

Global Indemnity plc
Form 10-K
March 15, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2012

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)

Registrant's telephone number, including area code: 353 (0) 1 649 2000

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

Title of Each Class	Name of Exchange on Which Registered
Common A Ordinary shares, \$0.0001 Par Value	The Nasdaq Global Select Market

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

NONE

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

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the common equity held by non-affiliates of the registrant, computed by reference to the price of the registrant's A ordinary shares as of the last business day of the registrant's most recently completed second fiscal quarter (based on the last reported sale price on the Nasdaq Global Select Market as of such date), was \$237,029,875. There are no B ordinary shares held by non-affiliates of the registrant.

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As of March 8, 2013, the registrant had outstanding 13,030,938 A ordinary shares and 12,061,370 B ordinary shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to the 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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PART I

Item 1. BUSINESS

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

History

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 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 GBLL.

General

Global Indemnity, one of the leading specialty property and casualty insurers in the industry, provides its insurance products across a full distribution network binding authority, program, brokerage, and reinsurance. The Company manages the distribution of these products in two segments: (a) 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 (b) Reinsurance Operations, which includes the operations of Wind River Reinsurance Company, Ltd. (Wind River Reinsurance).

Business Segments

See Note 21 of the notes to consolidated financial statements in Item 8 of Part II of this report for gross and net premiums written, income and total assets of each operating segment for the years ended December 31, 2012, 2011 and 2010. For a discussion of the variances between years, see *Results of Operations* in Item 7 of Part II of this report.

Insurance Operations

The Company's United States based Insurance Operations distribute property and casualty insurance products and operate predominantly in the excess and surplus lines marketplace. Its insurance products target specific, defined groups of insureds with customized coverage to meet their needs. To manage operations, the Insurance Operations segment differentiates its products by product classification. These product classifications are as follows:

Penn-America distributes property and general liability products for small commercial businesses through a select network of wholesale general agents with specific binding authority;

United National distributes property, general liability, and professional lines products through program administrators with specific binding authority; and

Diamond State distributes property, casualty, and professional lines products through wholesale brokers that are underwritten by the Company's personnel and selected brokers with specific binding authority.

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

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These product classifications comprise the Insurance Operations business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage. The Insurance Operations provide property, casualty, and professional liability products utilizing customized guidelines, rates, and forms tailored to the Company's risk and underwriting philosophy. The Insurance Operations are licensed to write on a surplus lines (non-admitted) basis and/or an admitted basis in all 50 U.S. States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, which provides them with flexibility in designing products and programs, and in determining rates to meet emerging risks and discontinuities in the marketplace. In 2012, gross premiums written were \$201.8 million compared to \$229.1 million for 2011.

The Company distributes its insurance products through a group of approximately 100 professional wholesale general agencies that have specific 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 Insurance Operations are rated A (Excellent) by A.M. Best, which assigns credit ratings to insurance companies transacting business in the United States. A (Excellent) is the third highest rating of sixteen rating categories. These ratings are based upon factors of concern to policyholders, such as capital adequacy, loss reserve adequacy, and overall operating performance, and are not directed to the protection of investors.

Reinsurance Operations

The Company's Reinsurance Operations segment provides reinsurance solutions through brokers, primary writers, including insurance and reinsurance companies, and program managers 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 also provides quota share and stop-loss reinsurance to the Company's Insurance Operations. In 2012, gross premiums written from third parties were \$42.3 million compared to \$78.8 million for 2011.

As part of the aforementioned reinsurance that Wind River Reinsurance provides to the Company's Insurance Operations, the Insurance Operations cede 50% of their net unearned premiums, plus 50% of the net retained insurance liability of all new and renewal business to Wind River Reinsurance under a quota share reinsurance agreement. Wind River Reinsurance also provides stop-loss protection for the Insurance Operations in a loss corridor from 75% through 95%.

Wind River Reinsurance is rated A (Excellent) by A.M. Best.

Available Information

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

Recent Trends in the Industry

The property and casualty insurance industry has historically been a cyclical industry. During periods of reduced underwriting capacity, which is characterized by a shortage of capital and reduced competition, underwriting results are generally more favorable for insurers due to more favorable policy terms and conditions and higher rate levels. During periods of excess underwriting capacity, which is characterized by an abundance of capital and increased competition, underwriting results are generally less favorable for insurers due to an expansion of policy terms and conditions and lower rate levels. Historically, several factors have affected the level of

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underwriting capacity, including industry losses, catastrophes, changes in legal and regulatory guidelines, investment results, and the ratings and financial strength of competitors. As underwriting capacity increases, the standard insurance markets begin to expand their risk selection criteria to include risks that have typically been placed in the non-standard excess and surplus lines market. This tends to shrink the demand for insurance coverage from insurers that are focused on writing in the excess and surplus line marketplace, such as Global Indemnity.

Currently, the Company believes it is in a period of excess underwriting capacity. Rates remained relatively flat in 2012. Some markets the Company operates in have begun to see moderate rate increases, while others have continued to see declines. The industry as a whole continues to have excess capital capacity which keeps the market competitive; however pressure on return on investment and the continued low interest rate environment appears to have stabilized the market. Slow economic recovery in the United States has kept the insurance industry from seeing more significant rate increases. However, there have been signs that certain markets may begin to see further rate increases in the near future.

For property and casualty reinsurance and insurance companies to generate an acceptable return on capital in the current interest rate environment, companies are focusing on generating acceptable underwriting returns. The industry is making increased use of risk management tools to adequately compensate for the risks being written and identify profitable markets to focus on, while moving away from unprofitable niches. The Company believes the industry continues to focus on investment yields and the credit-worthiness of investment portfolios, as well as using capital capacity for strategic acquisitions to build future growth.

The Federal Funds rate remains at extremely low levels driving low investment yields on short-term and overnight investments. Given low interest rates for Federal Funds and current yields on investment grade fixed income securities, the Company seeks to position its investment portfolio to protect against a rising interest rate environment by including fixed maturity investments with low durations and strategic investment in floating rate corporate loans. The Company's fixed income portfolio continues to be biased toward high quality assets with an average rating of AA-. The Company's corporate loans portfolio is primarily made up of investments which are typically below investment grade; however they provide a higher return and shorter duration.

Excess and Surplus Lines Market

The Company's Insurance Operations operate in the excess and surplus lines market. The excess and surplus lines market differs significantly from the standard property and casualty insurance market. In the standard property and casualty insurance market, insurance rates and forms are highly regulated; products and coverage are largely uniform and have relatively predictable exposures. In the standard market, policies must be written by insurance companies that are admitted to transact business in the state in which the policy is issued. As a result, in the standard property and casualty insurance market, insurance companies tend to compete for customers primarily on the basis of price, coverage, value-added service, and financial strength. In contrast, the excess and surplus lines market provides coverage for businesses that often do not fit the underwriting criteria of an insurance company operating in the standard markets due to their relatively greater unpredictable loss patterns and unique niches of exposure requiring rate and policy form flexibility. Without the excess and surplus lines market, certain businesses would have to self-insure their exposures, or seek coverage outside the U.S. market.

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

The excess underwriting capacity in the standard property and casualty insurance industry is impacting the excess and surplus lines market as standard insurers continue to search for acceptable risks in the excess marketplace. The excess and surplus market is also being impacted by companies who choose to self-insure their

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risks rather than purchase third-party insurance. This has resulted in lower demand and increased competition for premium in recent years in the markets in which the Company operates. However, the Company is beginning to see rate increases in certain products.

Within the excess and surplus lines market, the Company writes business on both a specialty admitted and surplus lines basis. Surplus lines business accounts for approximately 68.8% of the business that the Company's Insurance Operations writes, while specialty admitted business accounts for the remaining 31.2%.

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

Reinsurance Market

The Company's Wind River Reinsurance subsidiary operates in the reinsurance market. The reinsurance markets face many of the same issues confronted with the primary insurance markets discussed above, including excess capital capacity, low investment returns and increased pressure on generating acceptable return on investment. The reinsurance industry as a whole remains stable; however, reinsurance coverage for certain products have begun to see pricing increases as the primary market shows signs of growth in certain niche products. Wind River Reinsurance continues to cautiously deploy and manage its capital while seeking to position itself as a niche reinsurance solution provider.

With significant catastrophes in recent years, pricing on catastrophe reinsurance has risen as companies look to generate acceptable levels of return. Wind River Reinsurance 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.

Products and Product Development

The Company's Insurance Operations distribute property and casualty insurance products and operate predominantly in the excess and surplus lines marketplace. To manage its operations, the Company seeks to differentiate its products by product classification. See Insurance Operations above for a description of these product classifications. The Company believes it has significant flexibility in designing products, programs, and in determining rates to meet the needs of the marketplace.

The Company's Reinsurance Operations offer third party treaty reinsurance for excess and surplus lines carriers, specialty property and casualty insurance companies and U.S. regional insurance writers. The Company's Reinsurance Operations also provide reinsurance to its Insurance Operations in the form of quota share and stop-loss arrangements.

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

(Dollars in thousands)	For the Years Ended December 31,					
	2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent
Florida	\$ 28,738	11.8%	\$ 26,815	8.7%	\$ 28,072	8.1%
California	22,277	9.1	30,708	10.0	31,215	9.0
Texas	21,554	8.8	22,680	7.4	22,133	6.4
New York	14,876	6.1	14,711	4.8	16,009	4.6
New Jersey	8,529	3.5	7,359	2.3	8,582	2.5
Massachusetts	8,291	3.4	7,751	2.5	9,181	2.7
Louisiana	7,579	3.1	12,658	4.1	10,981	3.2
Pennsylvania	6,496	2.7	7,408	2.4	9,903	2.9
Illinois	6,130	2.5	7,440	2.4	8,687	2.5
Mississippi	5,282	2.2	5,292	1.8	5,646	1.6
Subtotal	129,752	53.2	142,822	46.4	150,409	43.5
All other states	72,038	29.5	86,326	28.0	95,072	27.5
Reinsurance Operations	42,263	17.3	78,755	25.6	100,282	29.0
Total	\$ 244,053	100.0%	\$ 307,903	100.0%	\$ 345,763	100.0%

Marketing and Distribution

The Company provides its insurance products across a full distribution network binding authority, program, brokerage, and reinsurance. For its binding authority and program product classifications, the Company distributes its insurance products through a group of approximately 100 wholesale general agents and program administrators that have specific quoting and binding authority. For its brokerage business, the Company distributes its insurance products through wholesale insurance brokers who in turn sell the Company's insurance products to insureds through retail insurance brokers. For its reinsurance business, the Company distributes its products through reinsurance brokers.

Wind River Reinsurance assumed property catastrophe reinsurance on a retrocessional quota share basis from Montpelier Reinsurance, Ltd. which accounted for 81.8% of the Reinsurance Operations gross premiums written and represented more than 10% of the Company's consolidated revenues for the year ended December 31, 2012.

Of the Company's non-affiliated professional wholesale general agents and program administrators, the top five accounted for 25.2% of the Insurance Operations gross premiums written for the year ended December 31, 2012. No one agency accounted for more than 11.1% of the Insurance Operations gross premiums written.

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

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Underwriting

The Company's insurance products are underwritten in two ways: (1) specific binding authority in which the Company grants underwriting authority to its wholesale general agents and program administrators, and (2) brokerage in which the Company's internal personnel underwrites business submitted by wholesale insurance brokers.

Specific Binding Authority The Company's wholesale general agents and program administrators have specific quoting and binding authority with respect to a single insurance product and some have limited quoting and binding authority with respect to multiple products.

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

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

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

automated system criteria edits and exception reports;

individual policy reviews to measure adherence to the Company's underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;

periodic on-site comprehensive audits to evaluate processes, controls, profitability and adherence to all aspects of the Company's underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;

internal quarterly actuarial analysis of loss ratios produced by business underwritten by the Company's wholesale general agents and program administrators; and

internal quarterly analysis of financial results, including premium growth and overall profitability of business produced by the Company's wholesale general agents and program administrators.

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

Brokerage The Company's wholesale insurance brokers do not have specific binding authority, therefore, these risks are submitted to the Company's underwriting personnel for review and processing.

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

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

individual policy reviews to measure the Company's underwriters' adherence to the underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;

periodic underwriting review to evaluate adherence to all aspects of the Company's underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;

internal quarterly actuarial analysis of loss ratios produced by business underwritten by the Company's underwriters; and

internal quarterly analysis of financial results, including premium growth and overall profitability of business produced by the Company's underwriters.

Reinsurance The Company's Wind River Reinsurance subsidiary primarily offers retrocessional coverage to Bermuda based reinsurance companies. The business assumed is primarily quota share treaties on property catastrophe and marine business. Prior to entering into any agreement, the Company evaluates a number of factors for each cedent including, but not limited to, reputation and financial condition, underwriting and claims practices and historical claims experience. The Company also models proposed treaties for both the catastrophe exposure and the marginal impact on the Company's existing catastrophe portfolio.

Contingent Commissions

Certain professional general agencies of the Insurance Operations are paid special incentives, referred to as contingent commissions, when results of business produced by these agencies are more favorable than predetermined thresholds. Similarly, in some circumstances, companies that cede business to the Reinsurance Operations are paid ceding or profit commissions based on the profitability of the ceded portfolio. These commissions are charged to other underwriting expenses when incurred. The liability for the unpaid portion of these commissions is stated separately on the face of the consolidated balance sheet as contingent commissions.

Pricing

The Company uses its pricing actuaries to establish pricing tailored to each specific product it underwrites, taking into account historical loss experience and individual risk and coverage characteristics. The Company generally uses the actuarial loss costs promulgated by the Insurance Services Office as a benchmark in the development of pricing for most of the Company's products. The Company will seek to only write business if it believes it can achieve an adequate rate of return.

Reinsurance of Underwriting Risk

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

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

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

The Company analyzes its reinsurance contracts to ensure that they meet the risk transfer requirements of applicable accounting guidance, which requires that the reinsurer must assume significant insurance risk under the reinsured portions of the underlying insurance contracts and that there must be a reasonably possible chance that the reinsurer may realize a significant loss from the transaction. See Note 10 of the notes to consolidated financial statements in Item 8 of Part II of this report for details concerning the Company's current reinsurance contracts.

The Company continually evaluates its retention levels across its entire line of business and specialty product portfolio seeking to ensure that the ultimate reinsurance structures are aligned with the Company's corporate risk tolerance levels associated with such products. Any decision to decrease the Company's reliance upon proportional reinsurance or to increase the Company's excess of loss retentions could increase the Company's earnings volatility. In cases where the Company decides to increase its excess of loss retentions, such decisions will be a result of a change or progression in the Company's risk tolerance level. The Company increased its retention on its property catastrophe treaty in 2012 and is increasing its retention on its property per risk treaty in 2013. The Company endeavors to purchase reinsurance from financially strong reinsurers with which it has long-standing relationships. In addition, in certain circumstances, the Company holds collateral, including letters of credit, under reinsurance agreements.

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The following table sets forth the ten reinsurers for which the Company has the largest reinsurance receivables as of December 31, 2012. Also shown are the amounts of premiums ceded by the Company to these reinsurers during the year ended December 31, 2012.

(Dollars in millions)	A.M. Best Rating	Gross Reinsurance Receivables	Prepaid Reinsurance Premium	Total Reinsurance Assets	Percent of Total	Ceded Premiums Written	Percent of Total
Munich Re America Corp.	A+	\$ 132.9	\$ 3.1	\$ 136.0	51.3%	\$ 10.2	41.8%
Westport Insurance Corp.	A+	40.7		40.7	15.4		
Transatlantic Reinsurance	A	12.3	1.8	14.0	5.3	5.5	22.3
General Reinsurance Corp.	A++	13.6		13.7	5.2	0.1	0.5
Hartford Fire Insurance Co.	A	8.8		8.8	3.3		
GE Reinsurance Corporation (Swiss Re)	A+	6.7		6.7	2.6		
Clearwater Insurance Company	NR	5.2		5.2	2.0		
Finial Reinsurance Company	A-	4.8		4.8	1.8		
Scor Holding (Switzerland)	A	4.7		4.7	1.8		
Swiss Reinsurance America Corp.	A+	3.9		3.9	1.4	0.3	1.0
Subtotal		233.6	4.9	238.5	90.1	16.1	65.6
All other reinsurers		25.2	1.0	26.2	9.9	8.4	34.4
Total reinsurance receivables before purchase accounting adjustments and allowance for uncollectible reinsurance		258.8	5.9	264.7	100.0%	\$ 24.5	100.0%
Purchase accounting adjustments and allowance for uncollectible reinsurance		(17.0)		(17.0)			
Total receivables, net of purchase accounting adjustments and allowance for uncollectible reinsurance		241.8	5.9	247.7			
Collateral held in trust from reinsurers		(155.2)		(155.2)			
Net receivables		\$ 86.6	\$ 5.9	\$ 92.5			

At December 31, 2012, the Company carried reinsurance receivables of \$241.8 million. This amount is net of a purchase accounting adjustment and an allowance for uncollectible reinsurance receivables. The purchase accounting adjustment resulted from the Company's acquisition of Wind River Investment Corporation on September 5, 2003 and is related to discounting the acquired loss reserves to their present value and applying a risk margin to the discounted reserves. This adjustment was \$8.0 million at December 31, 2012. The allowance for uncollectible reinsurance receivables was \$9.0 million at December 31, 2012.

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

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Claims Management and Administration

The Company's approach to claims management is designed to investigate reported incidents at the earliest juncture, to select, manage, and supervise all legal and adjustment aspects of claims, including settlement, for the mutual benefit of the Company, its professional general agents, wholesale brokers, reinsurers and insureds. The Company's professional general agents and wholesale brokers have no authority to settle claims or otherwise exercise control over the claims process, with the exception of one statutory managing general agent. The Company's claims management staff supervises or processes all claims. The Company has a formal claims review process, and all claims greater than \$100,000, gross of reinsurance, are reviewed by senior claims management and certain senior executives.

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

As of December 31, 2012, the Company has \$261.5 million of direct outstanding loss and loss adjustment expense case reserves at its Insurance Operations. Claims relating to approximately 87% of those reserves are handled by in-house claims management professionals, while claims relating to approximately 4% of those reserves are handled by TPAs, which send the Company detailed financial and claims information on a monthly basis. The Company also individually supervises in-house any significant or complicated TPA handled claims, and conducts on-site audits of material TPAs at least twice a year. Approximately 9% of its reserves are handled by the Company's assuming reinsurers. The Company reviews and supervises the claims handled by its reinsurers seeking to protect its reputation and minimize exposure.

Reserves for Unpaid Losses and Loss Adjustment Expenses

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

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

knowledge of the circumstances surrounding the claim;

the severity of injury or damage;

jurisdiction of the occurrence;

the potential for ultimate exposure;

litigation related developments;

the type of loss; and

the Company's experience with the insured and the line of business and policy provisions relating to the particular type of claim. The Company generally estimates such losses and claims costs through an evaluation of individual reported claims. The Company also establishes reserves for incurred but not reported losses (IBNR). IBNR reserves are based in part on statistical information and in part on industry experience with respect to the expected number and nature of claims arising from occurrences that have not been reported. The Company also establishes its reserves based on estimates of future trends in claims severity and other subjective factors. Insurance companies

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are not permitted to reserve for a catastrophe until it has occurred. Reserves are recorded on an undiscounted basis other than fair value adjustments recorded under purchase accounting. The Company's Insurance Operations reserves are reviewed quarterly by the in-house actuarial staff. Loss reserve estimates for the Company's Reinsurance Operations are developed by independent, external actuaries; however management is responsible for the final determination of loss reserve selections. The data for this analysis is organized by treaty and treaty year. Reviews for both Insurance Operations and Reinsurance Operations are performed both gross and net of reinsurance.

In addition to the Company's internal reserve analysis, independent external actuaries perform a full, detailed review of the Insurance Operations reserves annually. The Company does not rely upon the review by the independent actuaries to develop its reserves; however, the data is used to corroborate the analysis performed by the in-house actuarial staff. The Company's independent external actuaries also perform a full, detailed review of the Reinsurance Operations reserves annually.

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

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

The loss and loss expense development table below shows changes in the Company's reserves in subsequent years from the prior loss and loss expense estimates based on experience as of the end of each succeeding year and in conformity with United States of America generally accepted accounting principles (GAAP). The estimate is increased or decreased as more information becomes known about the frequency and severity of losses for individual years. A redundancy means the original estimate was higher than the current estimate; a deficiency means that the current estimate is higher than the original estimate.

The first line of the loss and loss expense development table shows, for the years indicated, the Company's net reserve liability including the reserve for IBNR. The first section of the table shows, by year, the cumulative amounts of losses and loss adjustment expenses paid as of the end of each succeeding year. The second section sets forth the re-estimates in later years of incurred losses and loss expenses, including payments, for the years indicated. The cumulative redundancy/(deficiency) represents, as of the date indicated, the difference between the latest re-estimated liability and the reserves as originally estimated.

In 2005, \$235.2 million of loss reserves were acquired as a result of the merger with Penn-America Group, Inc. that took place on January 24, 2005. As such, there are no loss reserves in the loss development table related to the Penn-America insurance companies for any years prior to 2005.

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This loss development table shows development in Global Indemnity's loss and loss expense reserves on a net basis:

(Dollars in thousands)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Balance sheet reserves:	\$ 260,820	\$ 314,023	\$ 344,614	\$ 639,291	\$ 735,342	\$ 800,885	\$ 835,839	\$ 725,297	\$ 638,906	\$ 684,878	\$ 629,538
Cumulative paid as of:											
One year later	\$ 42,779	\$ 76,048	\$ 85,960	\$ 154,069	\$ 169,899	\$ 190,723	\$ 215,903	\$ 189,358	\$ 160,204	155,888	
Two years later	96,623	136,133	139,822	268,827	300,041	360,336	366,647	299,720	261,569		
Three years later	141,545	171,659	180,801	355,987	413,055	470,313	454,284	375,066			
Four years later	164,181	197,596	209,938	414,068	478,408	532,753	510,177				
Five years later	182,043	214,376	237,636	440,206	506,915	561,536					
Six years later	193,536	235,022	251,350	454,982	525,173						
Seven years later	211,036	244,389	261,773	467,669							
Eight years later	218,930	253,267	271,688								
Nine years later	227,352	261,842									
Ten years later	235,494										
Re-estimated liability as of:											
End of year	\$ 260,820	\$ 314,023	\$ 344,614	\$ 639,291	\$ 735,342	\$ 800,885	\$ 835,839	\$ 725,297	\$ 638,906	\$ 684,878	\$ 629,538
One year later	261,465	313,213	343,332	632,327	716,361	832,733	827,439	671,399	643,569	690,004	
Two years later	263,995	315,230	326,031	629,859	732,056	812,732	768,623	640,750	642,478		
Three years later	268,149	298,989	323,696	635,504	707,525	765,435	730,079	636,051			
Four years later	252,078	301,660	332,302	622,122	672,712	737,614	719,486				
Five years later	264,058	308,776	323,547	608,050	658,429	731,468					
Six years later	272,806	303,146	316,195	598,384	651,850						
Seven years later	266,880	298,566	312,860	591,562							
Eight years later	264,055	297,544	307,822								
Nine years later	265,195	293,598									
Ten years later	262,414										
Cumulative redundancy/(deficiency)	\$ (1,594)	\$ 20,425	\$ 36,792	\$ 47,729	\$ 83,492	\$ 69,417	\$ 116,353	\$ 89,246	\$ (3,572)	\$ (5,126)	\$
Gross Liability end of year	2,004,422	2,059,760	1,876,510	1,914,224	1,702,010	1,503,238	1,506,430	1,257,741	1,059,756	971,377	879,114
Less: Reinsurance recoverable	1,743,602	1,745,737	1,531,896	1,274,933	966,668	702,353	670,591	532,444	420,850	286,499	249,576
Net liability-end of year	260,820	314,023	344,614	639,291	735,342	800,885	835,839	725,297	638,906	684,878	629,538
Gross re-estimated liability	1,587,232	1,441,798	1,193,809	1,302,690	1,089,693	1,227,024	1,170,186	984,839	932,205	951,230	879,114
Less: Re-estimated recoverable at December 31, 2012	1,324,818	1,148,200	885,987	711,128	437,843	495,556	450,700	348,788	289,727	261,226	249,576
Net re-estimated liability at December 31, 2012	\$ 262,414	\$ 293,598	\$ 307,822	\$ 591,562	\$ 651,850	\$ 731,468	\$ 719,486	\$ 636,051	\$ 642,478	\$ 690,004	\$ 629,538
Gross cumulative redundancy/(deficiency)	\$ 417,190	\$ 617,962	\$ 682,701	\$ 611,534	\$ 612,317	\$ 276,214	\$ 336,244	\$ 272,902	\$ 127,551	\$ 20,147	\$

See Note 12 of the notes to consolidated financial statements in Item 8 of Part II of this report for a reconciliation of the Company's liability for losses and loss adjustment expenses, net of reinsurance ceded, as well as further discussion surrounding changes to reserves for prior accident years.

The insurance industry continues to receive a substantial number of asbestos-related bodily injury claims, with an increasing focus being directed toward other parties, including installers of products containing asbestos rather than against asbestos manufacturers. This shift has resulted in significant insurance coverage litigation implicating applicable coverage defenses or determinations, if any, including but not limited to, determinations as to whether or not an asbestos related bodily injury claim is subject to aggregate limits of liability found in most comprehensive general liability policies. In response to these continuing developments, management increased gross and net asbestos and environmental (A&E) reserves during 2008 to reflect its best estimate of A&E exposures.

Asbestos and Environmental Exposure

The Company's environmental exposure arises from the sale of general liability and commercial multi-peril insurance. Currently, the Company's policies continue to exclude classic environmental contamination claims. In some states the Company is required, however, depending on the circumstances, to provide coverage for certain bodily injury claims, such as an individual's exposure to a release of chemicals. The Company has also issued policies that were intended to provide limited pollution and environmental coverage. These policies were specific

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to certain types of products underwritten by the Company. The Company has also received a number of asbestos-related claims, the majority of which are declined based on well-established exclusions. In establishing the liability for unpaid losses and loss adjustment expenses related to A&E exposures, management considers facts currently known and the current state of the law and coverage litigations. Estimates of these liabilities are reviewed and updated continually.

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

The liability for unpaid losses and loss adjustment expenses, inclusive of A&E reserves, reflects the Company's best estimates for future amounts needed to pay losses and related adjustment expenses as of each of the balance sheet dates reflected in the financial statements herein in accordance with GAAP. As of December 31, 2012, the Company has \$7.9 million of net loss reserves for asbestos-related claims and \$12.2 million for environmental claims. The Company attempts to estimate the full impact of the A&E exposures by establishing specific case reserves on all known losses. See Note 12 of the notes to the consolidated financial statements in Item 8 of Part II of this report for tables showing the Company's gross and net reserves for A&E losses.

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

See Note 12 of the notes to the consolidated financial statements in Item 8 of Part II of this report for the survival ratios on a gross and net basis for the Company's open A&E claims.

Investments

The Company's investment policy is determined by the Investment Committee of the Board of Directors. The Company has engaged third-party investment advisors to oversee its investments and to make recommendations to the Investment Committee. The Company's investment policy allows it to invest in taxable and tax-exempt fixed income investments including corporate bonds and loans as well as publicly traded and private equity investments. With respect to fixed income investments, the maximum exposure per issuer varies as a function of the credit quality of the security. The allocation between taxable and tax-exempt bonds is determined based on market conditions and tax considerations, including the applicability of the alternative minimum tax. The maximum allowable investment in equity securities under the Company's investment policy is 30% of the

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Company's GAAP equity, or \$242.0 million at December 31, 2012. As of December 31, 2012, the Company had \$1,531.4 million of investments and cash and cash equivalent assets, including \$200.2 million of equity and limited partnership investments and \$130.0 million in floating rate corporate loans, less a \$2.6 million payable for securities.

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

The following table summarizes by type the estimated fair value of Global Indemnity's investments and cash and cash equivalents as of December 31, 2012, 2011, and 2010:

(Dollars in thousands)	December 31, 2012		December 31, 2011		December 31, 2010	
	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total
Cash and cash equivalents	\$ 104,460	6.8%	\$ 175,860	10.7%	\$ 119,888	7.0%
U.S. treasury and agency obligations	108,744	7.1	131,289	8.0	202,690	11.8
Obligations of states and political subdivisions	201,077	13.1	206,133	12.5	245,012	14.3
Mortgage-backed securities (1)	255,942	16.7	268,990	16.3	249,080	14.4
Commercial mortgage-backed securities	8,117	0.5	29,969	1.8	38,733	2.3
Asset-backed securities	113,351	7.4	95,964	5.8	115,099	6.7
Corporate bonds and loans	486,171	31.7	521,201	31.7	532,784	31.0
Foreign corporate bonds	55,920	3.7	43,339	2.6	60,994	3.6
Total fixed maturities	1,229,322	80.2	1,296,885	78.7	1,444,392	84.1
Equity securities	197,075	12.8	168,361	10.2	147,526	8.6
Other investments	3,132	0.2	6,617	0.4	5,380	0.3
Total investments and cash and cash equivalents (2)	\$ 1,533,989	100.0%	\$ 1,647,723	100.0%	\$ 1,717,186	100.0%

(1) Includes collateralized mortgage obligations of \$59,026, \$20,921, and \$13,445 for 2012, 2011, and 2010, respectively.

(2) Does not include net receivable (payable) for securities sold of (\$2,634), \$1,484 and (\$4,768) for 2012, 2011 and 2010, respectively. Although the Company generally intends to hold fixed maturities to recovery and/or maturity, the Company regularly re-evaluates its position based upon market conditions. As of December 31, 2012, the Company's fixed maturities, excluding the mortgage-backed, commercial mortgage-backed and collateralized mortgage obligations, had a weighted average maturity of 4.2 years and a weighted average duration, excluding mortgage-backed, commercial mortgage-backed and collateralized mortgage obligations and including cash and short-term investments, of 1.9 years. The Company's financial statements reflect a net unrealized gain on fixed maturities available for sale as of December 31, 2012 of \$42.2 million on a pre-tax basis.

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

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Average fixed maturities at book value	\$ 1,222,814	\$ 1,326,094	\$ 1,408,353
Gross income on fixed maturities (1)	41,969	54,153	60,262
Book yield	3.43%	4.08%	4.28%
Fixed maturities at book value	\$ 1,187,094	\$ 1,258,533	\$ 1,393,655
Unrealized gain	42,228	38,352	50,737

(1) Represents income earned by fixed maturities, gross of investment expenses and excluding realized gains and losses. The Company has sought to structure its portfolio to reduce the risk of default on collateralized commercial real estate obligations and asset-backed securities. Of the \$255.9 million of mortgage-backed securities, \$196.9 million is invested in U.S. agency paper and \$59.0 million is invested in collateralized mortgage obligations, of which \$57.7 million, or 97.8%, are rated AA+ or better. In addition, the Company holds \$113.4 million in asset-backed securities, of which 85.3% are rated AAA. The weighted average credit enhancement for the Company's asset-backed securities is 34.1. The Company also faces liquidity risk. Liquidity risk is when the fair value of an investment is not able to be realized due to lack of interest by outside parties in the marketplace. The Company attempts to diversify its investment holdings to minimize this risk. The Company's investment managers run periodic analysis of liquidity costs to the fixed income portfolio. The Company also faces credit risk. 88.9% of the Company's fixed income securities are investment grade securities. 10.6% of the Company's fixed maturities are rated AAA. See Quantitative and Qualitative Disclosures about Market Risk in Item 7A of Part II of this report for a more detailed discussion of the credit market and the Company's investment strategy.

The following table summarizes, by Standard & Poor's rating classifications, the estimated fair value of Global Indemnity's investments in fixed maturities, as of December 31, 2012 and 2011:

(Dollars in thousands)	December 31, 2012		December 31, 2011	
	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total
AAA	\$ 129,852	10.6%	\$ 130,004	10.0%
AA	535,454	43.5	596,490	46.0
A	273,168	22.2	273,379	21.1
BBB	155,024	12.6	99,189	7.6
BB	37,194	3.0	80,033	6.2
B	81,138	6.6	108,296	8.4
CCC	11,749	1.0	4,478	0.3
CC	65	0.0	938	0.1
Not rated	5,678	0.5	4,078	0.3
Total fixed maturities	\$ 1,229,322	100.0%	\$ 1,296,885	100.0%

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The following table sets forth the expected maturity distribution of Global Indemnity's fixed maturities portfolio at their estimated market value as of December 31, 2012 and 2011:

(Dollars in thousands)	December 31, 2012		December 31, 2011	
	Estimated Market Value	Percent of Total	Estimated Market Value	Percent of Total
Due in one year or less	\$ 87,816	7.1%	\$ 86,100	6.6%
Due in one year through five years	565,413	46.0	617,121	47.6
Due in five years through ten years	152,588	12.4	155,947	12.0
Due in ten years through fifteen years	10,993	0.9	11,136	0.9
Due after fifteen years	35,102	2.9	31,658	2.4
Securities with fixed maturities	851,912	69.3	901,962	69.5
Mortgaged-backed securities	255,942	20.8	268,990	20.8
Commercial mortgage-backed securities	8,117	0.7	29,969	2.3
Asset-backed securities	113,351	9.2	95,964	7.4
Total fixed maturities	\$ 1,229,322	100.0%	\$ 1,296,885	100.0%

The expected weighted average duration of the Company's asset-backed, mortgage-backed and commercial mortgage-backed securities is 1.7 years.

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

The Company's investments in corporate loans were valued at \$130.0 million at December 31, 2012. Corporate loans, sometimes referred to as leveraged loans, are primarily investments in senior secured floating rate loans that banks have made to corporations. The loans are generally priced at an interest rate spread over LIBOR that resets periodically, typically at intervals between one month and one year. As a result of the floating rate feature, this asset class provides protection against rising interest rates. However, this asset class is subject to default risk since these investments are typically below investment grade. To mitigate this risk, the Company's investment managers perform an in-depth structural analysis. As part of this analysis, they focus on the strength of any security granted to the lenders, the position of the loan in the company's capital structure and the appropriate covenant protection. In addition, as part of the Company's risk control, its investment managers seek to maintain appropriate portfolio diversification by limiting issuer and industry exposure.

As of December 31, 2012, the Company has aggregate equity securities of \$197.1 million that consisted entirely of common stocks.

The Company's investments in other invested assets is comprised of a limited liability partnership investment where the partnership has acquired control of a business as a lead or organizing investor, which was valued at \$3.1 million at December 31, 2012, and another limited liability partnership investment that invests in real estate, which was valued at zero at December 31, 2012. There is no readily available independent market price for these limited liability partnership investments. The limited partnerships have invested primarily in publicly traded companies, however not all of the investments are publicly traded, nor does the Company have access to daily valuations, therefore the estimated fair value of these limited partnerships is measured utilizing the Company's net asset value as a practical expedient for each limited partnership. Material assumptions and factors utilized in pricing these securities include future cash flows, constant default rates, recovery rates, and any market clearing activity that may have occurred since the previous pricing period. The Company receives annual audited financial statements from each of the partnership investments it owns.

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Realized gains, including other than temporary impairments, for the years ended December 31, 2012, 2011, and 2010 were \$6.8 million, \$21.5 million, and \$26.4 million, respectively.

Competition

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

American International Group;

Argo Group International Holdings, Ltd.;

Berkshire Hathaway;

Everest Re Group, Ltd.;

Great American Insurance Group;

HCC Insurance Holdings, Inc.;

IFG Companies;

Markel Corporation;

Meadowbrook Insurance Group, Inc.

Nationwide Insurance;

Navigators Insurance Group;

RLI Corporation;

Selective Insurance Group, Inc.;

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The Travelers Companies, Inc.;

Tower Group, Inc.

W.R. Berkley Corporation; and

Western World Insurance Group.

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

Competition may also take the form of lower prices, broader coverage, greater product flexibility, higher quality services, reputation and financial strength or higher ratings by independent rating agencies. In all of the Company's markets, it competes by developing insurance products to satisfy well-defined market needs and by maintaining relationships with brokers and insureds that rely on the Company's expertise. For its program and specialty wholesale products, offerings and underwriting products that are not readily available is the Company's principal means of differentiating itself from its competition. Each of the Company's products has its own distinct competitive environment. The Company seeks to compete through innovative products, appropriate pricing, niche underwriting expertise, and quality service to policyholders, general agencies and brokers.

Employees

The Company has approximately 280 employees. None of the Company's employees are covered by collective bargaining agreements.

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Ratings

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

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

Regulation

General

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

U.S. Regulation

The Company has seven operating insurance subsidiaries domiciled in the United States; United National Insurance Company, Penn-America Insurance Company, and Penn-Star Insurance Company, which are domiciled in Pennsylvania; Diamond State Insurance Company and United National Casualty Insurance Company, which are domiciled in Indiana; United National Specialty Insurance Company, which is domiciled in Wisconsin; and Penn-Patriot Insurance Company, which is domiciled in Virginia.

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

Changes of Control

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider factors such as the financial strength of the applicant, the integrity and management of the applicant's Board of Directors and executive officers, the acquirer's plans for the management, Board of Directors and executive officers of the company being acquired, the acquirer's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns,

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controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of the domestic insurer. Because a person acquiring 10% or more of the Company's ordinary shares would indirectly control the same percentage of the stock of the U.S. insurance companies, the insurance change of control laws of Pennsylvania, Indiana, Wisconsin, and Virginia would likely apply to such a transaction. While the Company's articles of association limit the voting power of any U.S. shareholder to less than 9.5%, there can be no assurance that the applicable state insurance regulator would agree that any shareholder did not control the applicable insurance company.

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

Federal Insurance Regulation

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

State Insurance Regulation

State insurance authorities have broad regulatory powers with respect to various aspects of the business of U.S. insurance companies, including, but not limited to, licensing companies to transact admitted business or determining eligibility to write surplus lines business, accreditation of reinsurers, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, management of enterprise risk, regulating investments and dividends, approving policy forms and related materials in certain instances and approving premium rates in certain instances. State insurance laws and regulations may require the Company's U.S. insurance companies to file financial statements with insurance departments everywhere they will be licensed or eligible or accredited to conduct insurance business, and their operations are subject to review by those departments at any time. The Company's U.S. insurance companies prepare statutory financial statements in accordance with statutory accounting principles (SAP) and procedures prescribed or permitted by these departments. State insurance departments also conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years, although market conduct examinations may take place at any time. These examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. In addition, admitted insurers are subject to targeted market conduct examinations involving specific insurers by state insurance regulators in any state in which the insurer is admitted. The insurance departments for the states of Pennsylvania, Indiana, Wisconsin, and Virginia completed their most recent financial examinations of the Company's U.S. insurance subsidiaries for the period ended December 31, 2007. Their final reports were issued in 2009, and there were no materially adverse findings.

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Insurance Regulatory Information System Ratios

The NAIC Insurance Regulatory Information System (IRIS) was developed by a committee of the state insurance regulators and is intended primarily to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies twelve industry ratios and specifies usual values for each ratio. Departure from the usual values of the ratios can lead to inquiries from individual state insurance commissioners as to certain aspects of an insurer's business. Insurers that report four or more ratios that fall outside the range of usual values are generally targeted for increased regulatory review.

The following summarizes the 2012 IRIS ratio results for the insurance companies within the Insurance Operations segment:

United National Specialty Insurance Company, United National Casualty Insurance Company and Penn-Patriot Insurance Company had investment yields which were lower than standard industry levels.

The Company does not believe that the above departures from the usual values will subject it to further regulatory review.

Risk-Based Capital Regulations

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

Based on the standards currently adopted, the U.S. insurance companies reported in their 2012 statutory filings that their capital and surplus are above the prescribed company action level risk-based capital requirements.

Statutory Accounting Principles

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

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

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

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State Dividend Limitations

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

See the Liquidity and Capital Resources section in Item 7 of Part II of this report for a more complete description of the state dividend limitations. See Note 20 of the notes to consolidated financial statements in Item 8 of Part II of this report for the dividends declared and paid by the U.S. insurance companies in 2012 and the maximum amount of distributions that they could pay as dividends in 2013.

Guaranty Associations and Similar Arrangements

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

Operations of Wind River Reinsurance

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

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

Even though Wind River Reinsurance does not currently offer third party excess and surplus lines insurance products, it maintains a U.S. surplus lines trust fund with a U.S. bank to secure its U.S. surplus lines policyholders. Wind River Reinsurance is required to maintain a minimum balance in trust of at least

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\$5.4 million for the next five years. The amount held in trust at December 31, 2012 was \$6.4 million. In subsequent years, if Wind River Reinsurance were to write third party excess and surplus lines insurance, it would need to maintain in the trust fund an amount equal to 30% of any amount up to the first \$200.0 million plus further graduated amounts of its U.S. surplus lines loss reserves and unearned premium, at each year end, as certified by an actuary, but subject to a current maximum of \$100.0 million. The trust fund is irrevocable and must remain in force for a period of five years from the date of written notice to the trustee of the termination of the trust unless the liabilities with respect to all risks covered by the trust fund have been transferred to an insurer licensed to do business in all states where insurance is in force.

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

Bermuda Insurance Regulation

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

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

The European Union's (EU) executive body, the European Commission, is implementing new capital adequacy and risk management regulations for the European insurance industry known as Solvency II, which aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current Solvency I requirements. Once finalized, Solvency II is expected to set out new, strengthened requirements applicable to the entire EU relating to capital adequacy and risk management for insurers. Bermuda continues to strengthen its capital and risk management requirements to be in line with Solvency II with the goal of full implementation by the end of 2014. Consequently the Company's implementation plans are based on its current understanding of Solvency II equivalence for the BMA's regime, which may change.

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

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

Principal Representative

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. Wind River Reinsurance's principal office is its executive offices in Hamilton, Bermuda, and its principal representative is its external management firm.

Independent Approved Auditor

Every registered insurer, such as Wind River Reinsurance, must appoint an independent auditor who will audit and report annually on the statutory financial statements and the statutory financial return of the insurer, both of which are required to be filed annually with the BMA.

Loss Reserve Specialist

As a registered Class 3B insurer, Wind River Reinsurance is required to submit an opinion of its approved loss reserve specialist in respect of its losses and loss expense provisions with its statutory financial return.

Statutory Financial Statements

Wind River Reinsurance must prepare annual statutory financial statements. The statutory financial statements are not prepared in accordance with GAAP or SAP. The Insurance Act prescribes rules for the preparation and substance of these statutory financial statements (which include, in statutory form, a balance sheet, an income statement, a statement of capital and surplus and notes thereto). Wind River Reinsurance is required to give detailed information and analyses regarding premiums, claims, reinsurance, and investments. Wind River Reinsurance is also required to prepare audited annual financial statements prepared in accordance with GAAP or International Financial Reporting Standards.

Annual Statutory Financial Return

Wind River Reinsurance is required to file with the BMA a statutory financial return no later than four months after its financial year end (unless specifically extended upon application to the BMA). The statutory financial return for a Class 3B insurer includes, among other matters, a report of the approved independent auditor on the statutory financial statements of the insurer, solvency certificates, schedules of ceded reinsurance, the statutory financial statements, a declaration of statutory ratios and the opinion of the loss reserve specialist.

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

The BMA has promulgated the Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment Rules 2008, as amended (the Rules) which, among other things, mandate that a Class 3B insurer's ECR be calculated by either (a) the model set out in Schedule I to the Rules, or (b) an internal capital model which the BMA has approved for use for this purpose. These measures are an integral part of the BMA's ongoing Solvency II equivalence program for Class 3B insurance companies. For 2012, Wind River Reinsurance used the BMA's model to calculate its capital and solvency requirements.

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

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

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

The risk-based solvency capital framework referred to above represents a modification of the minimum solvency margin test set out in the Insurance Returns and Solvency Amendment Regulations 1980 (as amended). While it must calculate its ECR annually by reference to either the BSCR or an approved internal model, Wind River Reinsurance must also ensure at all times that its ECR is at least equal to the MSM for a Class 3B insurer in respect of its general business, which is the greater of: (i) \$100.0 million; (ii) 50% of net premiums written; and (iii) 15% of net loss and loss adjustment expense reserves and other general business insurance reserves.

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

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

Minimum Liquidity Ratio

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

Restrictions on Dividends and Distributions

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

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

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

Supervision, Investigation and Intervention

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

The BMA may also make additional rules prescribing prudential standards in relation to ECR, CSR's, insurance reserves and eligible capital which Wind River Reinsurance must comply with.

Bermuda Code of Conduct

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

Group Supervision

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

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

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

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

Notifications to the BMA

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

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

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

acquisition or transfer of insurance business being part of a scheme falling within section 25 of the Insurance Act or section 99 of the Companies Act;

amalgamation with or acquisition of another firm; and

a material change in the insurer s business plan not otherwise reported to the BMA.

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

the interest of the policyholders and potential policyholders of the insurer or the group would not in any manner be threatened by the material change; and

without prejudice to the first point, that, having regard to the material change, the requirements of the Insurance Act would continue to be complied with, or, if any of those requirements are not complied with, that the insurer concerned is likely to undertake adequate remedial action.

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

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Disclosure of Information

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

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

Certain Other Bermuda Law Considerations

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

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

Taxation of Global Indemnity and Subsidiaries

Ireland

Global Indemnity is a public limited company incorporated under the laws of Ireland. The Company is a resident taxpayer fully subject to Ireland corporate income tax of 12.5% on trading income and 25.0% on non-trading income, including interest and dividends from foreign companies. The capital gains tax rate is 30%. Currently, Global Indemnity has only non-trading income, so it is subject to corporate income tax of 25.0%.

United America Indemnity, Ltd., a direct wholly-owned subsidiary, is a private limited liability company incorporated under the laws of the Cayman Islands. The company is an Irish tax resident fully subject to Ireland corporate income tax laws. Currently, United America Indemnity, Ltd. has only non-trading income, so it is subject to corporate income tax of 25.0%.

Global Indemnity Services Ltd., a direct wholly-owned subsidiary, is a private limited liability company incorporated under the laws of Ireland. The company is a resident taxpayer fully subject to Ireland corporate income tax laws. Currently, Global Indemnity Services Ltd. has only trading income, so it is subject to corporate income tax of 12.5%.

U.A.I. (Ireland) Limited, an indirect wholly-owned subsidiary, is a private limited liability company incorporated under the laws of Ireland. The company is a resident taxpayer fully subject to Ireland corporate income tax laws. Currently, U.A.I. (Ireland) Limited has only non-trading income, so it is subject to corporate income tax of 25.0%.

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Cayman Islands

United America Indemnity, Ltd., a direct wholly-owned subsidiary, and Global Indemnity (Cayman) Ltd., an indirect wholly-owned subsidiary, are private limited liability companies incorporated under the laws of the Cayman Islands. Under current Cayman Islands law, the Company is not required to pay any taxes in the Cayman Islands on its income or capital gains. United America Indemnity, Ltd. obtained an undertaking on September 2, 2003 from the Governor in Council of the Cayman Islands substantially that, for a period of 20 years from the date of such undertaking, no law that is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to it and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on its shares. Given the limited duration of the undertaking, the Company cannot be certain that it will not be subject to Cayman Islands tax after the expiration of the 20 year period.

Bermuda

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

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

Gibraltar

Global Indemnity (Gibraltar) Ltd., an indirect wholly-owned subsidiary, is a private limited liability company incorporated under the laws of Gibraltar. The Company received a tax ruling from the Ministry of Finance Income Tax Office of Gibraltar that dividends and distributions received by Global Indemnity (Gibraltar) Ltd. from Global Indemnity (Cayman) Ltd. would not be subject to tax in Gibraltar, provided that Global Indemnity (Gibraltar) Ltd. continues to indirectly hold a relevant participation in U.A.I. (Luxembourg) I S.à.r.l.

Luxembourg

U.A.I. (Luxembourg) I S.à.r.l., U.A.I. (Luxembourg) II S.à.r.l., U.A.I. (Luxembourg) III S.à.r.l., U.A.I. (Luxembourg) IV S.à.r.l., U.A.I. (Luxembourg) Investment S.à.r.l., Wind River (Luxembourg) S.à.r.l., and Global Indemnity (Luxembourg) S.à.r.l. (the Luxembourg Companies) are indirect wholly-owned subsidiaries and private limited liability companies incorporated under the laws of Luxembourg. These are taxable companies, which may carry out any activities that fall within the scope of their corporate object clause. The companies are resident taxpayers fully subject to Luxembourg corporate income tax at a rate of 28.8% and net worth tax at a rate of 0.5%. The companies are entitled to benefits of the tax treaties concluded between Luxembourg and other countries and European Union Directives.

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

The Luxembourg Companies have obtained a confirmation from the Luxembourg Administration des Contributions Directes (Luxembourg Tax Administration) that the current financing activities of the Luxembourg Companies under the application of at arm's length principals will not lead to any material taxation in Luxembourg. The confirmation from the Luxembourg Tax Administration covers the current financing operations of the Luxembourg Companies through September 15, 2018. Given the limited duration of the confirmation and the possibility of a change in the relevant tax laws or the administrative policy of the Luxembourg Tax Administration, the Company cannot be certain that the Company will not be subject to greater Luxembourg taxes in the future.

Dividends by Global Indemnity (Luxembourg) S.à.r.l. to United America Indemnity, Ltd., an Irish tax resident, are exempt from withholding tax in Luxembourg, provided that as of the date on which the income is made available, United America Indemnity, Ltd. has held or undertakes to hold, directly, for an uninterrupted period of at least 12 months, a relevant participation in the share capital of Global Indemnity (Luxembourg) S.à.r.l. United America Indemnity, Ltd. has held such participation since April, 2010.

Global Indemnity (Luxembourg) S.à.r.l. benefits from the Luxembourg participation exemption regime for its participation in Global Indemnity (Gibraltar) Ltd. with respect to dividends and capital gains derived there from, provided Global Indemnity (Luxembourg) S.à.r.l. has held or commits to hold a participation in the share capital of Global Indemnity (Gibraltar) Ltd. for an uninterrupted period of at least 12 months. Global Indemnity (Luxembourg) S.à.r.l. has held such participation since June, 2010.

United States

The following discussion is a summary of all material U.S. federal income tax considerations relating to the Company's operations. The Company manages its business in a manner that seeks to mitigate the risk that either Global Indemnity or Wind River Reinsurance will be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes. However, whether business is being conducted in the United States is an inherently factual determination. Because the United States Internal Revenue Code (the Code), regulations and court decisions fail to identify definitively activities that constitute being engaged in a trade or business in the United States, the Company cannot be certain that the IRS will not contend successfully that Global Indemnity or Wind River Reinsurance is or will be engaged in a trade or business in the United States. A non-U.S. corporation deemed to be so engaged would be subject to U.S. income tax at regular corporate rates, as well as the branch profits tax, on its income that is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a non-U.S. corporation is generally entitled to deductions and credits only if it timely files a U.S. federal income tax return. Global Indemnity and Wind River Reinsurance are filing protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that it is subject to U.S. federal income tax. All of the Company's other non-U.S. entities are considered disregarded entities for federal income tax purposes. The highest marginal federal income tax rates as of 2013 are 39.6% for a corporation's effectively connected income and 30% for the branch profits tax.

Global Indemnity Group, Inc. is a Delaware corporation wholly owned by U.A.I. (Luxembourg) Investment S.à.r.l. Under U.S. federal income tax law, dividends and interest paid by a U.S. corporation to a non-U.S.

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shareholder are generally subject to a 30% withholding tax, unless reduced by treaty. The income tax treaty between Luxembourg and the United States (the Luxembourg Treaty) reduces the rate of withholding tax on interest payments to 0% and on dividends to 15%, or 5% (if the shareholder owns 10% or more of the company's voting stock).

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

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

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

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

The Company's U.S. subsidiaries are each subject to taxation in the United States at regular corporate rates.

Item 1A. RISK FACTORS

The risks and uncertainties described below are those the Company believes to be material, but they are not the only ones the Company faces. If any of the following risks, or other risks and uncertainties that the Company has not yet identified or that it currently considers not to be material, actually occur, the Company's business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected.

Some of the statements regarding risk factors below 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.

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Such statements include forward-looking statements both with respect to the Company specifically and the insurance and reinsurance sectors in general, both as to underwriting and investment matters. Statements that include words such as expect, intend, plan, believe, project, anticipate, seek, will and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. The Company assumes no obligation to update its forward-looking statements to reflect actual results or changes in or additions to such forward-looking statements.

Risks Related to the Company's Business

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

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

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

claim and expense payments;

severity of claims;

legislative and judicial developments; and

changes in economic conditions, including the effect of inflation.

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

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

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

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

A failure in the Company's operational systems or infrastructure or those of third parties could disrupt business, damage the Company's reputation, and cause losses.

The Company's operations rely on the secure processing, storage, and transmission of confidential and other information in its computer systems and networks. The Company's business depends on effective information systems and the integrity and timeliness of the data it uses to run its business. The Company's ability to adequately price products and services, to establish reserves, to provide effective and efficient service to its customers, and to timely and accurately report financial results also depends significantly on the integrity of the data in the Company's information systems. Although the Company takes protective measures and endeavors to modify them as circumstances warrant, its computer systems, software, and networks may be vulnerable, externally and internally, to unauthorized access, computer viruses or other malicious code, and other events that could have security consequences. If one or more of such events occur, this potentially could jeopardize the Company's or its clients' or counterparties' confidential and other information processed and stored in, and transmitted through, the Company's computer systems and networks, or otherwise cause interruptions or malfunctions in the Company's, its clients', its counterparties', or third parties' operations, which could result in significant losses or reputational damage. The Company may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and the Company may be subject to litigation and financial losses that are either not insured against or not fully covered by insurance maintained.

Despite the contingency plans and facilities it has in place, the Company's ability to conduct business may be adversely affected by a disruption of the infrastructure that supports its business in the communities in which the Company is located, or of outsourced services or functions. This may include a disruption involving electrical, communications, transportation, or other services used by the Company. These disruptions may occur, for example, as a result of events that affect only the buildings occupied by the Company or as a result of events with a broader effect on the cities where those buildings are located. If a disruption occurs in one location and the Company's employees in that location are unable to occupy their offices and conduct business or communicate with or travel to other locations, the Company's ability to service and interact with clients may suffer and it may not be able to successfully implement contingency plans that depend on communication or travel.

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

The Company's success depends upon its ability to attract and retain qualified employees and upon the ability of senior management and other key employees to implement the Company's business strategy. The Company believes there are a limited number of available, qualified executives in the business lines in which it

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

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

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

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

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

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

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

The Company cedes a portion of gross premiums written to third party reinsurers under reinsurance contracts. Although reinsurance makes the reinsurer liable to the Company to the extent the risk is transferred, it does not relieve the Company of its liability to its policyholders. Upon payment of claims, the Company will bill its reinsurers for their share of such claims. The reinsurers may not pay the reinsurance receivables that they owe to the Company or they may not pay such receivables on a timely basis. If the reinsurers fail to pay it or fail to pay

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on a timely basis, the Company's financial results would be adversely affected. Lack of reinsurer liquidity, perceived improper underwriting, or claim handling by the Company, and other factors could cause a reinsurer not to pay. See Business Reinsurance of Underwriting Risk in Item 1 of Part I of this report.

See Note 10 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding the Company's reinsurance receivable balances as of December 31, 2012 and 2011.

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

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

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

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

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

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the Company's control. Although the Company attempts to take measures to manage the risks of investing in a changing interest rate environment, the Company may not be able to mitigate interest rate sensitivity effectively. A significant increase in interest rates could have a material adverse effect on the market value of the Company's fixed maturities securities. The Company's mitigation efforts include maintaining a high-quality portfolio with a relatively short duration that seeks to reduce the effect of interest rate changes on market value.

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

The Company has investments in corporate loans. Corporate loans are primarily investments in senior secured floating rate loans that banks have made to corporations. The loans are generally priced at an interest rate spread over LIBOR that resets periodically, typically at intervals between one month and one year. As a result, this asset class provides protection against rising interest rates. However, this asset class is subject to default risk since these investments are typically below investment grade.

The Company has investments in limited partnerships. Material assumptions and factors utilized in pricing these securities include future cash flows, constant default rates, recovery rates, and any market clearing activity that may have occurred since the prior month-end pricing period.

The Company's limited partnership investments are not liquid. The Company does not have the contractual option to redeem its limited partnership interests but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interests without consent from the general partner. The Company's returns could be negatively affected if the market value of the partnership declines. If the Company needs liquidity, it might be forced to liquidate other investments at a time when prices are not optimal.

See Note 7 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding the Company's investments as of December 31, 2012 and 2011.

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

The Company markets and distributes its insurance products through a group of approximately 100 professional general agencies that have specific quoting and binding authority and that in turn sell the Company's insurance products to insureds through retail insurance brokers. The Company also markets and distributes its reinsurance products through third-party brokers, insurance companies and reinsurance companies. A loss of all or substantially all of the business produced by any more of these general agencies, brokers, insurance companies or reinsurance companies could have an adverse effect on the Company's results of operations.

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

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

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

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

competition;

capital capacity;

rising levels of actual costs that are not foreseen by companies at the time they price their products;

volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks;

changes in loss reserves resulting from the general claims and legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop; and

fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested assets and may affect the ultimate payout of losses.

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

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

The Company competes with a large number of other companies in its selected lines of business. The Company competes, and will continue to compete, with major U.S. and non-U.S. insurers and other regional companies, as well as mutual companies, specialty insurance companies, reinsurance companies, underwriting agencies and diversified financial services companies. The Company's competitors include, among others: American International Group, Argo Group International Holdings, Ltd., Berkshire Hathaway, Everest Re Group, Ltd., Great American Insurance Group, HCC Insurance Holdings, Inc., IFG Companies, Markel Corporation, Meadowbrook Insurance Group, Inc., Nationwide Insurance, Navigators Insurance Group, RLI Corporation, Selective Insurance Group, Inc., The Travelers Companies, Inc., Tower Group, Inc., W.R. Berkley Corporation, and Western World Insurance Group. Some of the Company's competitors have greater financial and marketing resources than the Company does. The Company's profitability could be adversely affected if it loses business to competitors offering similar products at or below the Company's prices.

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

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

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

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Assumed premiums on reinsurance treaties generally flow from the ceding insurance and reinsurance companies to the Company on a quarterly basis. Consequently, the Company assumes a degree of credit risk on the aggregate amount of these balances that have been collected by the reinsured but have yet to reach the Company.

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

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

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

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

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

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

In addition, the Company's U.S. insurance subsidiaries, which are indirect subsidiaries of Wind River Reinsurance, are subject to significant regulatory restrictions limiting their ability to declare and pay dividends, which must first pass through Wind River Reinsurance before being paid to Global Indemnity. See Regulation U.S. Regulation in Item 1 of Part I of this report. Also, see Note 20 of the notes to consolidated financial statements in Item 8 of Part II of this report for the maximum amount of dividends that could be paid by the Company's U.S. insurance subsidiaries in 2013.

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

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

standards of solvency, including risk-based capital measurements;

restrictions on the nature, quality and concentration of investments;

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restrictions on the types of terms that the Company can include or exclude in the insurance policies it offers;

restrictions on the way rates are developed and the premiums the Company may charge;

standards for the manner in which general agencies may be appointed or terminated;

credit for reinsurance;

certain required methods of accounting;

reserves for unearned premiums, losses and other purposes; and

potential assessments for the provision of funds necessary for the settlement of covered claims under certain insurance policies provided by impaired, insolvent or failed insurance companies.

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

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

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

The Company may require additional capital in the future that may not be available or only available on unfavorable terms.

The Company's future capital requirements depend on many factors, including the incurring of significant net catastrophe losses, its ability to write new business successfully and to establish premium rates and reserves at

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levels sufficient to cover losses. To the extent that the Company needs to raise additional funds, any equity or debt financing for this purpose, if available at all, may be on terms that are not favorable to the Company. If the Company cannot obtain adequate capital, its business, results of operations and financial condition could be adversely affected.

The Company has used and may in the future use a significant amount of its cash resources to repurchase its ordinary shares and such repurchases present potential risks and disadvantages to the Company and its continuing shareholders.

Throughout 2011 and 2012, the Company repurchased and retired its A ordinary shares in the open market and in privately negotiated transactions. The Company does not have authorization from the Board of Directors to repurchase any additional A ordinary shares as of December 31, 2012. Any future repurchases of the Company's shares exposes it to risks including:

the use of a substantial portion of the Company's cash reserves, which may reduce its ability to engage in significant cash acquisitions or to pursue other business opportunities that could create significant value to shareholders;

the risk that the Company would not be able to replenish its cash reserves by raising debt or equity financing in the future on terms acceptable to the Company, or at all; and

the risk that these repurchases would reduce the Company's public float, which is the number of shares owned by non-affiliate shareholders and available for trading in the securities markets, and would likely reduce the number of the Company's shareholders, which may reduce the volume of trading in its shares and may result in lower stock prices and reduced liquidity in the trading of the Company's shares.

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

Fox Paine & Company, LLC (Fox Paine & Company) beneficially owns shares having approximately 93% of the Company's total voting power. The percentage of the Company's total voting power that Fox Paine & Company may exercise is greater than the percentage of the Company's total shares that Fox Paine & Company beneficially owns because Fox Paine & Company beneficially owns all of the Company's B ordinary shares, which have ten votes per share as opposed to A ordinary shares, which have one vote per share. The A ordinary shares and the B ordinary shares generally vote together as a single class on matters presented to the Company's shareholders. Based on the ownership structure of the affiliates of Fox Paine & Company that own these shares, these affiliates are subject to the voting restriction contained in the Company's articles of association. As a result, Fox Paine & Company has and will continue to have control over the outcome of certain matters requiring shareholder approval, including the power to, among other things:

elect all of the Company's directors;

amend the Company's articles of association (as long as their voting power is greater than 75%);

ratify the appointment of the Company's auditors;

increase the Company's share capital;

resolve to pay dividends or distributions; and

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approve the annual report and the annual financial statements.

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

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In addition, the Company has agreed to pay Fox Paine & Company an annual management fee of \$1.5 million in exchange for management services and a termination fee of \$10.0 million upon the termination of Fox Paine & Company's management services in connection with the consummation of a change of control transaction that does not involve Fox Paine & Company and its affiliates. The Company has also agreed to pay Fox Paine & Company a transaction advisory fee of one percent of the transaction value upon the consummation of a change of control transaction that does not involve Fox Paine & Company and its affiliates in exchange for advisory services to be provided by Fox Paine & Company in connection therewith. Fox Paine & Company may in the future make significant investments in other insurance or reinsurance companies. Some of these companies may compete with the Company or its subsidiaries. Fox Paine & Company is not obligated to advise the Company of any investment or business opportunities of which they are aware, and they are not prohibited or restricted from competing with the Company or its subsidiaries.

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

While Fox Paine & Company has the right under the terms of the memorandum and articles of association to nominate a certain number of directors of the Board of Directors, dependent on Fox Paine & Company's percentage ownership of voting shares in the Company for so long as Fox Paine & Company hold an aggregate 25% or more of the voting power in the Company, it also controls the election of all directors to the Board of Directors due to its controlling share ownership. The Company's Board of Directors currently consists of seven directors, all of which, other than Ms. Valko, were identified and proposed for consideration for the Board of Directors by Fox Paine & Company.

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

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

During 2010, 2011, and 2012, Fox Paine & Company provided certain management services to the Company. To the extent that Fox Paine & Company is unable or unwilling to provide similar services in the future, and the Company is unable to perform those services ourselves or is unable to secure replacement services, the Company's business could be adversely affected.

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

In recent years, global market and economic conditions were severely disrupted. While conditions have since improved, there is continued uncertainty regarding the timing and strength of any economic recovery. The trend may not continue or may continue at a slow rate for an extended period of time, or conditions may worsen. These conditions may potentially affect (among other aspects of the Company's business) the demand for and claims made under the Company's products, the ability of customers, counterparties and others to establish or maintain their relationships with the Company, its ability to access and efficiently use internal and external capital resources, the availability of reinsurance protection, the risks the Company assumes under reinsurance programs, and the Company's investment performance. Continued volatility in the U.S. and other securities markets may adversely affect the Company's stock price.

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

The Company's functional currency is the U.S. dollar. The Reinsurance Operations conduct business with some customers in foreign currencies, and some of the Company's non-U.S. subsidiaries have foreign currency

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denominated cash accounts and investments. Monetary assets and liabilities that are denominated in foreign currencies are revalued at the current exchange rates each period end with the resulting gains or losses reflected in net income. Foreign exchange risk is reviewed as part of the Company's risk management process. The Company may experience losses resulting from fluctuations in the values of non-U.S. currencies relative to the strength of the U.S. dollar, which could adversely impact the Company's results of operations and financial condition.

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

The Company is organized under the laws of Ireland, and some of its assets are located outside the United States. A shareholder who obtains a court judgment based on the civil liability provisions of U.S. federal or state securities laws may be unable to enforce the judgment against the Company in Ireland or in countries other than the United States where the Company has assets. In addition, there is some doubt as to whether the courts of Ireland and other countries would recognize or enforce judgments of U.S. courts obtained against the Company or its Directors or officers based on the civil liabilities provisions of the federal or state securities laws of the United States or would hear actions against the Company or those persons based on those laws. The Company has been advised that the United States and Ireland do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. The laws of Ireland do however, as a general rule, provide that the judgments of the courts of the United States have the same validity in Ireland as if rendered by Irish Courts. Certain important requirements must be satisfied before the Irish Courts will recognize the United States judgment. The originating court must have been a court of competent jurisdiction and the judgment may not be recognized if it was obtained by fraud or its recognition would be contrary to Irish public policy. Any judgment obtained in contravention of the rules of natural justice or that is irreconcilable with an earlier foreign judgment would not be enforced in Ireland. Similarly, judgments might not be enforceable in countries other than the United States where the Company has assets.

Irish law differs from the laws in effect in the United States and might afford less protection to shareholders.

The Company's shareholders could have more difficulty protecting their interests than would shareholders of a corporation incorporated in a jurisdiction of the United States. As an Irish company, the Company is governed by the Companies Acts 1963 to 2009 of Ireland (the Companies Acts) and other Irish statutes. The Companies Acts and other Irish statutes differ in some significant, and possibly material, respects from laws applicable to U.S. corporations and shareholders under various state corporation laws, including the provisions relating to interested Directors, mergers and acquisitions, takeovers, shareholder lawsuits and indemnification of Directors.

Under Irish law, the duties of Directors and officers of a company are generally owed to the company only. Shareholders of Irish companies do not generally have rights to take action against Directors or officers of the company under Irish law, and may only exercise such right of action on behalf of the Company in limited circumstances. Directors of an Irish company must, in exercising their powers and performing their duties, act with due care and skill, honestly and in good faith with a view to the best interests of the company. Directors have a duty not to put themselves in a position in which their duties to the company and their personal interests might conflict and also are under a duty to disclose any personal interest in any contract or arrangement with the company or any of its subsidiaries. If a Director or officer of an Irish company is found to have breached his duties to that company, he could be held personally liable to the company in respect of that breach of duty.

A future transfer of ordinary shares, other than one effected by means of the transfer of book entry interests in DTC, may be subject to Irish stamp duty.

A transfer of the Company's A ordinary shares by a seller who holds A ordinary shares beneficially through DTC to a buyer who holds the acquired A ordinary shares beneficially through DTC will not be subject to Irish stamp duty. A transfer of the Company's ordinary shares by a seller who holds shares directly to any buyer, or by a

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seller who holds the shares beneficially through DTC to a buyer who holds the acquired shares directly, may be subject to Irish stamp duty. Stamp duty is a liability of the buyer or transferee and is currently levied at the rate of 1% of the price paid or the market value of the shares acquired, if higher. The potential for stamp duty could adversely affect the price of the Company's ordinary shares.

Risks Related to Taxation

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

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

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

The Company has subsidiaries which have been incorporated under the laws of the Cayman Islands as exempted companies and, as such, obtained an undertaking on September 2, 2003 from the Governor in Council of the Cayman Islands substantially that, for a period of 20 years from the date of such undertaking, no law that is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to the Company and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on the Company's ordinary shares. This undertaking would not, however, prevent the imposition of taxes on any person ordinarily resident in the Cayman Islands or any company in respect of its ownership of real property or leasehold interests in the Cayman Islands. Given the limited duration of the undertaking, the Company cannot be certain that it will not be subject to Cayman Islands tax after the expiration of the 20-year period.

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

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

Global Indemnity or Wind River Reinsurance may be subject to U.S. tax that may have a material adverse effect on Global Indemnity's or Wind River Reinsurance's results of operations.

Global Indemnity is an Irish company and Wind River Reinsurance is a Bermuda company. The Company seeks to manage its business in a manner designed to reduce the risk that Global Indemnity and Wind River Reinsurance will be treated as being engaged in a U.S. trade or business for U.S. federal income tax purposes. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, the Company cannot be certain that the U.S. Internal Revenue Service will not contend successfully that Global Indemnity or Wind River Reinsurance will be engaged in a trade or business in the United States. If Global Indemnity or Wind River Reinsurance were considered to be engaged in a business in the United States, the Company could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case its results of operations could be materially adversely affected.

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

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

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

U.A.I. (Luxembourg) Investment, S.à.r.l., an indirectly owned Luxembourg subsidiary of Wind River Reinsurance, owns two notes issued by Global Indemnity Group, Inc., a Delaware corporation. Under U.S. federal income tax law, interest paid by a U.S. corporation to a non-U.S. shareholder is generally subject to a 30% withholding tax, unless reduced by treaty. The income tax treaty between the United States and Luxembourg (the Luxembourg Treaty) generally eliminates the withholding tax on interest paid to qualified residents of Luxembourg. Were the IRS to contend successfully that U.A.I. (Luxembourg) Investment, S.à.r.l. is not eligible for benefits under the Luxembourg Treaty, interest paid to U.A.I. (Luxembourg) Investment, S.à.r.l. by Global Indemnity Group, Inc. would be subject to the 30% withholding tax. Such tax may be applied retroactively to all previous years for which the statute of limitations has not expired, with interest and penalties. Such a result may have a material adverse effect on the Company's financial condition and results of operation.

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

U.A.I. (Ireland) Limited is a private limited liability company incorporated under the laws of Ireland. The company is a resident taxpayer fully subject to Ireland corporate income tax of 12.5% on trading income and 25.0% on non-trading income, including interest and dividends from foreign companies. The Company intends to manage its operations in such a way that there will not be any material taxable income generated in Ireland under Irish law. However, there can be no assurance from the Irish authorities that a law may not be enacted that would impute income to U.A.I. (Ireland) Limited in the future or retroactively arising out of the Company's current operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company leases office space in Bala Cynwyd, Pennsylvania which holds the Insurance Operations' principal executive offices and headquarters. In addition, the Company leases additional office space in California, Georgia, Illinois, Maryland and Texas, which serves as office space for field offices. Some of the office space in California also serves as office space for the Company's claims operations. The Company also leases office space in Hamilton, Bermuda, which is used by the Reinsurance Operations. The Company leases office space in Cavan, Ireland, which is used to support the operating needs of the Insurance and Reinsurance Operations. The Company believes the properties listed are suitable and adequate to meet its needs.

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Item 3. LEGAL PROCEEDINGS

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

There is a greater potential for disputes with reinsurers who are in runoff. Some of the Company's reinsurers have operations that are in runoff, and therefore, the Company closely monitors those relationships. The Company anticipates that, similar to the rest of the insurance and reinsurance industry, it will continue to be subject to litigation and arbitration proceedings in the ordinary course of business.

Item 4. MINE SAFETY DISCLOSURES

None.

Table of Contents**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for the Company's A Ordinary Shares**

The Company's A ordinary shares, par value \$0.0001 per share, began trading on the NASDAQ Global Select Market, formerly the NASDAQ National Market, under the symbol UNGL on December 16, 2003. On March 14, 2005 the Company changed its symbol to INDM. On July 6, 2010, the Company changed its symbol to GBLI as part of a re-domestication transaction whereby all shares of INDM were replaced with shares of GBLI on a one-for-two basis. The following table sets forth, for the periods indicated, the high and low sales prices of the Company's A ordinary shares as reported by the NASDAQ Global Select Market.

	High	Low
Fiscal Year Ended December 31, 2012:		
First Quarter	\$ 21.50	\$ 17.36
Second Quarter	21.81	17.22
Third Quarter	22.61	18.62
Fourth Quarter	22.58	20.91
Fiscal Year Ended December 31, 2011:		
First Quarter	\$ 23.45	\$ 18.75
Second Quarter	27.29	20.33
Third Quarter	23.09	15.50
Fourth Quarter	20.78	16.02

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

As of March 12, 2013, there were approximately 1,300 beneficial owners of the Company's A ordinary shares. As of March 12, 2013, there were 11 owners of the Company's B ordinary shares, all of whom are affiliates of Fox Paine & Company, LLC.

Table of Contents**Performance of the Company's A Ordinary Shares**

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

	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Global Indemnity plc	\$ 100.0	\$ 64.3	\$ 39.8	\$ 51.3	\$ 49.8	\$ 55.5
NASDAQ Insurance Index	100.0	88.3	88.8	101.8	104.9	119.1
NASDAQ Composite Index	100.0	59.5	85.6	100.0	98.2	113.8

Note: The Company completed a Rights Offering on May 5, 2009, which increased the Company's total outstanding A ordinary shares by 17.2 million shares.

Note: The Company completed a re-domestication transaction on July 2, 2010, which resulted in shares of INDM being exchanged for shares of GBLI on a one-for-two basis. Share prices prior to July 6, 2010 have been adjusted to reflect the impact of the one-for-two share exchange. See Note 4 to the consolidated financial statements in Item 8 of Part II of this report for details concerning the re-domestication.

Recent Sales of Unregistered Securities

None.

Purchases of the Company's A Ordinary Shares

The Company's Share Incentive Plan allows employees to surrender A ordinary shares as payment for the tax liability incurred upon the vesting of restricted stock that was issued under the Share Incentive Plan. During 2012, the Company purchased an aggregate 4,997 of surrendered A ordinary shares from employees for \$0.1 million. All shares purchased from employees are held as treasury stock and recorded at cost.

In 2011 and 2012, the Board of Directors authorized the Company to repurchase up to \$125.0 million of its A ordinary shares through share repurchase programs. The Company repurchased and retired an aggregate 5,371,419 of its A ordinary shares in the open market and in privately negotiated transactions at an aggregate price of \$112.2 million or an average of \$20.89 per share. The Company does not have authorization from the Board of Directors to repurchase any additional A ordinary shares as of December 31, 2012. The excess cost of the repurchased shares over their par value was classified to additional paid-in capital as of December 31, 2012.

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See Note 14 to the consolidated financial statements in Item 8 of Part II of this report for tabular disclosure of the Company's share repurchases by month.

Dividend Policy

The Company did not declare or pay cash dividends on any class of its ordinary shares in 2012 or 2011. Payment of dividends is subject to future determinations by the Board of Directors based on the Company's results, financial conditions, and amounts required to grow the Company's business, and other factors deemed relevant by the Board.

The Company is a holding company and has no direct operations. The Company's ability to pay dividends depends, in part, on the ability of its subsidiaries to pay dividends. Wind River Reinsurance and the U.S. insurance subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends.

See Note 20 of the notes to consolidated financial statements in Item 8 of Part II of this report for the dividends declared and paid by the U.S. insurance subsidiaries in 2012 and the maximum amount of distributions that they could pay as dividends in 2013.

For 2013, the Company believes that Wind River Reinsurance should have sufficient liquidity and solvency to pay dividends. In the future, the Company anticipates using dividends from Wind River Reinsurance to fund obligations of Global Indemnity. Wind River Reinsurance is prohibited, without the approval of the 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. Based upon the total statutory capital plus the statutory surplus as set out in its 2012 statutory financial statements that will be filed in 2013, Wind River Reinsurance could pay a dividend of up to \$216.3 million without requesting BMA approval. Wind River Reinsurance is dependent on receiving distributions from its subsidiaries in order to pay the full dividend.

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

In 2012, profit distributions (not in respect to liquidations) by the Luxembourg Companies were generally subject to Luxembourg dividend withholding tax at a rate of 15%, unless a domestic law exemption or a lower tax treaty rate applies. There were no Luxembourg dividends paid in 2012. Dividends paid by any of the Luxembourg Companies to their Luxembourg resident parent company are exempt from Luxembourg dividend withholding tax, provided that at the time of the dividend distribution, the resident parent company has held (or commits itself to continue to hold) 10% or more of the nominal paid up capital of the distributing entity or, in the event of a lower percentage participation, a participation having an acquisition price of Euro 1.2 million or more for a period of at least twelve months.

For a discussion of factors affecting the Company's ability to pay dividends, see "Business Regulation" in Item 1 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Sources and Uses of Funds" in Item 7 of Part II, and Note 20 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

Table of Contents**Item 6. SELECTED FINANCIAL DATA**

Effective January 1, 2012, the Company adopted new accounting guidance that modified the definition of costs that can be capitalized in the acquisition of new and renewal business for insurance companies. Under the new guidance, only direct incremental costs associated with successful insurance contract acquisitions or renewals are deferrable. This guidance was adopted retrospectively and has been applied to all prior period information contained in this Form 10-K. For further information please see Note 2 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

The following table sets forth selected consolidated historical financial data for Global Indemnity and should be read together with the consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this report. No cash dividends were declared on common stock in any year presented in the table.

(Dollars in thousands, except shares and per share data)	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
Consolidated Statements of Operations Data:					
Gross premiums written	\$ 244,053	\$ 307,903	\$ 345,763	\$ 340,999	\$ 378,700
Net premiums written	219,547	280,570	296,504	290,995	309,080
Net premiums earned	238,862	297,854	286,774	301,674	382,508
Net realized investment gains (losses)	6,755	21,473	26,437	15,862	(50,259)
Total revenues	293,016	385,020	370,127	388,115	400,079
Impairments of goodwill and intangible assets					(96,449)
Net income (loss) (4)	34,757	(38,338)	84,871	74,662	(141,408)
Per share data: (1) (2) (3) (4)					
Net income (loss) available to common shareholders	\$ 34,757	\$ (38,338)	\$ 84,871	\$ 74,662	\$ (141,408)
Basic	1.30	(1.27)	2.81	2.89	(7.74)
Diluted	1.30	(1.27)	2.80	2.88	(7.74)
Weighted-average number of shares outstanding					
Basic	26,722,772	30,246,095	30,237,787	25,856,049	18,278,094
Diluted	26,748,833	30,246,095	30,274,259	25,881,382	18,278,094

- (1) In 2011 and 2008, Diluted shares were the same as Basic shares since there was a net loss for that year.
- (2) In May 2009, the Company issued 17.2 million A ordinary shares and 11.4 million B ordinary shares in conjunction with the Rights Offering. In computing the basic and diluted weighted share counts, the number of shares outstanding prior to May 5, 2009 (the date that the ordinary shares were issued in conjunction with the Rights Offering) was adjusted by a factor of 1.114 to reflect the impact of a bonus element associated with the Rights Offering in accordance with appropriate accounting guidance. As a result, share counts for the prior periods have been restated.
- (3) Shares outstanding and per share amounts have been restated to reflect the 1-for-2 stock exchange effective July 2, 2010 when the Company completed its re-domestication to Ireland.
- (4) Results for the year to date 2012 include the impact of an out-of-period adjustment which reduced net income by \$1.6 million, or \$0.06 per diluted share.

Table of Contents**Consolidated Insurance Operating Ratios based on the Company's GAAP Results: (1)**

Loss ratio (2) (3)	64.3	93.5	45.4	56.2	79.8
Expense ratio	39.9	40.8	41.2	40.1	37.3
Combined ratio (2) (3)	104.2	134.3	86.6	96.3	117.1
Net / gross premiums written	90.0	91.1	85.8	85.3	81.6

Financial Position as of Last Day of Period:

Total investments and cash and cash equivalents	\$ 1,533,989	\$ 1,647,723	\$ 1,717,186	\$ 1,731,314	\$ 1,599,528
Reinsurance receivables, net of allowance	241,827	287,986	422,844	543,351	679,277
Total assets	1,903,703	2,072,916	2,290,728	2,441,913	2,473,967
Senior notes payable	54,000	72,000	90,000	90,000	90,000
Junior subordinated debentures	30,929	30,929	30,929	30,929	30,929
Unpaid losses and loss adjustment expenses	879,114	971,377	1,052,743	1,257,741	1,506,429
Total shareholders' equity	806,618	839,063	924,769	828,108	628,901

- (1) The Company's insurance operating 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. The ratios presented here represent the consolidated results of both the Company's Insurance Operations and Reinsurance Operations.
- (2) The Company's 2012 loss and combined ratios were impacted by a \$4.4 million increase of net losses and loss adjustment expenses for prior accident years. The Company's 2011 loss and combined ratios were impacted by a \$3.4 million increase of net losses and loss adjustment expenses for prior accident years. The Company's 2010 loss and combined ratios were impacted by a \$54.1 million reduction of net losses and loss adjustment expenses for prior accident years. The Company's 2009 loss and combined ratios were impacted by a \$9.1 million reduction of net losses and loss adjustment expenses for prior accident years. The Company's 2008 loss and combined ratios were impacted by a \$34.9 million increase of net losses and loss adjustment expenses for prior accident years. See Results of Operations in Item 7 of Part II of this report for details of these items and their impact on the loss and combined ratios.
- (3) The Company's loss and combined ratios for 2012, 2011, 2010, 2009, and 2008 include \$14.2 million, \$20.6 million, \$2.8 million, \$5.8 million, and \$21.5 million, respectively, of catastrophic losses from the Insurance Operations. See Results of Operations in Item 7 of Part II of this report for a discussion of the impact of these losses on the loss and combined ratios.

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

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

Recent Developments

Superstorm Sandy

In late October, 2012, Superstorm Sandy made landfall in the northeastern United States. While we are still evaluating the ultimate impact of this event, our current estimate of ultimate loss is approximately \$12 million. Actual losses from this event may vary materially from our current estimates due to the inherent uncertainties resulting from several factors, including the preliminary nature of the loss data available and potential inaccuracies and inadequacies in the data provided.

Mary R. Hennessy

On November 14, 2012, Mary R. Hennessy resigned from the Company's Board of Directors.

Share Repurchase Program

On August 28, 2012, the Board of Directors authorized the Company to repurchase up to \$25.0 million of its A ordinary shares. The Company repurchased and retired an aggregate 386,289 of its A ordinary shares in the open market and in privately negotiated transactions at an aggregate price of \$8.1 million or an average of \$21.10 per share. The Company does not have authorization from the Board of Directors to repurchase any additional A ordinary shares as of December 31, 2012. The excess cost of the repurchased shares over their par value was classified to additional paid-in capital as of December 31, 2012.

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

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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.

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 United States of America generally accepted accounting principles (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. See Note 6 of the notes to consolidated financial statements contained in Item 8 of Part II of this report. Actual results could differ from those estimates and assumptions.

Effective January 1, 2012, the Company adopted new accounting guidance that modified the definition of costs that can be capitalized in the acquisition of new and renewal business for insurance companies. Under the new guidance, only direct incremental costs associated with successful insurance contract acquisitions or renewals are deferrable. This guidance was adopted retrospectively and has been applied to all prior period information contained in this Form 10-K. For further information please see Note 2 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

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

Liability for Unpaid Losses and Loss Adjustment Expenses

Although variability is inherent in estimates, the Company believes that the liability for unpaid losses and loss adjustment expenses reflects 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.

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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 them 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 this report. Each of the Company's product classifications contain both long-tail and short-tail exposures. Every reserve category is analyzed by the Company's actuaries each quarter. 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 perform a full, detailed review of the Insurance Operations reserves annually. The Company does not rely upon the review by the independent actuaries to develop its reserves; however, the data is used to corroborate the analysis performed by the in-house actuarial staff. The Company's independent external actuaries also perform a full, detailed review of the Reinsurance Operations reserves annually.

The 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

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may result in inconsistent payment patterns. Finally, estimating the paid loss pattern subsequent to the most mature point available in the data analyzed often involves considerable uncertainty for long-tail reserve categories.

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

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

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

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

The Average Loss method multiplies a projected number of ultimate 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

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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 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 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

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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.

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

Management's best estimate at December 31, 2012 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 \$879.1 million and \$638.5 million, respectively, as of December 31, 2012. A breakout of the Company's gross and net reserves, excluding the effects of the Company's intercompany pooling arrangements and intercompany stop loss and quota share reinsurance agreements, as of December 31, 2012 is as follows:

(Dollars in thousands)	Case	Gross Reserves	
		IBNR (1)	Total
Insurance Operations	\$ 256,784	\$ 507,832	\$ 764,616
Reinsurance Operations	41,181	73,317	114,498
Total	\$ 297,965	\$ 581,149	\$ 879,114

(Dollars in thousands)	Case	Net Reserves (2)	
		IBNR (1)	Total
Insurance Operations	\$ 169,440	\$ 356,116	\$ 525,556
Reinsurance Operations	41,181	71,811	112,992
Total	\$ 210,621	427,927	638,548

(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 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. Changes in estimates for loss and loss adjustment expense reserves are recorded in the period that the change in these estimates is made. See Note 12 to the consolidated financial statements in Item 8 of Part II 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

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difference between the estimated ultimate loss and the losses paid to date. The difference between the estimated ultimate loss and the case incurred loss (paid loss plus case reserve) is considered to be IBNR. IBNR calculated as such includes a provision for development on known cases (supplemental development) as well as a provision for claims that have occurred but have not yet been reported (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 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 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 \$149.2 million for claims occurring during the year ended December 31, 2012:

(Dollars in thousands)	Severity Change					
		-10%	-5%	0%	5%	10%
Frequency Change	-5%	\$ (21,632)	\$ (14,545)	\$ (7,459)	\$ (373)	\$ 6,713
	-3%	(18,946)	(11,711)	(4,476)	2,760	9,995
	-2%	(17,604)	(10,294)	(2,984)	4,326	11,636
	-1%	(16,261)	(8,876)	(1,492)	5,893	13,277
	0%	(14,918)	(7,459)		7,459	14,918
	1%	(13,576)	(6,042)	1,492	9,026	16,559
	2%	(12,233)	(4,625)	2,984	10,592	18,200
	3%	(10,890)	(3,207)	4,476	12,158	19,841
	5%	(8,205)	(373)	7,459	15,291	23,124

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The Company's net reserves for losses and loss expenses of \$638.5 million as of December 31, 2012 relate to multiple accident years. Therefore, the impact of changes in frequency and severity for more than one accident year could be higher or lower than the amounts reflected above.

Recoverability of Reinsurance Receivables

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

See Note 10 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding the Company's reinsurance receivable balances and collectability as of December 31, 2012 and 2011. For a listing of the ten reinsurers for which the Company has the largest reinsurance asset amounts as of December 31, 2012, see "Reinsurance of Underwriting Risk" in Item 1 of Part I of this report.

Investments

The carrying amount of the Company's investments approximates their estimated 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 6 of the notes to consolidated financial statements in Item 8 of Part II of this report for the specific methodologies and significant assumptions used by asset class. Upon identification of such securities and periodically thereafter, a detailed review is performed to determine whether the decline is considered other than temporary. This review includes an analysis of several factors, including but not limited to, the credit ratings and cash flows of the securities, and the magnitude and length of time that the fair value of such securities is below cost.

For an analysis of the Company's securities with gross unrealized losses as of December 31, 2012 and 2011, and for other than temporary impairment losses that the Company recorded for the years ended December 31, 2012, 2011, and 2010, please see Note 7 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

Fair Value Measurements

The Company categorizes its 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 8 of the notes to the consolidated financial statements in Item 8 of Part II of this report for further information about the fair value hierarchy and the Company's assets that are accounted for at fair value.

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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. Recent 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. Based on the analysis performed in 2012, there was no impairment of goodwill as of December 31, 2012.

The Company tests for impairment of intangible assets with an indefinite useful life at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Recent accounting guidance allows for the testing of indefinite lived intangible assets for impairment using both qualitative and quantitative factors. Impairment of indefinite lived intangible assets is recognized only if the carrying amount of the intangible assets exceeds the fair value of said assets. The amount of the impairment loss would be equal to the excess carrying value of the assets over the fair value of said assets. Based on the analysis performed in 2012, there were no impairments of indefinite lived intangible assets as of December 31, 2012.

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. Based on the analysis performed in 2012, there were no impairments of definite lived intangible assets as of December 31, 2012.

See Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report for more details concerning the Company's goodwill and intangible assets.

Deferred Acquisition Costs

The costs of acquiring new and renewal insurance and reinsurance contracts include commissions, premium taxes and certain other costs that 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.

Effective January 1, 2012, the Company adopted new accounting guidance that modified the definition of costs that can be capitalized in the acquisition of new and renewal business for insurance companies. Under the new guidance, only direct incremental costs associated with successful insurance contract acquisitions or renewals are deferrable. This guidance was adopted retrospectively and has been applied to all prior period information contained in this Form 10-K. For further information please see Note 2 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

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As of December 31, 2012, the Company's deferred acquisition costs were \$0.5 million lower than they would have been due to premium deficiencies. As of December 31, 2011, the Company's deferred acquisition costs were \$4.8 million lower than they would have been and loss and loss adjustment expense reserves were \$4.1 million higher than they would have been due to premium deficiencies.

Taxation

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

At each balance sheet date, management assesses the need to establish a valuation allowance that reduces deferred tax assets when it is more likely than not that all, or some portion, of the deferred tax assets will not be realized. A valuation allowance would be based on all available information including the Company's assessment of uncertain tax positions and projections of future taxable income from each tax-paying component in each jurisdiction, principally derived from business plans and available tax planning strategies. There are no valuation allowances as of December 31, 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 the forecast of future taxable income for each tax-paying component prove to be incorrect, a valuation allowance may be required. This could have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

The Company applies a more likely than not recognition threshold for all tax uncertainties, only allowing the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. Please see Note 11 of the notes to the consolidated financial statements in Item 8 of Part II of this report for a discussion of the Company's tax uncertainties.

Business Segments

The Company manages its business through 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 expenses in the form of (1) net losses and loss adjustment expenses, (2) acquisition costs, and (3) other underwriting expenses.

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

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

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Insurance Operations premiums written:			
Gross premiums written	\$ 201,790	\$ 229,148	\$ 245,481
Ceded premiums written	23,958	26,831	49,416
Net premiums written	\$ 177,832	\$ 202,317	\$ 196,065