Global Indemnity plc
Form 10-Q
August 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 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)

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

ARTHUR COX BUILDING

EARLSFORT TERRACE

DUBLIN 2

IRELAND

(Address of principal executive office, including zip code)

353 (0) 1 618 0517

(Registrant s telephone number, including area code)

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

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

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

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

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

As of August 3, 2012, the registrant had outstanding 13,432,093 A Ordinary Shares and 12,061,370 B Ordinary Shares.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL INDEMNITY PLC

Consolidated Balance Sheets

(In thousands, except share amounts)

	(Unaudited) June 30, 2012	December 31, 2011
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,265,606 and $1,258,533)	$ 1,306,788	$ 1,296,885
Equity securities:		
Available for sale, at fair value (cost: $160,262 and $155,390)	180,270	168,361
Other invested assets:		
Available for sale, at fair value (cost: $4,156 and $4,150)	8,590	6,617
Total investments	1,495,648	1,471,863
Cash and cash equivalents	77,124	175,860
Premiums receivable, net	52,696	47,844
Reinsurance receivables	278,095	287,986
Federal income taxes receivable	9,762	2,223
Deferred federal income taxes	9,923	14,642
Deferred acquisition costs	20,187	21,564
Intangible assets	18,520	18,704
Goodwill	4,820	4,820
Prepaid reinsurance premiums	6,621	6,555
Receivable for securities sold		1,484
Other assets	18,227	19,371
Total assets	$ 1,991,623	$ 2,072,916
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 941,283	$ 971,377
Unearned premiums	103,194	114,041
Ceded balances payable	7,643	8,887
Contingent commissions	6,231	7,473
Payable for securities purchased	9,608	
Notes and debentures payable	102,929	103,000
Other liabilities	25,546	29,075
Total liabilities	1,196,434	1,233,853
Commitments and contingencies (Note 11)		
Shareholders equity:		

Ordinary shares, $0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 16,488,613 and 21,429,683, respectively; A ordinary shares outstanding: 13,432,093 and 16,810,678, respectively; B ordinary shares issued and outstanding: 12,061,370 and 12,061,370, respectively	3	3
Additional paid-in capital	519,065	621,917
Accumulated other comprehensive income, net of taxes	49,441	40,174
Retained earnings	327,879	307,413
A ordinary shares in treasury, at cost: 3,056,520 and 4,619,005 shares, respectively	(101,199)	(130,444)
Total shareholders equity	795,189	839,063
Total liabilities and shareholders equity	$ 1,991,623	$ 2,072,916

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Operations

(In thousands, except shares and per share data)

	(Unaudited) Quarters Ended June 30, 2012	(Unaudited) Quarters Ended June 30, 2011	(Unaudited) Six Months Ended June 30, 2012	(Unaudited) Six Months Ended June 30, 2011
Revenues:				
Gross premiums written	$ 67,632	$ 94,962	$ 125,390	$ 182,628
Net premiums written	$ 61,135	$ 86,407	$ 111,416	$ 169,515
Net premiums earned	$ 57,859	$ 78,055	$ 122,329	$ 154,024
Net investment income	11,071	13,930	22,488	28,344
Net realized investment gains:				
Other than temporary impairment losses on investments	(1,326)	(1,353)	(3,619)	(1,906)
Other than temporary impairment losses on investments recognized in other comprehensive income			541	
Other net realized investment gains	3,267	9,739	6,780	22,289
Total net realized investment gains	1,941	8,386	3,702	20,383
Other income (loss)	(40)	375	(392)	12,167
Total revenues	70,831	100,746	148,127	214,918
Losses and Expenses:				
Net losses and loss adjustment expenses	36,158	61,753	78,167	120,095
Acquisition costs and other underwriting expenses	23,760	30,089	46,927	59,483
Corporate and other operating expenses	2,336	4,899	4,824	7,802
Interest expense	1,470	1,743	2,948	3,495
Income before income taxes	7,107	2,262	15,261	24,043
Income tax expense (benefit)	(2,497)	(2,022)	(5,205)	5,502
Income before equity in net income of partnerships	9,604	4,284	20,466	18,541
Equity in net income of partnerships, net of taxes				53
Net income	$ 9,604	$ 4,284	$ 20,466	$ 18,594
Per share data:				
Net income				
Basic	$ 0.35	$ 0.14	$ 0.73	$ 0.61
Diluted	$ 0.35	$ 0.14	$ 0.72	$ 0.61
Weighted-average number of shares outstanding				
Basic	27,829,555	30,321,909	28,223,321	30,311,658

Diluted	27,836,453	30,367,556	28,236,562	30,349,985

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Comprehensive Income

(In thousands)

	(Unaudited) Quarters Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Net income	$ 9,604	$ 4,284	$ 20,466	$ 18,594
Other comprehensive income (loss), net of taxes:				
Unrealized holding gains (losses) arising during period	(9,866)	3,068	6,575	10,403
Portion of other than temporary impairment losses recognized in other comprehensive income (loss), net of taxes	(4)	(6)	(539)	(10)
Recognition of previously unrealized holding (gains) losses	1,450	(6,210)	3,231	(14,965)
Other comprehensive income (loss), net of taxes	(8,420)	(3,148)	9,267	(4,572)
Comprehensive income, net of taxes	$ 1,184	$ 1,136	$ 29,733	$ 14,022

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Changes in Shareholders Equity

(In thousands, except share amounts)

	(Unaudited) Six Months Ended June 30, 2012	Year Ended December 31, 2011
Number of A ordinary shares issued:		
Number at beginning of period	21,429,683	21,340,821
Ordinary shares issued under share incentive plans	29,675	47,682
Ordinary shares issued to directors	14,385	41,180
Ordinary shares retired	(4,985,130)	
Number at end of period	16,488,613	21,429,683
Number of B ordinary shares issued:		
Number at beginning and end of period	12,061,370	12,061,370
Par value of A ordinary shares:		
Balance at beginning and end of period	$ 2	$ 2
Par value of B ordinary shares:		
Balance at beginning and end of period	$ 1	$ 1
Additional paid-in capital:		
Balance at beginning of period	$ 621,917	$ 622,725
Share compensation plans	1,243	(808)
A ordinary shares retired	(104,095)	
Balance at end of period	$ 519,065	$ 621,917
Accumulated other comprehensive income, net of deferred income tax:		
Balance at beginning of period	$ 40,174	$ 57,211
Other comprehensive income (loss):		
Change in unrealized holding gains (losses) during the period	9,281	(17,008)
Change in other than temporary impairment losses recognized in other comprehensive income (loss), net of taxes	(14)	(29)
Other comprehensive income (loss)	9,267	(17,037)
Balance at end of period	$ 49,441	$ 40,174
Retained earnings:		
Balance at beginning of period	$ 307,413	$ 349,642
Cumulative effect adjustment resulting from adoption of new accounting guidance		(3,900)
Net income (loss)	20,466	(38,329)

Balance at end of period	$	327,879	$	307,413
Number of Treasury Shares:				
Number at beginning of period		4,619,005		3,040,277
A ordinary shares purchased		3,422,645		1,578,728
A ordinary shares retired		(4,985,130)		
Number at end of period		3,056,520		4,619,005
Treasury Shares, at cost:				
Balance at beginning of period	$	(130,444)	$	(100,912)
A ordinary shares purchased, at cost		(74,850)		(29,532)
A ordinary shares retired		104,095		
Balance at end of period	$	(101,199)	$	(130,444)
Total shareholders equity	$	795,189	$	839,063

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited) Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 20,466	$ 18,594
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Amortization of trust preferred securities issuance costs	33	41
Amortization and depreciation	941	1,041
Restricted stock and stock option expense	1,287	1,132
Deferred federal income taxes	2,111	(101)
Amortization of bond premium and discount, net	3,549	2,321
Net realized investment gains	(3,702)	(20,383)
Equity in income of partnerships		(53)
Changes in:		
Premiums receivable, net	(4,852)	(11,824)
Reinsurance receivables	9,891	90,602
Unpaid losses and loss adjustment expenses	(30,094)	(77,547)
Unearned premiums	(10,847)	13,232
Ceded balances payable	(1,244)	(6,258)
Other assets and liabilities, net	(3,165)	214
Contingent commissions	(1,242)	(4,316)
Federal income tax receivable/payable	(7,539)	1,505
Deferred acquisition costs, net	1,377	(3,990)
Prepaid reinsurance premiums	(66)	2,262
Net cash provided by (used for) operating activities	(23,096)	6,472
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	270,873	459,364
Proceeds from sale of equity securities	25,159	50,055
Proceeds from maturity of fixed maturities	25,460	31,670
Proceeds from sale of other invested assets		1,348
Purchases of fixed maturities	(294,711)	(504,088)
Purchases of equity securities	(27,494)	(47,923)
Purchases of other invested assets	(6)	(10,026)
Net cash used for investing activities	(719)	(19,600)
Cash flows from financing activities:		
Tax expense associated with share-based compensation plans		(106)
Purchases of A ordinary shares	(74,850)	(167)
Principal payments of term debt	(71)	(143)
Net cash used for financing activities	(74,921)	(416)
Net change in cash and cash equivalents	(98,736)	(13,544)

Cash and cash equivalents at beginning of period	175,860	119,888
Cash and cash equivalents at end of period	$ 77,124	$ 106,344

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Principles of Consolidation and Basis of Presentation

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

The Company manages its business through two business segments: Insurance Operations, which includes the operations of United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company, American Insurance Adjustment Agency, Inc., Collectibles Insurance Services, LLC, United America Insurance Services, LLC, and J.H. Ferguson & Associates, LLC, and Reinsurance Operations, which includes the operations of Wind River Reinsurance Company, Ltd. (Wind River Reinsurance).

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

The unaudited consolidated financial statements include all adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair statement of results for the interim periods. Results of operations for the quarters and six months ended June 30, 2012 and 2011 are not necessarily indicative of the results of a full year. The accompanying notes to the unaudited consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company s 2011 Annual Report on Form 10-K.

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

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

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 these consolidated financial statements. For further information please see Note 2.

2. Change in Accounting Principle

In October, 2010, the FASB issued new accounting guidance that modified the definition of costs that can be

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

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. The Company adopted this guidance retrospectively effective January 1, 2012 and has adjusted all prior period information contained in these consolidated financial statements.

The Company s deferrable costs include: incremental direct costs of contract acquisition, primarily commissions and premium taxes, the portion of an employee s total compensation attributable to successful acquisition or renewal of insurance and reinsurance contracts and other costs directly related to acquisition activities that would not have been incurred had the contract not been acquired. These costs are deferred and amortized ratably 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 shall be 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.

The effect of adoption of this guidance on the consolidated balance sheet as of December 31, 2011 was as follows:

Balance Sheet	**December 31, 2011**	
(Dollars in thousands)	**As Previously Reported**	**As Currently Reported**
Deferred acquisition costs	$ 25,565	$ 21,564
Deferred federal income taxes	13,242	14,642
Total assets	2,075,517	2,072,916
Retained earnings	310,014	307,413
Total shareholders equity	841,664	839,063
Total liabilities and shareholders equity	2,075,517	2,072,916

The effect of adoption of this guidance on the consolidated income statement for the quarter and six months ended June 30, 2011 was as follows:

Income Statement	**Quarter Ended June 30, 2011**		**Six Months Ended June 30, 2011**	
(Dollars in thousands, except per share data)	**As Previously Reported**	**As Currently Reported**	**As Previously Reported**	**As Currently Reported**
Acquisition costs and other underwriting expenses	$ 30,197	$ 30,089	$ 60,049	$ 59,483
Income before income taxes	2,154	2,262	23,477	24,043
Income tax expense (benefit)	(2,287)	(2,022)	5,304	5,502
Net income	4,441	4,284	18,226	18,594
Net income per share - basic	$ 0.15	$ 0.14	$ 0.60	$ 0.61
Net income per share - diluted	$ 0.15	$ 0.14	$ 0.60	$ 0.61

The effect of adoption of this guidance on the consolidated statement of cash flows for the six months ended June 30, 2011 was as follows:

Statement of Cash Flows **(Dollars in thousands)**	**Six Months Ended June 30, 2011**	
	As Previously Reported	**As Currently Reported**
Net income	$ 18,226	$ 18,594

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

Deferred federal income taxes	(299)	(101)
Change in deferred acquisition costs	(3,424)	(3,990)

3. Profit Enhancement Initiative

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

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

In December of 2011 the Company incurred additional costs related to streamlining its operations in response to the continued competitive landscape within the excess and surplus lines market. These charges were recorded within the Company s consolidated statement of operations in the fourth quarter of 2011 and impacted both its Insurance Operations as well as its Reinsurance Operations. All action items related to the reorganization were implemented by December 31, 2011.

Components of the reorganization included (1) employee termination and severance charges of $0.79 million; (2) charges of $0.84 million related to discontinuing use of leased office space, net of expected sub-lease income; and (3) fixed asset and leasehold improvement impairments of $1.17 million. Of the $2.79 million in additional charges incurred, $2.03 million were recorded within the Company s Insurance Operations segment and $0.76 million were recorded within the Company s Reinsurance Operations segment.

The following table summarizes charges incurred by expense type and the remaining liability as of June 30, 2012, December 31, 2011 and December 31, 2010:

(Dollars in thousands)	**Employee Termination**	**Operating Leases**	**Asset Impairments**	**Workers Compensation**	**Total**
Charges incurred in 2010	$ 1,711	$ 1,532	$ 631	$ 2,907	$ 6,781
Cash payments for 2010 actions	(758)			(985)	(1,743)
Non-cash adjustments for 2010 actions	176		(631)	(1,430)	(1,885)
Liability at December 31, 2010	$ 1,129	$ 1,532	$	$ 492	$ 3,153
Cash payments for 2010 actions	(1,129)	(805)		(492)	(2,426)
Non-cash adjustments for 2010 actions		259			259
Additional charges incurred in 2011	785	842	1,165		2,792
Non-cash adjustments for 2011 actions			(1,165)		(1,165)
Liability at December 31, 2011	$ 785	$ 1,828	$	$	$ 2,613

Cash payments for 2010 actions		(202)			(202)
Cash payments for 2011 actions	(485)	(182)			(667)
Non-cash adjustments for 2011 actions		(182)			(182)
Liability at June 30, 2012	$ 300	$ 1,262	$	$	$ 1,562

There was a reduction in expense of $0.18 million related to the Profit Enhancement Initiative included in the statement of operations within the Acquisition costs and other underwriting expenses line item for the quarter and six months ended June 30, 2012. There was a reduction in expense of $0.06 million related to the Profit

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

Enhancement Initiative included in the statement of operations within the Corporate and other operating expenses line item for the quarter and six months ended June 30, 2011.

4. Investments

The Company s investments in fixed maturities and common stock are classified as available for sale and are carried at their fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the Company s available for sale portfolio, excluding the limited partnership interest, are determined on the basis of quoted market prices where available. If quoted market prices are not available, the Company uses third party pricing services to assist in determining fair value. In many instances, these services examine the pricing of similar instruments to estimate fair value. The Company purchases bonds with the expectation of holding them to their maturity; however, changes to the portfolio are sometimes required to assure it is appropriately matched to liabilities. In addition, changes in financial market conditions and tax considerations may cause the Company to sell an investment before it matures. Corporate loans have stated maturities; however, they generally do not reach their final maturity due to borrowers refinancing. The difference between amortized cost and fair value of the Company s available for sale investments, net of the effect of deferred income taxes, is reflected in accumulated other comprehensive income in shareholders equity and, accordingly, has no effect on net income other than for the credit loss component of impairments deemed to be other than temporary.

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

The amortized cost and estimated fair value of investments were as follows as of June 30, 2012 and December 31, 2011:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of June 30, 2012					
Fixed maturities:					
U.S. treasury and agency obligations	$ 128,348	$ 7,312	$ (4)	$ 135,656	$
Obligations of states and political subdivisions	203,184	7,516	(41)	210,659	
Mortgage-backed securities	258,196	9,202	(47)	267,351	(10)
Asset-backed securities	115,367	2,151	(19)	117,499	(27)
Commercial mortgage-backed securities	17,211	79	(34)	17,256	
Corporate bonds and loans	478,206	14,805	(982)	492,029	
Foreign corporate bonds	65,094	1,488	(244)	66,338	
Total fixed maturities	1,265,606	42,553	(1,371)	1,306,788	(37)
Common stock	160,262	25,416	(5,408)	180,270	
Other invested assets	4,156	4,434		8,590	
Total	$ 1,430,024	$ 72,403	$ (6,779)	$ 1,495,648	$ (37)

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

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of December 31, 2011					
Fixed maturities:					
U.S. treasury and agency obligations	$ 123,089	$ 8,201	$ (1)	$ 131,289	$
Obligations of states and political subdivisions	198,374	7,822	(63)	206,133	
Mortgage-backed securities	259,935	9,283	(228)	268,990	(13)
Asset-backed securities	94,096	1,931	(63)	95,964	(32)
Commercial mortgage-backed securities	29,975	66	(72)	29,969	
Corporate bonds and loans	510,580	14,317	(3,696)	521,201	(134)
Foreign corporate bonds	42,484	994	(139)	43,339	
Total fixed maturities	1,258,533	42,614	(4,262)	1,296,885	(179)
Common stock	155,390	19,436	(6,465)	168,361	
Other invested assets	4,150	2,467		6,617	
Total	$ 1,418,073	$ 64,517	$ (10,727)	$ 1,471,863	$ (179)

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

Excluding U.S. treasuries and agency bonds, the Company did not hold any debt or equity investments in a single issuer that was in excess of 4% of shareholders equity at June 30, 2012 or December 31, 2011.

The amortized cost and estimated fair value of the Company s fixed maturities portfolio classified as available for sale at June 30, 2012, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 115,142	$ 116,202
Due after one year through five years	604,854	627,923
Due after five years through ten years	112,926	116,676
Due after ten years through fifteen years	9,677	11,201
Due after fifteen years	32,233	32,680
Mortgage-backed securities	258,196	267,351
Asset-backed securities	115,367	117,499
Commercial mortgage-backed securities	17,211	17,256
Total	$ 1,265,606	$ 1,306,788

The following table contains an analysis of the Company s securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of June 30, 2012:

(Dollars in thousands)	Less than 12 months		12 months or longer (1)		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	$ 23,788	$ (4)	$	$	$ 23,788	$ (4)
Obligations of states and political subdivisions	11,776	(15)	2,112	(26)	13,888	(41)
Mortgage-backed securities	26,784	(29)	704	(18)	27,488	(47)
Asset-backed securities	7,405	(7)	519	(12)	7,924	(19)
Commercial mortgage-backed securities	6,879	(31)	517	(3)	7,396	(34)
Corporate bonds and loans	48,016	(680)	17,018	(302)	65,034	(982)
Foreign corporate bonds	11,858	(244)			11,858	(244)
Total fixed maturities	136,506	(1,010)	20,870	(361)	157,376	(1,371)
Common stock	42,434	(4,056)	3,730	(1,352)	46,164	(5,408)
Total	$ 178,940	$ (5,066)	$ 24,600	$ (1,713)	$ 203,540	$ (6,779)

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

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

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(Dollars in thousands)	Less than 12 months		12 months or longer (1)		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	$ 2,246	$ (1)	$	$	$ 2,246	$ (1)
Obligations of states and political subdivisions			6,843	(63)	6,843	(63)
Mortgage-backed securities	15,041	(210)	751	(18)	15,792	(228)
Asset-backed securities	13,622	(33)	657	(30)	14,279	(63)
Commercial mortgage-backed securities	9,967	(38)	8,869	(34)	18,836	(72)
Corporate bonds and loans	103,432	(3,301)	8,436	(395)	111,868	(3,696)
Foreign corporate bonds	5,429	(139)			5,429	(139)
Total fixed maturities	149,737	(3,722)	25,556	(540)	175,293	(4,262)
Common stock	44,859	(6,402)	303	(63)	45,162	(6,465)
Total	$ 194,596	$ (10,124)	$ 25,859	$ (603)	$ 220,455	$ (10,727)

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

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

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

(1) the issuer is in financial distress;

(2) the investment is secured;

(3) a significant credit rating action occurred;

(4) scheduled interest payments were delayed or missed;

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

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

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

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

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comprehensive income, net of taxes.

For equity securities, management carefully reviews all securities with unrealized losses to determine if a security should be impaired and further focuses on securities that have either:

(1) persisted with unrealized losses for more than twelve consecutive months or

(2) the value of the investment has been 20% or more below cost for six continuous months or more.

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

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

U.S. treasury and agency obligations As of June 30, 2012, gross unrealized losses related to U.S. treasury and agency obligations were $0.004 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All of these securities are rated AA+. The Company s investment manager conducts extensive macroeconomic and market analysis which are driven by moderate interest rate anticipation, yield curve management, and security selection.

Obligations of states and political subdivisions As of June 30, 2012, gross unrealized losses related to obligations of states and political subdivisions were $0.041 million. Of this amount, $0.026 million have been in an unrealized loss position for twelve months or greater. These securities are rated AA+ or higher. The Company s investment manager considers all factors that influence performance of the municipal bond market, including investor expectations, supply and demand patterns, and current versus historical yield and spread relationships. The manager relies on the output of its fixed income credit analysts, including dedicated municipal bond analysts. The dedicated municipal analysts perform extensive in-house fundamental analysis on each issuer, regardless of their rating by the major agencies.

Mortgage-backed securities (MBS) As of June 30, 2012, gross unrealized losses related to mortgage-backed securities were $0.047 million. Of this amount, $0.018 million have been in an unrealized loss position for twelve months or greater. All of the securities in an unrealized loss position for twelve months or greater are rated AA or higher. The Company s investment manager models each mortgage-backed security to project principal losses under downside, base, and upside scenarios for the economy and home prices. The primary assumption that drives the security and loan level modeling is the Home Price Index (HPI) projection. The Company s investment manager first projects HPI at the national level, then at the zip code level based on the historical relationship between the individual zip code HPI and the national HPI, using inputs from its macroeconomic team, mortgage portfolio management team, and structured analyst team. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and current loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs. The model also includes the explicit treatment of silent second liens, utilization of loan modification history, and the application of roll rate adjustments.

Asset-backed securities (ABS) - As of June 30, 2012, gross unrealized losses related to asset-backed securities were $0.019 million. Of this amount, $0.012 million have been in an unrealized loss position for twelve months or greater. These securities are rated A- or higher. The weighted average credit enhancement for the Company s asset-backed portfolio is 26.1. The Company s investment manager analyzes every ABS transaction on a stand-alone basis. This analysis involves a thorough review of the collateral, prepayment, and structural risk in each transaction. Additionally, their analysis includes an in-depth credit analysis of the originator and servicer of the collateral. The Company s investment manager projects an expected loss for a deal given a set of assumptions specific to the asset type. These assumptions are used to calculate at

what level of losses that the deal will incur a dollar of loss. The major assumptions used to calculate this ratio are loss severities, recovery lags, and no advances on principal and interest.

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Commercial mortgage-backed securities (CMBS) - As of June 30, 2012, gross unrealized losses related to CMBS were $0.034 million. Of this amount, $0.003 million have been in an unrealized loss position for twelve months or greater. All of the securities in an unrealized loss position for twelve months or greater are rated AAA. The weighted average credit enhancement for the Company s CMBS portfolio is 21.0. This represents the percentage of pool losses that can occur before a mortgage-backed security will incur its first dollar of principle losses. For the Company s CMBS portfolio, a loan level analysis is utilized where every underlying CMBS loan is re-underwritten based on the Company s investment manager s internally generated set of assumptions that reflect their expectation for the future path of the economy. In the analysis, the focus is centered on stressing the significant variables that influence commercial loan defaults and collateral losses in CMBS deals. These variables include: (1) occupancies are projected to drop; (2) capitalization rates vary by property type and are forecasted to return to more normalized levels as the capital markets repair and capital begins to flow again; and (3) property value was stressed by using projected property performance and projected capitalization rates. Term risk is triggered if projected debt service coverage rate falls below 1x. Balloon risk is triggered if a property s projected performance does not satisfy new, tighter mortgage standards.

Corporate bonds and loans - As of June 30, 2012, gross unrealized losses related to corporate bonds and loans were $0.982 million. Of this amount, $0.302 million have been in an unrealized loss position for twelve months or greater. 65% of the securities in an unrealized loss position for twelve months or greater are rated investment grade. The Company s investment manager s analysis for this sector includes maintaining detailed financial models that include a projection of each issuer s future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, issuer s current competitive position, vulnerability to changes in the competitive environment, regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

Foreign bonds As of June 30, 2012, gross unrealized losses related to foreign bonds were $0.244 million. All unrealized losses have been in an unrealized loss position for less than twelve months. These securities are rated investment grade. The Company s investment manager maintains financial models for the Company s bond issuers. These models include a projection of each issuer s future financial performance including prospective debt servicing capabilities and capital structure composition. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, issuer s current competitive position, vulnerability to changes in the competitive environment, regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection.

Common stocks As of June 30, 2012, gross unrealized losses related to common stock were $5.408 million. Of this amount, $1.352 million have been in an unrealized loss position for twelve months or greater. To determine if an other than temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

The Company recorded the following other than temporary impairments (OTTI) on its investment portfolio for the quarters and six months ended June 30, 2012 and 2011:

(Dollars in thousands)	**Quarters Ended June 30,**		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Fixed maturities:				
OTTI losses, gross	$ (164)	$	$ (1,059)	$
Portion of loss recognized in other comprehensive income (pre-tax)			541	
Net impairment losses on fixed maturities recognized in earnings	(164)		(518)	
Common stock	(1,162)	(1,353)	(2,560)	(1,906)
Total	$ (1,326)	$ (1,353)	$ (3,078)	$ (1,906)

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The following table is an analysis of the credit losses recognized in earnings on debt securities held by the Company for the quarters and six months ended June 30, 2012 and 2011 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	Quarters Ended June 30, 2012	Quarters Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Balance at beginning of period	$ 141	$ 86	$ 86	$ 115
Additions where no OTTI was previously recorded			55	
Additions where an OTTI was previously recorded				
Reductions for securities for which the company intends to sell or more likely than not will be required to sell before recovery				
Reductions reflecting increases in expected cash flows to be collected				
Reductions for securities sold during the period	(55)		(55)	(29)
Balance at end of period	$ 86	$ 86	$ 86	$ 86

Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of June 30, 2012 and December 31, 2011 was as follows:

(Dollars in thousands)	June 30, 2012	December 31, 2011
Net unrealized gains from:		
Fixed maturities	$ 41,182	$ 38,352
Common stock	20,008	12,971
Partnerships < 3% owned	4,434	2,467
Deferred federal income taxes	(16,183)	(13,616)
Accumulated other comprehensive income	$ 49,441	$ 40,174

Net Realized Investment Gains

The components of net realized investment gains for the quarters and six months ended June 30, 2012 and 2011 were as follows:

(Dollars in thousands)	Quarters Ended June 30, 2012	Quarters Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Fixed maturities:				
Gross realized gains	$ 2,026	$ 4,919	$ 2,758	$ 10,793
Gross realized losses	(781)	(18)	(1,603)	(177)

Net realized gains	1,245	4,901	1,155	10,616
Common stock:				
Gross realized gains	2,123	3,750	5,390	10,636
Gross realized losses	(1,427)	(1,811)	(2,843)	(2,415)
Net realized gains	696	1,939	2,547	8,221
Other invested assets:				
Gross realized gains		1,546		1,546
Gross realized losses				
Net realized gains		1,546		1,546
Total net realized investment gains	$ 1,941	$ 8,386	$ 3,702	$ 20,383

The proceeds from sales of available-for-sale securities resulting in net realized investment gains (losses) for the six months ended June 30, 2012 and 2011 were as follows:

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(Dollars in thousands)	Six Months Ended June 30, 2012	2011
Fixed maturities	$ 270,873	$ 459,364
Equity securities	25,159	50,055

Net Investment Income

The sources of net investment income for the quarters and six months ended June 30, 2012 and 2011 were as follows:

(Dollars in thousands)	Quarters Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Fixed maturities	$ 10,467	$ 14,195	$ 21,826	$ 28,878
Equity securities	1,628	954	2,711	1,731
Cash and cash equivalents	43	29	86	46
Other invested assets			156	
Total investment income	12,138	15,178	24,779	30,655
Investment expense	(1,067)	(1,248)	(2,291)	(2,311)
Net investment income	$ 11,071	$ 13,930	$ 22,488	$ 28,344

The Company s total investment return on a pre-tax basis for the quarters and six months ended June 30, 2012 and 2011 were as follows:

(Dollars in thousands)	Quarters Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Net investment income	$ 11,071	$ 13,930	$ 22,488	$ 28,344
Net realized investment gains	1,941	8,386	3,702	20,383
Net equity in net income of partnership				53
Net unrealized investment gains (losses)	(11,951)	(4,651)	11,834	(6,794)
Net investment return	(10,010)	3,735	15,536	13,642
Total investment return	$ 1,061	$ 17,665	$ 38,024	$ 41,986
Total investment return % **(1)**	0.1%	1.0%	2.4%	2.4%
Average investment portfolio **(2)**	$ 1,604,406	$ 1,729,099	$ 1,606,186	$ 1,721,125

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

Insurance Enhanced Municipal Bonds

As of June 30, 2012, the Company held insurance enhanced municipal bonds of approximately $68.4 million, which represented approximately 4.4% of the Company s total cash and invested assets, net of payable/receivable for securities purchased and sold. These securities had an average rating of AA. Approximately $23.0 million of these bonds are pre-refunded with U.S. treasury securities, of which $17.0 million are backed by financial guarantors, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond. Of the remaining $45.4 million of insurance enhanced municipal bonds, $20.6 million would have carried a lower credit rating had they not been insured. The following table provides a breakdown of the ratings for these municipal bonds with and without insurance.

(Dollars in thousands) Rating	Ratings with Insurance	Ratings without Insurance
AAA	$ 4,616	$
AA	15,966	4,616
A		14,940

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BBB		1,026
Total	$ 20,582	$ 20,582

A summary of the Company s insurance enhanced municipal bonds that are backed by financial guarantors, including the pre-refunded bonds that are escrowed in U.S. government obligations, as of June 30, 2012, is as follows:

(Dollars in thousands) Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	Exposure Net of Pre-refunded & Government Guaranteed Securities
Ambac Financial Group	$ 4,103	$ 3,007	$	$ 1,096
Financial Guaranty Insurance Company	220	220		
Assured Guaranty Insurance Group	23,713	5,853		17,860
Municipal Bond Insurance Association	25,204	7,397		17,807
Government National Housing Association	2,653	541	2,112	
Permanent School Fund Guaranty	5,899		5,899	
Total backed by financial guarantors	61,792	17,018	8,011	36,763
Other credit enhanced municipal bonds	6,636	6,024		612
Total	$ 68,428	$ 23,042	$ 8,011	$ 37,375

In addition to the $68.4 million of insurance enhanced municipal bonds, the Company also held insurance enhanced asset-backed and credit securities with a market value of approximately $27.6 million, which represented approximately 1.8% of the Company s total cash and invested assets, net of payable/receivable for securities purchased and sold. The financial guarantors of the Company s $27.6 million of insurance enhanced asset-backed and credit securities include Financial Guaranty Insurance Company ($0.5 million), Municipal Bond Insurance Association ($9.8 million), Ambac ($2.1 million), Assured Guaranty Insurance Group ($9.9 million), and Other ($5.3 million).

The Company had no direct investments in the entities that have provided financial guarantees or other credit support to any security held by the Company at June 30, 2012.

Bonds Held on Deposit

Certain cash balances, cash equivalents, and bonds available for sale were deposited with various governmental authorities in accordance with statutory requirements or were held in trust pursuant to intercompany reinsurance agreements. The estimated fair values of bonds available for sale and on deposit or held in trust were as follows as of June 30, 2012 and December 31, 2011:

	Estimated Fair Value	
(Dollars in thousands)	June 30, 2012	December 31, 2011

On deposit with governmental authorities	$ 43,458	$ 43,830
Intercompany trusts held for the benefit of U.S. policyholders	554,999	545,230
Held in trust pursuant to third party requirements	83,713	82,577
Held in trust pursuant to U.S. regulatory requirements for the benefit of U.S. policyholders	6,557	6,125
Total	$ 688,727	$ 677,762

5. Fair Value Measurements

The Company elected to apply the fair value option within its limited partnership investment portfolio to an investment where the Company previously owned more than a 3% interest. The fair value of this investment was $1.1 million as of December 31, 2010. During the six months ended June 30, 2011, the Company liquidated its remaining interest in this limited partnership and recognized a gain of $0.05 million, net of taxes, due to changes in the value of this investment. This gain is reflected on the consolidated statement of operations as equity in net income of partnerships, net of taxes.

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The fair value option was not elected for the Company s investments in limited partnerships with less than a 3% ownership interest.

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

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

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

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

Level 3 - inputs are unobservable for the asset, and include situations where there is little, if any, market activity for the asset.

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

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

The following table presents information about the Company s invested assets measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of June 30, 2012		**Fair Value Measurements**		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturities:				
U.S. treasury and agency obligations	$ 109,495	$ 26,161	$	$ 135,656
Obligations of states and political subdivisions		210,659		210,659
Mortgage-backed securities		267,351		267,351
Commercial mortgage-backed securities		17,256		17,256
Asset-backed securities		117,499		117,499
Corporate bonds and loans		492,029		492,029
Foreign corporate bonds		66,338		66,338
Total fixed maturities	109,495	1,197,293		1,306,788

Common stock	180,270			180,270
Other invested assets			8,590	8,590
Total invested assets	$ 289,765	$ 1,197,293	$ 8,590	$ 1,495,648

As of December 31, 2011		**Fair Value Measurements**		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturities:				
U.S. treasury and agency obligations	$ 90,602	$ 40,687	$	$ 131,289

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Obligations of states and political subdivisions		206,133		206,133
Mortgage-backed securities		268,990		268,990
Commercial mortgage-backed securities		29,969		29,969
Asset-backed securities		95,964		95,964
Corporate bonds and loans		521,201		521,201
Foreign corporate bonds		43,339		43,339
Total fixed maturities	90,602	1,206,283		1,296,885
Common stock	168,361			168,361
Other invested assets			6,617	6,617
Total invested assets	$ 258,963	$ 1,206,283	$ 6,617	$ 1,471,863

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

The securities classified as Level 2 in the above table consist primarily of fixed maturity securities. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, security prices are derived through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. If there are no recent reported trades, matrix or model processes are used to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of asset-backed securities, collateralized mortgage obligations, and mortgage-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. For corporate loans, price quotes from multiple dealers along with recent reported trades for identical or similar securities are used to develop prices.

There were no significant transfers between Level 1 and Level 2 during the quarters or six months ended June 30, 2012 or 2011.

The following tables present changes in Level 3 investments measured at fair value on a recurring basis for the quarter and six months ended June 30, 2012:

Quarter Ended June 30, 2012 **(Dollars in thousands)**	**Other Invested Assets**
Beginning balance at April 1, 2012	$ 8,632
Total gains (losses) (realized / unrealized):	
Included in equity in net income (loss) of partnership	
Included in accumulated other comprehensive income (loss)	(42)
Purchases	
Sales	
Ending balance at June 30, 2012	$ 8,590
Losses for 2012 included in earnings attributable to the change in unrealized losses related to assets still held at June 30, 2012	$

Six Months Ended June 30, 2012 **(Dollars in thousands)**	**Other Invested Assets**
Beginning balance at January 1, 2012	$ 6,617
Total gains (losses) (realized / unrealized):	
Included in equity in net income (loss) of partnership	
Included in accumulated other comprehensive income (loss)	1,967
Purchases	6
Sales	
Ending balance at June 30, 2012	$ 8,590
Losses for 2012 included in earnings attributable to the change in unrealized losses related to assets still held at June 30, 2012	$

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The investments classified as Level 3 in the above table relate to investments in limited partnerships for which there are no readily available independent market prices. The estimated fair values of these limited partnerships are measured utilizing net asset value as a practical expedient for the limited partnerships. Material assumptions and factors utilized in pricing these investments include future cash flows, constant default rates, recovery rates, and any market clearing activity that may have occurred since the previous pricing period.

The following tables present changes in Level 3 investments measured at fair value on a recurring basis for the quarter and six months ended June 30, 2011:

Quarter Ended June 30, 2011 **(Dollars in thousands)**	**Other Invested Assets**
Beginning balance at April 1, 2011	$ 16,724
Total gains (unrealized):	
Included in accumulated other comprehensive income	855
Ending balance at June 30, 2011	$ 17,579
Losses for 2011 included in earnings attributable to the change in unrealized losses related to assets still held at June 30, 2011	$

Six Months Ended June 30, 2011 **(Dollars in thousands)**	**Other Invested Assets**
Beginning balance at January 1, 2011	$ 5,380
Total gains (realized / unrealized):	
Included in equity in net income of partnership	81
Included in accumulated other comprehensive income	3,440
Purchases	10,025
Sales	(1,347)
Ending balance at June 30, 2011	$ 17,579
Losses for 2011 included in earnings attributable to the change in unrealized losses related to assets still held at June 30, 2011	$

The $17.6 million is comprised of $7.2 million related to investments in limited partnerships and $10.4 million related to an investment in a mutual fund. The $7.2 million related to investments in limited partnerships for which there is no readily available independent market price. The estimated fair values of these limited partnerships are measured utilizing net asset value as a practical expedient for the limited partnerships. Material assumptions and factors utilized in pricing these investments include future cash flows, constant default rates, recovery rates, and any market clearing activity that may have occurred since the previous pricing period. The Company s investment in a mutual fund of

$10.4 million was measured utilizing the fund s net asset value. The net asset value of the fund was based on the actual market price of the assets of the portfolio, including accrued income less liabilities and provisions for accrued expenses. The fund was comprised primarily of foreign equities. However, since the Company does not have the ability to see the invested asset composition of the mutual fund on a daily basis, this investment was classified within the Level 3 category.

Fair Value of Alternative Investments

Included in Other invested assets in the fair value hierarchy at June 30, 2012 are limited liability partnerships measured at fair value. The following table provides the fair value and future funding commitments related to these investments at June 30, 2012.

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(Dollars in thousands)	Fair Value	Future Funding Commitments
Equity Fund, LP **(1)**	$ 8,590	$ 2,513
Real Estate Fund, LP **(2)**		
Total	$ 8,590	$ 2,513

(1) This limited partnership invests in companies from various business sectors whereby the partnership has acquired control of the operating business as a lead or organizing investor. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner.

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

Pricing

The Company s pricing vendors provide prices for all investment categories except for investments in limited partnerships. One vendor provides prices for equity securities and select fixed maturity categories including: corporate loans, commercial mortgage backed securities, high yield, investment grade, short term securities, and international fixed income securities, if any. A second vendor provides prices for other fixed maturity categories including: ABS, collateralized mortgage obligations (CMO), and municipals. A third vendor provides prices for the remaining fixed maturity categories including MBS and treasuries.

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

Equity prices are received from all primary and secondary exchanges.

Corporate bonds are individually evaluated on a nominal spread, discount margin, or an option adjusted spread basis depending on how the market trades a security or sector. Spreads are updated each day and compared with those from the broker/dealer community and contributing firms. Issues are generally benchmarked off of the U.S. treasuries or LIBOR.

Agencies are individually evaluated on an option adjusted spread basis or a nominal spread for non-callable issues.

For CMOs, which are categorized with mortgage-backed securities in the tables listed above, volatility-driven and ratings based multi-dimensional spread tables or an option-adjusted spread model and prepayment model is used. For ABSs, multi-dimensional, collateral specific spread / prepayment speed tables are utilized. For both asset classes, evaluations utilize standard inputs plus new

issue data, monthly payment information, and collateral performance. The evaluated pricing models incorporate security set-up, prepayment speeds, cash flows, and treasury swap curves and spread adjustments.

For municipals, a series of matrices are used to evaluate securities within this asset class. The evaluated pricing models for this asset class incorporate security set-up, sector curves, yield to worst, ratings updates, and adjustments for material events notices.

U.S. Treasuries are priced on the bid side by a market maker.

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

Corporate loans are priced using averages of bids and offers obtained from the broker/dealer community

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involved in trading such loans.

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

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

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

During the quarter and six months ended June 30, 2012, the Company has not adjusted quotes or prices obtained from the pricing vendors.

6. Reinsurance

The Company cedes risk to unrelated reinsurers on a pro rata (quota share) and excess of loss basis in the ordinary course of business to limit its net loss exposure on insurance contracts. Reinsurance ceded arrangements do not discharge the Company of primary liability. Moreover, reinsurers may fail to pay the Company due to a lack of reinsurer liquidity, perceived improper underwriting, losses for risks that are excluded from reinsurance coverage and other similar factors, all of which could adversely affect the Company s financial results.

The Company had the following reinsurance balances as of June 30, 2012 and December 31, 2011:

(Dollars in thousands)	June 30, 2012	December 31, 2011
Reinsurance receivables	$ 278,095	$ 287,986
Collateral securing reinsurance receivables	(164,006)	(169,002)
Reinsurance receivables, net of collateral	$ 114,089	$ 118,984
Allowance for uncollectible reinsurance receivables	$ 9,460	$ 10,021
Prepaid reinsurance premiums	6,621	6,555

The Company regularly evaluates retention levels to ensure that the ultimate reinsurance cessions are aligned with corporate risk tolerance and capital levels. The Company s Insurance Operations primary reinsurance treaties are as follows:

Property Catastrophe Excess of Loss The Company s current property writings create exposure to catastrophic events. To protect against these exposures, the Company purchases a property catastrophe treaty. Effective June 1, 2012, the Company renewed its property catastrophe excess of loss treaty which provides occurrence coverage for losses of $80.0 million in excess of $20.0 million. At this renewal, the Company retained 50% of the $20 million in excess of $20 million layer, and 20% of the $50 million in excess of $40 million layer. This treaty provides for one full reinstatement of coverage at 100% additional premium as to time and pro rata as to amount of limit reinstated. This replaces the treaty that expired on May 31, 2012, which provided occurrence coverage for 100% of losses of $80.0 million in excess of $20.0 million.

Property Per Risk Excess of Loss Effective January 1, 2012, the Company renewed its property per risk excess of loss treaty which provides coverage of $13.0 million per risk in excess of $2.0 million per risk. This replaces the treaty that expired December 31, 2011, which provided identical coverage. The renewal treaty provides coverage in two layers: $3.0 million per risk in excess of $2.0 million per risk, and $10.0 million per risk in excess of $5.0 million per risk. The first layer is split into two sections, each subject to a $3.0 million limit of liability for all risks

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involved in one loss occurrence, and the second layer is subject to a $10.0 million limit for all risks involved in one loss occurrence.

Professional Liability Excess of Loss Effective April 30, 2011, the Company s professional liability excess of loss treaty was terminated. This treaty provided coverage of $4.0 million per policy/occurrence in excess of $1.0 million per policy/occurrence. Effective May 1, 2011, the professional liability exposure was added to the casualty excess of loss treaty.

Casualty and Professional Liability Excess of Loss Effective May 1, 2012, the Company renewed its casualty and professional liability excess of loss treaty. The casualty section provides coverage for $2.0 million per occurrence in excess of $1.0 million per occurrence for general liability and auto liability. The professional liability section provides coverage of $4.0 million per policy/occurrence in excess of $1.0 million per policy/occurrence. For both sections, allocated loss adjustment expenses are included within limits. The casualty and professional liability treaty that expired April 30, 2012 provided identical coverage.

Casualty Clash Excess of Loss Effective May 1, 2012, the Company renewed its casualty clash excess of loss treaty which provides coverage of $10.0 million per occurrence in excess of $3.0 million per occurrence, subject to a $20.0 million limit for all loss occurrences. The casualty clash treaty that expired April 30, 2012 provided identical coverage.

Marine Excess of Loss Effective May 24, 2010, the Company entered into a marine excess of loss treaty which provides coverage in three layers for $13.0 million per occurrence in excess of $2.0 million per occurrence. The first layer of $3.0 million in excess of $2.0 million, and the second layer of $5.0 million in excess of $5.0 million, provides for two full reinstatements of coverage at 100% additional premium. The third layer of $5.0 million in excess of $10.0 million provides for one full reinstatement of coverage at 100% additional premium. This treaty expired on November 30, 2011 and was not renewed.

There were no other significant changes to any of the Company s Insurance Operations reinsurance treaties during the quarter ended June 30, 2012. To the extent that there may be an increase or decrease in catastrophe or casualty clash exposure in the future, the Company may increase or decrease its reinsurance protection for these exposures commensurately.

7. Income Taxes

The statutory income tax rates of the countries where the Company does business are 35.0% in the United States, 0.0% in Bermuda, 0.0% in the Cayman Islands, 0.0% in Gibraltar, 28.8% in the Duchy of Luxembourg, and 25.0% on non-trading income and 12.5% on trading income in the Republic of Ireland. For 2012, the statutory income tax rate of each country is applied against the expected annual taxable income of the Company in each country to estimate the annual income tax expense. Total estimated annual income tax expense is divided by total estimated annual pre-tax income to determine the expected annual income tax rate used to compute the income tax provision. On an interim basis in 2012, the expected annual income tax rate is applied against interim pre-tax income, excluding net realized gains and losses, discrete items such as limited partnership distributions, and then that amount is added to income taxes on net realized gains and losses, discrete items and limited partnership distributions. On an interim basis in 2011, the Company recorded the actual income tax provision in lieu of using the estimated effective income tax rate due to wide variability in the expected annual effective income tax rate across several similar pre-tax income scenarios. The Company s income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, including the results of the quota share and stop-loss agreements between Wind River Reinsurance and the Insurance Operations, for the quarters and six months ended June 30, 2012 and 2011 were as follows:

Quarter Ended June 30, 2012:	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total

(Dollars in thousands)

Revenues:				
Gross premiums written	$ 39,177	$ 52,371	$ (23,916)	$ 67,632

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

Quarter Ended June 30, 2011:

(Dollars in thousands)		Non-U.S. Subsidiaries		U.S. Subsidiaries		Eliminations		Total
Revenues:								
Gross premiums written	$	56,758	$	70,375	$	(32,171)	$	94,962
Net premiums written	$	56,758	$	29,649	$		$	86,407
Net premiums earned	$	50,837	$	27,218	$		$	78,055
Net investment income		11,297		7,230		(4,597)		13,930
Net realized investment gains		2,371		6,015				8,386
Other income		212		163				375
Total revenues		64,717		40,626		(4,597)		100,746
Losses and Expenses:								
Net losses and loss adjustment expenses		38,685		23,068				61,753
Acquisition costs and other underwriting expenses		20,013		10,076				30,089
Corporate and other operating expenses		3,687		1,212				4,899
Interest expense				6,340		(4,597)		1,743
Income (loss) before income taxes	$	2,332	$	(70)	$		$	2,262

Six Months Ended June 30, 2012:

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

Six Months Ended June 30, 2011:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 115,455	$ 126,842	$ (59,669)	$ 182,628
Net premiums written	$ 114,953	$ 54,562	$	$ 169,515
Net premiums earned	$ 100,463	$ 53,561	$	$ 154,024
Net investment income	22,946	14,543	(9,145)	28,344
Net realized investment gains	5,786	14,597		20,383

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Other income	335	11,832		12,167
Total revenues	129,530	94,533	(9,145)	214,918
Losses and Expenses:				
Net losses and loss adjustment expenses	79,536	40,559		120,095
Acquisition costs and other underwriting expenses	38,750	20,733		59,483
Corporate and other operating expenses	5,450	2,352		7,802
Interest expense		12,640	(9,145)	3,495
Income before income taxes	$ 5,794	$ 18,249	$	$ 24,043

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

(Dollars in thousands)	**Quarters Ended June 30, 2012**		**2011**	
	Amount	**% of Pre-Tax Income**	**Amount**	**% of Pre-Tax Income**
Expected tax provision at weighted average rate	$ (256)	(3.6%)	$ 121	5.3%
Adjustments:				
Tax exempt interest	(372)	(5.2)	(496)	(21.9)
Dividend exclusion	(297)	(4.2)	(210)	(9.3)
Effective tax rate adjustment	(1,588)	(22.3)	(1,471)	(65.0)
Other	16	0.2	34	1.5
Income tax benefit	$ (2,497)	(35.1%)	$ (2,022)	(89.4%)

The effective income tax benefit rate for the quarter ended June 30, 2012 was 35.1%, compared to an effective income tax benefit rate of 89.4% for the quarter ended June 30, 2011. Due to potential volatility in the 2011 expected effective tax rate, the Company recorded its actual year-to-date tax provision during the quarter ended June 30, 2011 as compared with an estimated annual effective rate during the quarter ended June 30, 2012. The effective rate differed from the weighted average expected income tax expense rate of 5.3% for the quarter ended June 30, 2011 due to changes in the expected full year effective tax rate from the first quarter of 2011 and tax-exempt interest and dividends. The effective rate differed from the weighted average expected income tax benefit rate of 3.6% for the quarter ended June 30, 2012 due to the fact that the Company records income tax expense using an expected annual effective tax rate, net of tax-exempt interest and dividends.

(Dollars in thousands)	**Six Months Ended June 30, 2012**		**2011**	
	Amount	**% of Pre-Tax Income**	**Amount**	**% of Pre-Tax Income**

Expected tax provision at weighted average rate	$ 279	1.8%	$ 6,834	28.4%
Adjustments:				
Tax exempt interest	(779)	(5.1)	(1,020)	(4.2)
Dividend exclusion	(532)	(3.5)	(367)	(1.5)
Effective tax rate adjustment	(4,175)	(27.3)		
Other	2		55	0.2
Income tax expense (benefit)	$ (5,205)	(34.1%)	$ 5,502	22.9%

The effective income tax benefit rate for the six months ended June 30, 2012 was 34.1%, compared to an effective income tax expense rate of 22.9% for the six months ended June 30, 2011. The decrease in the effective tax rate is primarily due to the Company s settlement with AON in the first half of 2011 as noted in the Company s 2011 Form 10-K as well as a decrease in realized investment gains in the first six months of 2012 compared with the same period in 2011. The effective rate differed from the weighted average expected income tax expense rate of 28.4% for the six months ended June 30, 2011 due to tax-exempt interest and dividends. The effective rate differed from the weighted average expected income tax expense rate of 1.8% for the six months ended June 30, 2012 due to the fact that the Company records income tax expense using an expected annual effective tax rate, net of tax-exempt interest and dividends.

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The Company and some of its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal tax examinations by tax authorities for tax years before 2008.

The Company had an alternative minimum tax credit carry forward of $6.0 million as of June 30, 2012 and December 31, 2011, which can be carried forward indefinitely.

The Company applies a more-likely-than-not recognition threshold for all tax uncertainties whereby it only recognizes those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. The Company s unrecognized tax benefits were $0.3 million as of June 30, 2012 and December 31, 2011. If recognized, the gross unrecognized tax benefits could lower the effective income tax rate in any future period.

The Company classifies all interest and penalties related to uncertain tax positions as income tax expense. As of June 30, 2012, the Company has recorded $0.03 million in liabilities for tax-related interest and penalties on its consolidated balance sheet.

8. Liability for Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses reflects the Company s best estimate for future amounts needed to pay claims and related settlement expenses and the impact of the Company s reinsurance coverage with respect to insured events. Estimating the ultimate claims liability of the Company is a complex and judgmental process because the amounts are based on management s informed estimates and judgments using data currently available. In some cases, significant periods of time, up to several years or more, may elapse between the occurrence of an insured loss and the reporting of such to the Company. The method for determining the Company s liability for unpaid losses and loss adjustment expenses includes, but is not limited to, reviewing past loss experience and considering other factors such as industry data and legal, social, and economic developments. As additional experience and data become available, the Company s estimate for the liability for unpaid losses and loss adjustment expenses is revised accordingly. If the Company s ultimate losses, net of reinsurance, prove to differ substantially from the amounts recorded with respect to unpaid losses and loss adjustment expenses at June 30, 2012, the related adjustments could have a material impact on the Company s future results of operations.

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

	Quarters Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2012**	**2011**	**2012**	**2011**
Balance at beginning of period	$ 960,924	$ 1,035,088	$ 971,377	$ 1,052,743
Less: Ceded reinsurance receivables	279,341	375,846	283,652	407,195
Net balance at beginning of period	681,583	659,242	687,725	645,548
Incurred losses and loss adjustment expenses related to:				
Current year	36,776	67,097	80,285	130,738
Prior years	(618)	(5,344)	(2,118)	(10,643)
Total incurred losses and loss adjustment expenses	36,158	61,753	78,167	120,095
Paid losses and loss adjustment expenses related to:				

Current year	12,936	21,898	19,252	27,021
Prior years	37,700	44,030	79,534	83,555
Total paid losses and loss adjustment expenses	50,636	65,928	98,786	110,576
Net balance at end of period	667,105	655,067	667,105	655,067
Plus: Ceded reinsurance receivables	274,178	320,129	274,178	320,129
Balance at end of period	$ 941,283	$ 975,196	$ 941,283	$ 975,196

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

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development, and any other additional or pertinent factors that may impact reserve estimates.

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

The $0.7 million decrease related to Insurance Operations primarily consisted of a $0.6 million reduction in general liability lines and a $0.4 million reduction in professional liability lines, partially offset by a $0.4 million increase in marine lines. There were net reductions of $0.1 million in all other lines.

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

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

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

In the second quarter of 2011, the Company reduced its prior accident year loss reserves by $5.3 million, which consisted of a $9.1 million decrease related to Insurance Operations offset by a $3.8 million increase to Reinsurance Operations.

The $9.1 million decrease related to Insurance Operations consisted of a $12.2 million reduction in general liability lines, a $0.8 million reduction in property lines, and a $0.8 million reduction in umbrella lines, offset by a $4.2 million increase in professional liability lines and a $0.5 million increase in all other lines:

General liability: The $12.2 million reduction primarily consisted of reductions of $16.5 million in accident years 2008 and prior due to continued favorable emergence. Incurred losses have developed at a rate lower than the Company s historical averages. The Company also decreased its reinsurance allowance by $2.2 million in this line due to changes in its reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of $6.5 million in accident years 2009 and 2010 related to loss emergence in the Company s Casualty Brokerage unit. The Company has addressed pricing and underwriting controls to improve profitability in its Casualty Brokerage general liability line.

Property: The $0.8 million reduction primarily related to accident years 2008 through 2010 due to favorable emergence on recent property losses.

Umbrella: The $0.8 million reduction primarily related to all accident years 2010 and prior primarily due to continued favorable emergence. Umbrella coverage typically attaches to other coverage lines, so these net decreases follow the decreases in general liability above.