratio for the Company's Insurance Operations was 64.4% for the six months ended June 30, 2013 compared with 69.3% for the six months ended June 30, 2012. The decrease in the loss ratio is driven by better performance in the property lines. The loss ratio is a non-GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

The current accident year loss ratio for the six months ended June 30, 2013 was 67.9%, a decrease of 3.7% from 71.6% for the six months ended June 30, 2012. The quarter ended June 30, 2012 net losses and acquisition costs were lower than they otherwise would have been as a result of premium deficiencies recorded in 2011. Excluding the impact of premium deficiencies, the six months ended June 30, 2012 current accident year loss ratio was 72.9%.

The current accident year property loss ratio decreased 7.0% from 69.8% in the six months ended June 30, 2012 to 62.8% in the six months ended June 30, 2013.

The non-catastrophe loss ratio decreased 8.3% from 58.4% in the six months ended June 30, 2012 to 50.1% in the six months ended June 30, 2013. Non-catastrophe losses were \$26.6 million and \$27.0 million for the six months ended June 30, 2013 and 2012, respectively.

The catastrophe loss ratio increased 1.2% from 11.5% in the six months ended June 30, 2012 to 12.7% in the six months ended June 30, 2013. Catastrophe losses were \$6.7 million and \$5.3 million for the six months ended June 30, 2013 and 2012, respectively. Catastrophe losses in 2013 were primarily made up of Midwest storms.

The current accident year casualty loss ratio increased 1.4% from 73.4% in the six months ended June 30, 2012 to 74.8% in the six months ended June 30, 2013. The increase was primarily driven by the impact of premium deficiencies noted above. Excluding the impact of premium deficiencies, the six months ended June 30, 2012 casualty loss ratio was 80.8%.

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In the first six months of 2013, the Company reduced its prior accident year loss reserves by \$3.2 million, which primarily consisted of the following:

Property: A \$5.0 million reduction primarily driven by better than expected development from accident year 2012 catastrophes as well as lower than expected non-catastrophe severity from accident years 2008 through 2012.

General liability: A \$1.8 million reduction primarily due to better than expected emergence from accident years 2007 through 2011 partially offset by an increase to accident year 2012 due to higher than anticipated loss emergence.

Asbestos: A \$3.5 million increase primary related to policies written prior to 1990.

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GLOBAL INDEMNITY PLC

For the first six months of 2012, the Company reduced its prior accident year loss reserves by \$2.1 million, which primarily consisted of the following:

General liability: A \$3.1 million reduction primarily consisting of net reductions of \$5.5 million in accident years 2008 and prior due to continued favorable emergence. Incurred losses for these years have developed at a rate lower than the Company's historical averages. The Company also decreased its reinsurance allowance by \$0.2 million in this line due to changes in its reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of \$2.6 million in accident years 2009 through 2011 primarily driven by loss emergence on certain construction defect claims.

Marine: A \$0.9 million increase primarily related to accident year 2011 due to greater than expected loss emergence on hull claims and protection and indemnity claims.

Property: A \$0.5 million increase primarily related to accident year 2011 due to greater than expected loss emergence on a large sinkhole claim.

Net losses and loss adjustment expenses were \$59.4 million for the six months ended June 30, 2013, compared with \$63.0 million for the six months ended June 30, 2012, a decrease of \$3.7 million or 5.8%. Excluding the impact of prior year adjustments, the current accident year net losses and loss adjustment expenses were \$62.6 million and \$65.1 million for the six months ended June 30, 2013 and 2012, respectively. This decrease is primarily attributable to better performance in the property lines.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were \$41.1 million for the six months ended June 30, 2013, compared with \$39.0 million for the six months ended June 30, 2012, an increase of \$2.1 million or 5.3%. The increase is primarily due to the increase in earned premium volume and the impact of premium deficiencies as noted above. Excluding the impact of premium deficiencies, the six months ended June 30, 2012 acquisition costs and other underwriting expenses would have been \$40.0 million.

Expense and Combined Ratios

The expense ratio for the Company's Insurance Operations was 44.6% for the six months ended June 30, 2013, compared with 42.9% for the six months ended June 30, 2012. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The increase in the expense ratio is primarily due to the impact of premium deficiencies noted above. Excluding the impact of premium deficiencies, the six months ended June 30, 2012 expense ratio would have been 44.0%.

The combined ratio for the Company's Insurance Operations was 109.0% for the six months ended June 30, 2013, compared with 112.2% for the six months ended June 30, 2012. The combined ratio is a non-GAAP financial measure and is the sum of the Company's loss and expense ratios. Excluding the impact of prior year adjustments, the combined ratio decreased from 114.5% for the six months ended June 30, 2012 to 112.5% for the six months ended June 30, 2013. Excluding the impact of premium deficiencies, the six months ended June 30, 2012 combined ratio was 116.9%. See discussion of loss ratio included in "Net Losses and Loss Adjustment Expenses" above and discussion of expense ratio in preceding paragraph for a discussion of the decrease.

Loss from Segment

The factors described above resulted in a loss from the Company's Insurance Operations of \$7.9 million for the six months ended June 30, 2013, compared to a loss of \$10.7 million for the six months ended June 30, 2012.

Table of Contents**GLOBAL INDEMNITY PLC****Reinsurance Operations**

The components of income from the Company's Reinsurance Operations segment and corresponding underwriting ratios are as follows:

(Dollars in thousands)	Six Months Ended June 30,		Increase / (Decrease)	
	2013	2012	\$	%
Gross premiums written	\$ 46,217	\$ 25,185	\$ 21,032	83.5%
Net premiums written	\$ 45,809	\$ 24,636	\$ 21,173	85.9%
Net premiums earned	\$ 22,510	\$ 31,325	\$ (8,815)	(28.1%)
Other loss	(28)	(705)	677	(96.0%)
Total revenues	\$ 22,482	\$ 30,620	\$ (8,138)	(26.6%)
Losses and expenses:				
Net losses and loss adjustment expenses	7,362	15,145	(7,783)	(51.4%)
Acquisition costs and other underwriting expenses	7,868	7,909	(41)	(0.5%)
Income from segment	\$ 7,252	\$ 7,566	\$ (314)	(4.2%)
Underwriting Ratios:				
Loss ratio:				
Current accident year	33.4	48.3	(14.9)	
Prior accident year	(0.6)		(0.6)	
Calendar year loss ratio	32.8	48.3	(15.5)	
Expense ratio	35.0	25.2	9.8	
Combined ratio	67.8	73.5	(5.7)	

Premiums

Gross premiums written, which represent the amount received or to be received for reinsurance agreements written without reduction for reinsurance costs or other deductions, were \$46.2 million for the six months ended June 30, 2013, compared with \$25.2 million for the six months ended June 30, 2012, an increase of \$21.0 million or 83.5%. The increase was primarily due to several new treaties written during 2013. Wind River is primarily writing property treaties at the current time.

Net premiums written, which equal gross premiums written less ceded premiums written, were \$45.8 million for the six months ended June 30, 2013, compared with \$24.6 million for the six months ended June 30, 2012, an increase of \$21.2 million or 85.9%. The increase was primarily due to the increase in gross premiums written noted above.

Net premiums earned were \$22.5 million for the six months ended June 30, 2013, compared with \$31.3 million for the six months ended June 30, 2012, a decrease of \$8.8 million or 28.1%. The decrease was primarily due to exits of unprofitable treaties in previous years. Property net premiums earned for the six months ended June 30, 2013 and 2012 were \$21.5 million and \$16.1 million, respectively. Casualty net premiums earned for the six months ended June 30, 2013 and 2012 were \$1.1 million and \$15.2 million, respectively.

Other Loss

The Company recognized losses of \$0.03 million and \$0.7 million for the six months ended June 30, 2013 and 2012, respectively. Other income is comprised of foreign exchange gains and losses.

Net Losses and Loss Adjustment Expenses

The loss ratio for the Company's Reinsurance Operations was 32.8% for the six months ended June 30, 2013 compared with 48.3% for the six months ended June 30, 2012. The decrease is primarily due to runoff in 2012 of casualty treaties which were discontinued in 2011 partially offset by an increase in catastrophe activity in 2013. The loss ratio is a non-GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

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The current accident year loss ratio decreased 14.9% from 48.3% for the six months ended June 30, 2012 to 33.4% for the six months ended June 30, 2013 primarily due to runoff in 2012 of casualty treaties which were discontinued in 2011 partially offset by an increase in property catastrophe activity in 2013. The property lines catastrophe loss ratio increased to 29.4% for the six months ended June 30, 2013 from 13.7% for the six months ended June 30, 2012.

There was a decrease in net losses and loss adjustment expenses for prior accident years of \$0.1 million in the six months ended June 30, 2013 which reduced the loss ratio by 0.6%. There were no changes in net losses and loss adjustment expenses for prior accident years in the six months ended June 30, 2012.

Net losses and loss adjustment expenses were \$7.4 million for the six months ended June 30, 2013, compared with \$15.1 million for the six months ended June 30, 2012, a decrease of \$7.8 million or 51.4%. Excluding the impact of prior year adjustments, the current accident year net losses and loss adjustment expenses decreased from \$15.1 million for the six months ended June 30, 2012 to \$7.5 million for the six months ended June 30, 2013. This decrease is primarily attributable to the decrease in net earned premiums in 2013 and exits of unprofitable treaties in previous years.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were \$7.9 million for both of the six months ended June 30, 2013 and 2012. The six months ended June 30, 2012 acquisition costs and other underwriting expenses were impacted by premium deficiencies recorded in 2011 which resulted in the 2012 costs being lower than they otherwise would have been. Excluding the impact of the premium deficiencies, the six months ended June 30, 2012 acquisition costs and other underwriting expenses would have been \$10.4 million. The decrease in 2013 is primarily due to the decrease in earned premium volume.

Expense and Combined Ratios

The expense ratio for the Company's Reinsurance Operations was 35.0% for the six months ended June 30, 2013, compared with 25.2% for the six months ended June 30, 2012. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The increase is primarily due to the impact of premium deficiencies as noted above as well as an increase in profit commissions on property business. Excluding the impact of premium deficiencies, the six months ended June 30, 2012 expense ratio would have been 33.2%.

The combined ratio for the Company's Reinsurance Operations was 67.8% for the six months ended June 30, 2013, compared with 73.5% for the six months ended June 30, 2012. The combined ratio is a non-GAAP financial measure and is the sum of the Company's loss and expense ratios. Excluding the impact of prior accident year adjustments, the combined ratio decreased from 73.5% for the six months ended June 30, 2012 to 68.4% for the six months ended June 30, 2013. Excluding the impact of premium deficiencies, the six months ended June 30, 2012 combined ratio was 83.6%. See discussion of loss ratio included in *Net Losses and Loss Adjustment Expenses* above and discussion of expense ratio in preceding paragraph for discussion of the decrease.

Income from Segment

The factors described above resulted in income from the Company's Reinsurance Operations of \$7.3 million for the six months ended June 30, 2013 compared to \$7.6 million for the six months ended June 30, 2012, a decrease of \$0.3 million.

Unallocated Corporate Items

The following items are not allocated to the Company's Insurance Operations or Reinsurance Operations segments:

(Dollars in thousands)	Six Months Ended June 30,		Increase / (Decrease)	
	2013	2012	\$	%

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Net investment income	\$ 19,799	\$ 22,488	\$ (2,689)	(12.0%)
Net realized investment gains	8,563	3,702	4,861	131.3%
Corporate and other operating expenses	(4,817)	(4,824)	(7)	(0.1%)
Interest expense	(2,354)	(2,948)	(594)	(20.1%)
Income tax benefit	531	5,205	(4,674)	(89.8%)

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GLOBAL INDEMNITY PLC

Net Investment Income

Net investment income, which is gross investment income less investment expenses, was \$19.8 million for the six months ended June 30, 2013, compared with \$22.5 million for the six months ended June 30, 2012, a decrease of \$2.7 million or 12.0%.

Gross investment income, which excludes realized gains and losses, was \$22.0 million for the six months ended June 30, 2013, compared with \$24.8 million for the six months ended June 30, 2012, a decrease of \$2.7 million or 11.1%. The decrease was primarily due to a reduction in the Company's fixed income portfolio related to funding the share repurchase program in 2011 and 2012, repayment of debt, negative operating cash flow, and lower reinvestment yields.

Investment expenses were \$2.2 million for the six months ended June 30, 2013, compared with \$2.3 million for the six months ended June 2012, a decrease of \$0.1 million or 2.2%.

Please see the discussion of Net Investment Income in the quarter to quarter comparison above for a discussion of average duration and embedded book yield.

Net Realized Investment Gains

Net realized investment gains were \$8.6 million for the six months ended June 30, 2013, compared with \$3.7 million for the six months ended June 30, 2012. The net realized investment gains for 2013 consist primarily of net gains of \$0.4 million relative to the Company's fixed maturities and \$9.3 million relative to its equity securities, offset by other than temporary impairment losses of \$1.1 million. The net realized investment gains for 2012 consist primarily of net gains of \$1.7 million relative to the Company's fixed maturities and \$5.1 million relative to its equity securities, offset by other than temporary impairment losses of \$3.1 million.

See Note 3 of the notes to the consolidated financial statements in Item 1 of Part I of this report for an analysis of total investment return on a pre-tax basis for the six months ended June 30, 2013 and 2012.

Corporate and Other Operating Expenses

Corporate and other operating expenses were \$4.8 million for both of the six months ended June 30, 2013 and 2012.

Interest Expense

Interest expense was \$2.4 million and \$2.9 million for the six months ended June 30, 2013 and 2012, respectively. This reduction was primarily due to a principal payment of \$18.0 million on the Company's senior notes payable made during July, 2012. See Note 13 of the notes to the consolidated financial statements in Item 8 of Part II of the Company's 2012 Annual Report on Form 10-K for details on the Company's debt.

Income Tax Benefit

The income tax benefit was \$0.5 million for the six months ended June 30, 2013 compared to \$5.2 million for the six months ended June 30, 2012. See Note 5 of the notes to the consolidated financial statements in Item 1 of Part I of this report for a comparison of income tax expense between periods.

Net Income

The factors described above resulted in net income of \$21.0 million and \$20.5 million for the six months ended June 30, 2013 and 2012, respectively, an increase of \$0.6 million or 2.8%.

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Liquidity and Capital Resources

Sources and Uses of Funds

Global Indemnity is a holding company. Its principal asset is its ownership of the shares of its direct and indirect subsidiaries, including those of its U.S. insurance companies: United National Insurance Company, Diamond State Insurance Company, United National Specialty Insurance Company, United National Casualty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company, and Penn-Patriot Insurance Company; and its Reinsurance Operations: Wind River Reinsurance.

The principal source of cash that Global Indemnity needs to meet its short term and long term liquidity needs, including the payment of corporate expenses and share repurchases, includes dividends, other permitted disbursements from its direct and indirect subsidiaries, reimbursement for equity awards granted to employees and intercompany borrowings. The principal sources of funds at these direct and indirect subsidiaries include underwriting operations, investment income, and proceeds from sales and redemptions of investments. Funds are used principally by these operating subsidiaries to pay claims and operating expenses, to make debt payments, to purchase investments, and to make dividend payments. The future liquidity of Global Indemnity is dependent on the ability of its subsidiaries to pay dividends. Global Indemnity has no planned capital expenditures that could have a material impact on its short-term or long-term liquidity needs.

Global Indemnity's U.S. insurance companies are restricted by statute as to the amount of dividends that they may pay without the prior approval of regulatory authorities. The dividend limitations imposed by state laws are based on the statutory financial results of each insurance company within the Insurance Operations that are determined by 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 in Item 1 of Part I of the Company's 2012 Annual Report on Form 10-K. Key differences relate to, among other items, deferred acquisition costs, limitations on deferred income taxes, reserve calculation assumptions and surplus notes. The U.S. insurance companies did not declare or pay any dividends during the quarter or six months ended June 30, 2013.

For 2013, the Company believes that Wind River Reinsurance, including distributions it could receive from its subsidiaries, should have sufficient liquidity and solvency to pay dividends. Wind River Reinsurance is prohibited, without the approval of the Bermuda Monetary Authority (BMA), from reducing by 15% or more its total statutory capital 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. See Regulation Bermuda Insurance Regulation in Item 1 of Part I of the Company's 2012 Annual Report on Form 10-K. Wind River Reinsurance did not declare or pay any dividends during the quarter or six months ended June 30, 2013.

Cash Flows

Sources of operating funds consist primarily of net premiums written and investment income. Funds are used primarily to pay claims and operating expenses and to purchase investments.

The Company's reconciliation of net income to cash provided from operations is generally influenced by the following:

the fact that the Company collects premiums, net of commissions, in advance of losses paid;

the timing of the Company's settlements with its reinsurers; and

the timing of the Company's loss payments.

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Net cash used for operating activities was \$6.7 million for the six months ended June 30, 2013, compared with net cash used for operating activities of \$23.1 million for the six months ended June 30, 2012. The increase in operating cash flows of approximately \$16.4 million from the prior year was primarily a net result of the following items:

(Dollars in thousands)	Six Months Ended June 30,		Change
	2013	2012	
Net premiums collected	\$ 122,852	\$ 104,744	\$ 18,108
Net losses paid	(91,728)	(98,368)	6,640
Underwriting and corporate expenses	(62,551)	(53,187)	(9,364)
Net investment income	23,303	26,220	(2,917)
Net federal income taxes recovered (paid)	3,767	(221)	3,988
Interest paid	(2,336)	(2,669)	333
Other		385	(385)
Net cash used for operating activities	\$ (6,693)	\$ (23,096)	\$ 16,403

See the consolidated statement of cash flows in the consolidated financial statements in Item 1 of Part I of this report for details concerning the Company's investing and financing activities.

Liquidity

There have been no material changes to the Company's liquidity during the quarter ended June 30, 2013. Please see Item 7 of Part II in the Company's 2012 Annual Report on Form 10-K for information regarding the Company's liquidity.

Capital Resources

On July 19, 2013, the Company paid the entire outstanding principal amount on its guaranteed senior notes. The payment of \$58.6 million consisted of principal of \$54.0 million and interest of \$4.6 million, which included a make-whole provision of \$2.9 million. This payment was funded by borrowing \$60.0 million pursuant to a daily credit margin borrowing facility with a borrowing rate that is tied to LIBOR and is currently less than 1%. Approximately \$75.0 million in collateral was deposited to support the borrowing. The amount borrowed against the margin account may fluctuate as routine investment transactions, such as dividends received, investment income received, maturities and pay-downs, impact cash balances. The borrowing is subject to maintenance margin, which is a minimum account balance that must be maintained. A decline in market conditions could require an additional deposit of collateral. The margin facility contains customary events of default, including, without limitation, insolvency, failure to make required payments, failure to comply with any representations or warranties, failure to adequately assure future performance, and failure of a guarantor to perform under its guarantee.

Other than the item discussed in the paragraph above, there have been no material changes to the Company's capital resources during the quarter ended June 30, 2013. Please see Item 7 of Part II in the Company's 2012 Annual Report on Form 10-K for information regarding the Company's capital resources.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements other than the Trust Preferred Securities and floating rate common securities discussed in the Capital Resources section in Item 7 of Part II of the Company's 2012 Annual Report on Form 10-K.

Cautionary Note Regarding Forward-Looking Statements

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Some of the statements under Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report may include forward-looking statements that reflect the Company's current views with respect to future events and financial performance that are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as believe, expect, may, will, should, project, plan, seek, intend, or anticipate or the negative thereof or combinations thereof, and include discussions of strategy, financial projections and estimates and their underlying assumptions, statements regarding plans, objectives, expectations or consequences of identified transactions or natural disasters, and statements about the future performance, operations, products and services of the companies.

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The Company's business and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: (1) the ineffectiveness of the Company's business strategy due to changes in current or future market conditions; (2) the effects of competitors' pricing policies, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products; (3) greater frequency or severity of claims and loss activity than the Company's underwriting, reserving or investment practices have anticipated; (4) decreased level of demand for the Company's insurance products or increased competition due to an increase in capacity of property and casualty insurers; (5) risks inherent in establishing loss and loss adjustment expense reserves; (6) uncertainties relating to the financial ratings of the Company's insurance subsidiaries; (7) uncertainties arising from the cyclical nature of the Company's business; (8) changes in the Company's relationships with, and the capacity of, its general agents, brokers, insurance companies and reinsurance companies from which the Company derives its business; (9) the risk that the Company's reinsurers may not be able to fulfill obligations; (10) investment performance and credit risk; (11) new tax legislation or interpretations that could lead to an increase in the Company's tax burden; (12) uncertainties relating to governmental and regulatory policies, both domestically and internationally; (13) foreign currency fluctuations; (14) the impact of catastrophic events; (15) the Company's subsidiaries' ability to pay dividends; and (16) uncertainties relating to ongoing or future litigation matters.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are set forth in "Risk Factors" in Item 1A and elsewhere in the Company's 2012 Annual Report on Form 10-K. The Company's forward-looking statements speak only as of the date of this report or as of the date they were made. The Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Global sovereign markets sold off sharply during the quarter, and US credit spreads generally widened as speculation that the Fed would cut stimulus sooner than expected roiled financial markets. The US Treasury curve steepened as long-term rates rose more than short rates. The 10-year Treasury yield rose 64 basis points to end the quarter at 2.49%, the highest level since August 2011. Globally, the major credit sectors posted negative absolute returns driven by rising rates, while performance relative to governments was mixed.

The investment grade fixed income portfolio continues to maintain high quality with an AA- average rating and a low duration of 2.4 years. Portfolio purchases were focused with Agency MBS, Commercial MBS, Taxable Municipal Securities, and Asset Backed Securities. These purchases were funded primarily through cash, maturities, and pay-downs as well as the sale of select Agency MBS pass-throughs and investment grade corporate bonds.

During the second quarter, the portfolio's allocation to investment grade credit decreased, as seasoned issues rolled out of the portfolio. The Company continues to favor the credit sector as fundamentals remain positive, and valuations are more attractive post the May/June sell-off.

There have been no other material changes to the Company's market risk since December 31, 2012. Please see Item 7A of Part II in the Company's 2012 Annual Report on Form 10-K for information regarding the Company's market risk.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its

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Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2013. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2013, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Controls

During the quarter ended June 30, 2013 there have been no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II-OTHER INFORMATION

Item 1. Legal Proceedings

The Company is, from time to time, involved in various legal proceedings in the ordinary course of business. The Company maintains insurance and reinsurance coverage for 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 1A. Risk Factors

The Company's results of operations and financial condition are subject to numerous risks and uncertainties described in Item 1A of Part I in the Company's 2012 Annual Report on Form 10-K, filed with the SEC on March 15, 2013. The risk factors identified therein have not materially changed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company's Share Incentive Plan allows employees to surrender the Company's A ordinary shares as payment for the tax liability incurred upon the vesting of restricted stock that was issued under the Plan. There were 507 shares purchased from the Company's employees during the quarter ended June 30, 2013. All A ordinary shares purchased from employees by the Company are held as treasury stock and recorded at cost.

See Note 7 to the consolidated financial statements in Item 1 of Part I of this report for tabular disclosure of the Company's share repurchases by month.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

- 3.1+ Memorandum and Articles of Association of Global Indemnity plc.
- 10.1+ Amended and Restated Institutional Account Agreement dated as of June 7, 2013.
- 31.1+ Certification of Chief Executive Officer pursuant to Rule 13a-14 (a) / 15d-14 (a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2+ Certification of Chief Financial Officer pursuant to Rule 13a-14 (a) / 15d-14 (a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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- 32.1+ Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2+ Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.1+ The following financial information from Global Indemnity plc's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012; (ii) Consolidated Statements of Operations for the quarters and six months ended June 30, 2013 and 2012; (iii) Consolidated Statements of Comprehensive Income for the quarters and six months ended June 30, 2013 and 2012; (iv) Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2013 and the year ended December 31, 2012; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012; and (vi) Notes to Consolidated Financial Statements.

+ Filed or furnished herewith, as applicable.

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GLOBAL INDEMNITY PLC

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GLOBAL INDEMNITY PLC

Registrant

August 9, 2013
Date: August 9, 2013

By: /s/ Thomas M. McGeehan
Thomas M. McGeehan
Chief Financial Officer
(Authorized Signatory and Principal Financial and Accounting
Officer)