Global Indemnity plc
Form 10-Q
August 09, 2011
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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, 2011

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, 2011, the registrant had outstanding 18,365,849 Class A Ordinary Shares and 12,061,370 Class B Ordinary Shares.

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

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

2) we, us, our, and the Company refer to Global Indemnity and its subsidiaries or, prior to July 2, 2010, to United America Indemnity;

3) ordinary shares refers to Global Indemnity Class A and Class B ordinary shares, or, prior to July 2, 2010, to United America Indemnity Class A and Class B common shares;

4) United America Indemnity refers to United America Indemnity, Ltd., a Cayman Islands exempted company that, on July 2, 2010, became a direct, wholly-owned subsidiary of Global Indemnity plc, and its subsidiaries;

5) our U.S. Subsidiaries refers to Global Indemnity Group, Global Indemnity Group Services, LLC, AIS, Penn-America Group, Inc., and our Insurance Operations;

6) our United States Based Insurance Operations and Insurance Operations refer to the insurance and related operations conducted by the U.S. Insurance Companies, American Insurance Adjustment Agency, Inc., Collectibles Insurance Services, LLC, United America Insurance Services, LLC, and J.H. Ferguson & Associates, LLC;

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7) our U.S. Insurance Companies refers to the insurance and related operations conducted by United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company and Penn-Patriot Insurance Company;

8) our Non-U.S. Subsidiaries refers to Global Indemnity Services Ltd., Global Indemnity (Gibraltar) Ltd., Global Indemnity (Cayman) Ltd., Global Indemnity (Luxembourg) Ltd., Wind River Reinsurance, the Luxembourg Companies, and U.A.I. (Ireland) Ltd.;

9) Wind River Reinsurance refers to Wind River Reinsurance Company, Ltd.;

10) the Luxembourg Companies refers to U.A.I. (Luxembourg) I S.à r.l., U.A.I. (Luxembourg) II S.à r.l., U.A.I. (Luxembourg) III S.à r.l., U.A.I. (Luxembourg) IV S.à r.l., U.A.I. (Luxembourg) Investment S.à r.l., and Wind River (Luxembourg) S.à r.l.;

11) AIS refers to American Insurance Service, Inc.;

12) our Predecessor Insurance Operations refers to Wind River Investment Corporation, which was dissolved on May 31, 2006, AIS, American Insurance Adjustment Agency, Inc., Emerald Insurance Company, which was dissolved on March 24, 2008, United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, and J.H. Ferguson & Associates, LLC;

13) our International Reinsurance Operations and Reinsurance Operations refer to the reinsurance and related operations of Wind River Reinsurance;

14) Global Indemnity Group refers to Global Indemnity Group, Inc., (fka United America Indemnity Group, Inc.);

15) Penn-America refers to our product classification that includes property and general liability products for small commercial businesses distributed through a select network of wholesale general agents with specific binding authority;

16) United National refers to our product classification that includes property, general liability, and professional liability lines products distributed through program administrators with specific binding authority;

17) Diamond State refers to our product classification that includes property, casualty, and professional liability lines products distributed through wholesale brokers and program administrators with specific binding authority;

18) the Statutory Trusts refers to United National Group Capital Trust I, United National Group Capital Statutory Trust II, Penn-America Statutory Trust I, whose registration was cancelled effective January 15, 2008, and Penn-America Statutory Trust II, whose registration was cancelled effective February 2, 2009;

19) Fox Paine & Company refers to Fox Paine & Company, LLC and affiliated investment funds;

20) GAAP refers to accounting principles generally accepted in the United States of America; and

21) $ or dollars refers to U.S. dollars.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL INDEMNITY PLC

Consolidated Balance Sheets

(In thousands, except share amounts)

	(Unaudited) June 30, 2011	December 31, 2010
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,414,780 and $1,393,655)	$ 1,460,218	$ 1,444,392
Equity securities:		
Available for sale, at fair value (cost: $129,239 and $121,604)	150,226	147,526
Other invested assets		
Available for sale, at fair value (cost: $14,126 and $4,255)	17,579	4,268
Securities classified as trading, at fair value (cost: $0 and $1,112)		1,112
Total investments	1,628,023	1,597,298
Cash and cash equivalents	106,344	119,888
Premiums receivable, net	68,481	56,657
Reinsurance receivables	332,242	422,844
Deferred federal income taxes	9,414	6,926
Deferred acquisition costs	38,768	35,344
Intangible assets	18,893	19,082
Goodwill	4,820	4,820
Prepaid reinsurance premiums	8,842	11,104
Other assets	22,804	20,720
Total assets	$ 2,238,631	$ 2,294,683
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 975,196	$ 1,052,743
Unearned premiums	149,104	135,872
Ceded balances payable	6,118	12,376
Contingent commissions	4,944	9,260
Payable for securities purchased	4,536	4,768
Federal income taxes payable	1,559	55
Notes and debentures payable	121,142	121,285
Other liabilities	32,850	29,655
Total liabilities	1,295,449	1,366,014
Commitments and contingencies (Note 10)		
Shareholders equity:		
Ordinary shares, $0.0001 par value, 900,000,000 ordinary shares authorized; Class A ordinary shares issued: 21,401,190 and 21,340,821, respectively; Class A ordinary shares outstanding: 18,352,985 and 18,300,544, respectively; Class B ordinary shares issued and outstanding: 12,061,370 and	3	3

12,061,370, respectively		
Additional paid-in capital	623,751	622,725
Accumulated other comprehensive income, net of taxes	52,639	57,211
Retained earnings	367,868	349,642
Class A ordinary shares in treasury, at cost: 3,048,205 and 3,040,277 shares, respectively	(101,079)	(100,912)
Total shareholders equity	943,182	928,669
Total liabilities and shareholders equity	$ 2,238,631	$ 2,294,683

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Operations

(In thousands, except shares and per share data)

	(Unaudited) Quarters Ended June 30, 2011	(Unaudited) Quarters Ended June 30, 2010	(Unaudited) Six Months Ended June 30, 2011	(Unaudited) Six Months Ended June 30, 2010
Revenues:				
Gross premiums written	$ 94,962	$ 92,050	$ 182,628	$ 184,903
Net premiums written	$ 86,407	$ 79,523	$ 169,515	$ 161,004
Net premiums earned	$ 78,055	$ 74,702	$ 154,024	$ 145,490
Net investment income	13,930	13,941	28,344	28,520
Net realized investment gains:				
Other-than-temporary impairment losses on investments	(1,353)	(363)	(1,906)	(452)
Other-than-temporary impairment losses on investments recognized in other comprehensive income		(4)		43
Other net realized investment gains	9,739	5,964	22,289	20,210
Total net realized investment gains	8,386	5,597	20,383	19,801
Other income	163	342	11,832	342
Total revenues	100,534	94,582	214,583	194,153
Losses and Expenses:				
Net losses and loss adjustment expenses	61,753	32,675	120,095	74,464
Acquisition costs and other underwriting expenses	30,197	29,008	60,049	59,156
Corporate and other operating expenses	4,687	5,063	7,467	9,959
Interest expense	1,743	1,833	3,495	3,572
Income before income taxes	2,154	26,003	23,477	47,002
Income tax expense (benefit)	(2,287)	1,491	5,304	3,560
Income before equity in net income (loss) of partnerships	4,441	24,512	18,173	43,442
Equity in net income (loss) of partnerships, net of taxes			53	(29)
Net income	$ 4,441	$ 24,512	$ 18,226	$ 43,413
Per share data (1):				
Net income				
Basic	$ 0.15	$ 0.81	$ 0.60	$ 1.44
Diluted	$ 0.15	$ 0.81	$ 0.60	$ 1.44
Weighted-average number of shares outstanding				
Basic	30,321,909	30,206,970	30,311,658	30,195,806
Diluted	30,367,556	30,233,002	30,349,985	30,216,324

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

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Comprehensive Income

(In thousands)

	(Unaudited) Quarters Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income	$ 4,441	$ 24,512	$ 18,226	$ 43,413
Other comprehensive loss, net of taxes:				
Unrealized holding gains arising during period	3,068	143	10,403	10,121
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of taxes	(6)	113	(10)	112
Recognition of previously unrealized holding gains	(6,210)	(3,801)	(14,965)	(14,794)
Unrealized foreign currency translation losses		(105)		(218)
Other comprehensive loss, net of taxes	(3,148)	(3,650)	(4,572)	(4,779)
Comprehensive income, net of taxes	$ 1,293	$ 20,862	$ 13,654	$ 38,634

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, 2011	Year Ended December 31, 2010
Number of Class A ordinary shares issued:		
Number at beginning of period	21,340,821	21,243,345
Ordinary shares issued under share incentive plans	33,558	20,828
Ordinary shares issued to directors	26,811	76,648
Number at end of period	21,401,190	21,340,821
Number of Class B ordinary shares issued:		
Number at beginning and end of period	12,061,370	12,061,370
Par value of Class A ordinary shares:		
Balance at beginning and end of period	$ 2	$ 2
Par value of Class B ordinary shares:		
Balance at beginning and end of period	$ 1	$ 1
Additional paid-in capital:		
Balance at beginning of period	$ 622,725	$ 619,473
Share compensation plans	1,026	3,252
Balance at end of period	$ 623,751	$ 622,725
Accumulated other comprehensive income, net of deferred income tax:		
Balance at beginning of period	$ 57,211	$ 48,481
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period	(4,564)	8,703
Change in other-than-temporary impairment losses recognized in other comprehensive income, net of taxes	(8)	70
Unrealized foreign currency translation losses		(43)
Other comprehensive income (loss)	(4,572)	8,730
Balance at end of period	$ 52,639	$ 57,211
Retained earnings:		
Balance at beginning of period	$ 349,642	$ 264,739
Net income	18,226	84,903
Balance at end of period	$ 367,868	$ 349,642
Number of Treasury Shares:		
Number at beginning of period	3,040,277	3,028,106
Class A ordinary shares purchased	7,928	12,171

Number at end of period		3,048,205		3,040,277
Treasury Shares, at cost:				
Balance at beginning of period	$	(100,912)	$	(100,720)
Class A ordinary shares purchased, at cost		(167)		(192)
Balance at end of period	$	(101,079)	$	(100,912)
Total shareholders equity	$	943,182	$	928,669

Share amounts for 2010 have been retrospectively restated to reflect the 1-for-2 stock exchange

effective July 2, 2010 when the Company completed its re-domestication to Ireland.

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited) Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 18,226	$ 43,413
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of trust preferred securities issuance costs	41	41
Amortization and depreciation	1,041	1,190
Restricted stock expense	1,132	2,042
Deferred federal income taxes	(299)	74
Amortization of bond premium and discount, net	2,321	1,610
Net realized investment gains	(20,383)	(19,801)
Equity in net (income) loss of partnerships	(53)	29
Changes in:		
Premiums receivable, net	(11,824)	(772)
Reinsurance receivables	90,602	57,715
Unpaid losses and loss adjustment expenses	(77,547)	(88,982)
Unearned premiums	13,232	10,696
Ceded balances payable	(6,258)	(11,240)
Other assets and liabilities, net	215	(8,749)
Contingent commissions	(4,316)	(5,242)
Federal income taxes payable	1,504	(274)
Deferred acquisition costs	(3,424)	(1,543)
Prepaid reinsurance premiums	2,262	4,819
Net cash provided by (used for) operating activities	6,472	(14,974)
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	459,364	476,634
Proceeds from sale of stocks	50,055	20,330
Proceeds from maturity of fixed maturities	31,670	27,075
Proceeds from sale of other invested assets	1,348	68
Purchases of fixed maturities	(504,088)	(522,948)
Purchases of stocks	(47,923)	(51,461)
Purchases of other invested assets	(10,026)	
Acquisition of business, net of cash acquired		(14,970)
Net cash used for investing activities	(19,600)	(65,272)
Cash flows from financing activities:		
Tax expense associated with share-based compensation plans	(106)	(221)
Purchases of Class A ordinary shares	(167)	(163)
Principal payments of term debt	(143)	(142)
Net cash used for financing activities	(416)	(526)
Effect of exchange rates on cash and cash equivalents		(218)

Net change in cash and cash equivalents	(13,544)	(80,990)
Cash and cash equivalents at beginning of period	119,888	186,087
Cash and cash equivalents at end of period	$ 106,344	$ 105,097

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Principles of Consolidation and Basis of Presentation

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

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

The unaudited consolidated financial statements include all adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair statement of results for the interim periods. Results of operations for the quarters and six months ended June 30, 2011 and 2010 are not necessarily indicative of the results of a full year. The accompanying notes to the unaudited consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company s 2010 Annual Report on Form 10-K.

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

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

2. Redomestication

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

3. Profit Enhancement Initiative

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(Continued)***

(Unaudited)

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

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

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

(Dollars in thousands)	Employee Termination	Operating Leases	Asset Impairments	Workers Compensation	Total
Charges incurred in 2010	$ 1,711	$ 1,532	$ 631	$ 2,907	$ 6,781
Cash payments for 2010 actions	(758)			(985)	(1,743)
Non-cash adjustments	176		(631)	(1,430)	(1,885)
Liability at December 31, 2010	$ 1,129	$ 1,532	$	$ 492	$ 3,153
Cash payments in 2011 for 2010 actions	(803)	(431)		(492)	(1,726)
Non-cash adjustments		(64)			(64)
Liability at June 30, 2011	$ 326	$ 1,037	$	$	$ 1,363

There were charges incurred related to the Profit Enhancement Initiative in our statement of operations for the quarter and six months ending June 30, 2011 of ($0.064) million which was included in the Corporate and other operating expenses line item. There were no charges incurred related to the Profit Enhancement Initiative in our statement of operations for the quarter or six months ending June 30, 2010.

4. Investments

The Company s investments in fixed maturities, preferred stock, and common stock are classified as available for sale and are carried at their fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the Company s available for sale portfolio, 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, excluding the Company s convertible bond and convertible preferred stock portfolios, net of the effect of deferred income taxes, is reflected in accumulated other comprehensive income in shareholders equity and, accordingly, has no effect on net income other than for the credit loss component of impairments deemed to be other than temporary. The difference between amortized cost and fair value of the convertible bonds and convertible preferred stocks is included in income.

The Company s investments in other invested assets are comprised of limited liability partnership interests and a mutual fund. Partnership interests where we owned more than 3% at any time are carried at their fair value. The

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GLOBAL INDEMNITY PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

change in the difference between amortized cost and fair value of partnership interests of 3% ownership or greater, net of the effect of deferred income taxes, is reflected in income. The mutual fund and partnership interests of less than 3% ownership are carried at their fair value. The change in the difference between amortized cost and the fair value of the mutual fund and partnership interests of less than 3% ownership, net of the effect of deferred income taxes, is reflected in accumulated other comprehensive income in shareholders equity and, accordingly, has no effect on net income other than for impairments deemed to be other than temporary.

The amortized cost and estimated fair value of investments were as follows as of June 30, 2011 and December 31, 2010:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of June 30, 2011					
Fixed maturities:					
U.S. treasury and agency obligations	$ 116,805	$ 5,990	$ (191)	$ 122,604	$
Obligations of states and political subdivisions	225,788	7,513	(193)	233,108	
Mortgage-backed securities	321,501	10,122	(463)	331,160	(16)
Asset-backed securities	115,579	2,554	(38)	118,095	(36)
Commercial mortgage-backed securities	38,003	44	(72)	37,975	
Corporate bonds and loans	542,331	18,684	(845)	560,170	(134)
Foreign corporate bonds	54,773	2,357	(24)	57,106	
Total fixed maturities	1,414,780	47,264	(1,826)	1,460,218	(186)
Common stock	129,239	23,181	(2,194)	150,226	
Other invested assets	14,126	3,453		17,579	
Total	$ 1,558,145	$ 73,898	$ (4,020)	$ 1,628,023	$ (186)

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other than temporary impairments recognized in AOCI (1)
As of December 31, 2010					
Fixed maturities:					
U.S. treasury and agency obligations	$ 192,746	$ 9,948	$ (4)	$ 202,690	$
Obligations of states and political subdivisions	239,872	5,756	(616)	245,012	
Mortgage-backed securities	239,265	9,864	(49)	249,080	(19)
Asset-backed securities	112,626	2,548	(75)	115,099	(41)

Commercial mortgage-backed securities	38,963	9	(239)	38,733	
Corporate bonds and loans	511,754	21,594	(564)	532,784	(134)
Foreign corporate bonds	58,429	2,570	(5)	60,994	
Total fixed maturities	1,393,655	52,289	(1,552)	1,444,392	(194)
Common stock	120,674	25,300	(700)	145,274	
Preferred stock	930	1,322		2,252	
Other invested assets	5,367	13		5,380	
Total	$ 1,520,626	$ 78,924	$ (2,252)	$ 1,597,298	$ (194)

(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).

The Company held a mortgage-backed security (MBS) issued by Government National Mortgage Association (GNMA) which represented approximately 4% and 8% of shareholders equity as of June 30, 2011 and December 31, 2010, respectively. Excluding U.S. treasuries, agency bonds, and the MBS issued by GNMA, the Company did not hold any debt or equity investments in a single issuer that was in excess of 3.0% and 2.0% of shareholders equity at June 30, 2011 and December 31, 2010, respectively.

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The amortized cost and estimated fair value of the Company s fixed maturities portfolio classified as available for sale at June 30, 2011, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 63,267	$ 64,375
Due after one year through five years	631,479	657,437
Due after five years through ten years	192,196	197,114
Due after ten years through fifteen years	16,343	17,210
Due after fifteen years	36,412	36,852
Mortgaged-backed securities	321,501	331,160
Asset-backed securities	115,579	118,095
Commercial mortgage-backed securities	38,003	37,975
	$ 1,414,780	$ 1,460,218

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, 2011:

	Less than 12 months		12 months or longer (1)		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	$ 21,354	$ (191)	$	$	$ 21,354	$ (191)
Obligations of states and political subdivisions	8,895	(84)	4,379	(109)	13,274	(193)
Mortgage-backed securities	69,788	(444)	541	(19)	70,329	(463)
Asset-backed securities			766	(38)	766	(38)
Commercial mortgage-backed securities	17,836	(72)			17,836	(72)
Corporate bonds and loans	74,684	(842)	546	(3)	75,230	(845)
Foreign corporate bonds	4,211	(24)			4,211	(24)
Total fixed maturities	196,768	(1,657)	6,232	(169)	203,000	(1,826)
Common stock	23,721	(1,946)	832	(248)	24,553	(2,194)
Total	$ 220,489	$ (3,603)	$ 7,064	$ (417)	$ 227,553	$ (4,020)

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

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

(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	$ 1,015	$ (4)	$	$	$ 1,015	$ (4)
Obligations of states and political subdivisions	38,601	(553)	1,651	(63)	40,252	(616)
Mortgage-backed securities	2,298	(29)	561	(20)	2,859	(49)
Asset-backed securities	7,021	(17)	880	(58)	7,901	(75)
Commercial mortgage-backed securities	32,889	(239)			32,889	(239)
Corporate bonds and loans	35,063	(559)	1,014	(5)	36,077	(564)
Foreign corporate bonds	1,990	(5)			1,990	(5)
Total fixed maturities	118,877	(1,406)	4,106	(146)	122,983	(1,552)
Common stock	12,580	(700)			12,580	(700)
Total	$ 131,457	$ (2,106)	$ 4,106	$ (146)	$ 135,563	$ (2,252)

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

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

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

(1) the issuer is in financial distress;

(2) the investment is secured;

(3) a significant credit rating action occurred;

(4) scheduled interest payments were delayed or missed;

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

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

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

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

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

(1) persisted for more than twelve consecutive months or

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

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

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

U.S. treasury and agency obligations As of June 30, 2011, gross unrealized losses related to U.S. treasury and agency obligations were $0.19 million. All unrealized losses have been in an unrealized loss position for less than

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twelve months. All of these securities are rated AAA. The Company s investment manager s analysis for this sector includes on-site visits and meetings with officials in addition to the standard rigorous analysis that determines the financial condition of the issuer.

Obligations of states and political subdivisions As of June 30, 2011, gross unrealized losses related to obligations of states and political subdivisions were $0.19 million. Of this amount, $0.11 million has been in an unrealized loss position for twelve months or greater. These securities are rated investment grade. The Company s investment manager s analysis for this sector includes on-site visits and meetings with officials in addition to the standard rigorous analysis that determines the financial condition of the issuer.

Mortgage-backed securities As of June 30, 2011, gross unrealized losses related to mortgage-backed securities were $0.46 million. Of this amount, $0.02 million has 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+. The Company s investment manager models each mortgage-backed security to project principal losses under downside, base, and upside scenarios for the economy and home prices. The primary assumption that drives the security and loan level modeling is the Home Price Index (HPI) projection. The Company s investment manager first projects HPI at the national level, then at the Metropolitan Statistical Area (MSA) level based on the historical relationship between the individual MSA HPI and the national HPI, using inputs from its macroeconomic team, mortgage portfolio management team, and structured analyst team. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and content loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs.

Asset-backed securities (ABS) As of June 30, 2011, gross unrealized losses related to asset-backed securities were $0.04 million. All unrealized losses have been in an unrealized loss position for twelve months or greater. These securities are rated investment grade. The weighted average credit enhancement for the Company s asset-backed portfolio is 32.1. 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.

Commercial mortgage-backed securities (CMBS) As of June 30, 2011, gross unrealized losses related to CMBS were $0.07 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All of these securities are rated AAA. The weighted average credit enhancement for the Company s CMBS portfolio is 27.1. 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, 2011, gross unrealized losses related to corporate bonds and loans were $0.85 million. Of this amount, $0.003 million has 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 below investment grade. The Company s investment manager s analysis for this sector includes maintaining detailed financial models that include a projection of each issuer s future financial performance, including prospective debt servicing

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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, 2011, gross unrealized losses related to foreign bonds were $0.02 million. All unrealized losses have been in an unrealized loss position for less than twelve months. These securities are rated A. 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, 2011, gross unrealized losses related to common stock were $2.19 million. Of this amount, $0.25 million has been in an unrealized loss position for twelve months or greater. To determine if an other than temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

The Company recorded the following other than temporary impairments (OTTI) on its investment portfolio for the quarters and six months ended June 30, 2011 and 2010:

(Dollars in thousands)	Quarters Ended June 30, 2011	Quarters Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Fixed maturities:				
OTTI losses, gross	$	$ 17	$	$ 106
Portion of loss recognized in other comprehensive income (pre-tax)		4		(43)
Net impairment losses on fixed maturities recognized in earnings		21		63
Common stock	1,353	346	1,906	346
Total	$ 1,353	$ 367	$ 1,906	$ 409

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, 2011 and 2010 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	Quarters Ended June 30, 2011	Quarters Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Balance at beginning of period	$ 86	$ 92	$ 115	$ 50
Additions where no OTTI was previously recorded		16		47
Additions where an OTTI was previously recorded		5		16
Reductions for securities for which the company intends to sell or more likely than not will be required to sell before recovery				

Reductions reflecting increases in expected cash flows to be collected				
Reductions for securities sold during the period			(29)	
Balance at end of period	$ 86	$ 113	$ 86	$ 113

Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of June 30, 2011 and December 31, 2010 was as follows:

(Dollars in thousands)	June 30, 2011	December 31, 2010
Net unrealized gains from:		
Fixed maturities	$ 45,438	$ 50,737

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(Unaudited)

Preferred stock		1,322
Common stock	20,987	24,600
Mutual Fund	394	
Partnerships < 3% owned	3,059	13
Deferred taxes	(17,239)	(19,461)
Accumulated other comprehensive income	$ 52,639	$ 57,211

Net Realized Investment Gains

The components of net realized investment gains for the quarters and six months ended June 30, 2011 and 2010 were as follows:

	Quarters Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Fixed maturities	$ 4,901	$ 3,688	$ 10,616	$ 15,379
Convertibles				3
Common stock	1,939	1,909	8,221	4,419
Preferred stock	1,546		1,546	
Total	$ 8,386	$ 5,597	$ 20,383	$ 19,801

The proceeds from sales of available-for-sale securities resulting in net realized investment gains for the six months ended June 30, 2011 and 2010 were as follows:

	Six Months Ended June 30,	
(Dollars in thousands)	**2011**	**2010**
Fixed maturities	$ 459,364	$ 476,634
Equity securities	50,055	20,330

Net Investment Income

The sources of net investment income for the quarters and six months ended June 30, 2011 and 2010 were as follows:

	Quarters Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Fixed maturities	$ 14,195	$ 15,133	$ 28,878	$ 30,713
Preferred and common stocks	954	445	1,731	806
Cash and cash equivalents	29	31	46	108
Other invested assets		4		4

Total investment income	15,178	15,613	30,655	31,631
Investment expense	(1,248)	(1,672)	(2,311)	(3,111)
Net investment income	$ 13,930	$ 13,941	$ 28,344	$ 28,520

The Company s total investment return on an after-tax basis for the quarters and six months ended June 30, 2011 and 2010 were as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Net investment income	$ 12,107	$ 11,784	$ 24,643	$ 24,070
Net realized investment gains	6,210	3,801	14,965	14,794
Net equity in net income (loss) of partnership			53	(29)
Net unrealized investment losses	(3,148)	(3,544)	(4,572)	(4,561)

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Net investment gains	3,062	257	10,446	10,204
Total investment return	$ 15,169	$ 12,041	$ 35,089	$ 34,274
Total investment return % **(1)**	0.9%	0.7%	2.0%	2.0%
Average investment portfolio **(2)**	$ 1,729,099	$ 1,684,833	$ 1,721,125	$ 1,684,318

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

Subprime and Alt-A Investments

The Company had approximately $2.8 million and $3.0 million worth of investment exposure through subprime and Alt-A investments as of June 30, 2011 and December 31, 2010, respectively. An Alt-A investment is one which is backed by a loan that contains limited documentation. As of June 30, 2011, approximately $0.2 million of those investments were rated AAA by Standard & Poor s, $0.3 million were rated BBB- to AA, and $2.3 million were rated below investment grade. As of December 31, 2010, approximately $0.2 million of those investments were rated AAA by Standard & Poor s, $0.2 million were rated BBB- to AA, and $2.6 million were rated below investment grade. There were no impairments on these investments during the quarter or six months ended June 30, 2011 and $0.04 million of impairments on these investments during the year ended December 31, 2010.

Insurance Enhanced Municipal Bonds

As of June 30, 2011, the Company held insurance enhanced municipal bonds of approximately $101.2 million, which represented approximately 5.9% of the Company s total cash and invested assets. These securities had an average rating of AA. Approximately $43.0 million of these bonds are pre-refunded with U.S. treasury securities, of which $31.1 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 $58.2 million of insurance enhanced municipal bonds, $25.1 million would have carried a lower credit rating had they not been insured. The following table provides a breakdown of the ratings for these municipal bonds with and without insurance.

(Dollars in thousands) **Rating**	**Ratings with Insurance**	**Ratings without Insurance**
AAA	$ 2,771	$
AA	9,181	3,632
A	13,163	20,458
BBB		1,025
Total	$ 25,115	$ 25,115

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, 2011, 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	$ 8,780	$ 3,194	$	$ 5,586
Financial Guaranty Insurance Company	2,271	2,271		
Financial Security Assurance, Inc.	37,556	13,960		23,596
Municipal Bond Insurance Association	33,596	10,944		22,652
Federal Housing Association	2,259		2,259	
Government National Housing Association	3,650	778	2,872	
Permanent School Fund Guaranty	1,254		1,254	

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Total backed by financial guarantors	89,366	31,147	6,385	51,834
Other credit enhanced municipal bonds	11,845	11,845		
Total	$ 101,211	$ 42,992	$ 6,385	$ 51,834

In addition to the $101.2 million of insurance enhanced municipal bonds, the Company also held insurance enhanced asset-backed and credit securities with a market value of approximately $32.8 million, which represented approximately 1.9% of the Company s total cash and invested assets. The financial guarantors of the Company s $32.8 million of insurance enhanced asset-backed and credit securities include Financial Guaranty Insurance Company ($0.8 million), Municipal Bond Insurance Association ($13.3 million), Ambac ($2.6 million), Financial Security Assurance, Inc. ($5.0 million), Assured Guaranty Insurance Group ($5.8 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, 2011.

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 cash, cash equivalents, and bonds available for sale and on deposit or held in trust were as follows as of June 30, 2011 and December 31, 2010:

	Estimated Fair Value	
(Dollars in thousands)	**June 30, 2011**	**December 31, 2010**
On deposit with governmental authorities	$ 43,908	$ 43,656
Intercompany trusts held for the benefit of U.S. policyholders	601,115	609,242
Held in trust pursuant to third party requirements	94,547	68,900
Held in trust pursuant to U.S. regulatory requirements for the benefit of U.S. policyholders	6,063	5,871
Total	$ 745,633	$ 727,669

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. In February, 2011, the Company liquidated its remaining interest in this limited partnership.

During the quarters and six months ended June 30, 2011 and 2010, the Company recognized the following gains (losses), net of taxes, due to changes in the value of these investments.

	Quarter Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Limited partnership > 3% ownership	$	$	$ 53	$ (29)

These gains (losses) are reflected on the consolidated statement of operations as equity in net income (loss) of partnerships, net of taxes.

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.

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

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

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the 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 tables present information about the Company s invested assets measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of June 30, 2011		**Fair Value Measurements**		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturities:				
U.S. treasury and agency obligations	$ 78,218	$ 44,386	$	$ 122,604
Obligations of states and political subdivisions		233,108		233,108
Mortgage-backed securities		331,160		331,160
Commercial mortgage-backed securities		37,975		37,975
Asset-backed securities		118,095		118,095
Corporate bonds and loans		560,170		560,170
Foreign corporate bonds		57,106		57,106
Total fixed maturities	78,218	1,382,000		1,460,218
Common shares	150,226			150,226
Other invested assets			17,579	17,579
Total invested assets	$ 228,444	$ 1,382,000	$ 17,579	$ 1,628,023

As of December 31, 2010 (Dollars in thousands)	Fair Value Measurements Level 1	Level 2	Level 3	Total
Fixed maturities:				
U.S. treasury and agency obligations	$ 89,187	$ 113,503	$	$ 202,690
Obligations of states and political subdivisions		245,012		245,012
Mortgage-backed securities		249,080		249,080
Commercial mortgage-backed securities		38,733		38,733
Asset-backed securities		115,099		115,099
Corporate bonds and loans		532,784		532,784
Foreign corporate bonds		60,994		60,994
Total fixed maturities	89,187	1,355,205		1,444,392
Preferred shares		2,252		2,252
Common shares	145,274			145,274
Other invested assets			5,380	5,380
Total invested assets	$ 234,461	$ 1,357,457	$ 5,380	$ 1,597,298

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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, 2011 or 2010.

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 (realized / unrealized):	
Included in accumulated other comprehensive income	855
Ending balance at June 30, 2011	$ 17,579
Net unrealized losses included in net income for the period 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 losses (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

Net unrealized losses included in net income for the period 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 was comprised of securities for which there is no readily available independent market price. 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 prior month-end pricing period. The Company s investment in a mutual fund of $10.4 million is measured utilizing the fund s net asset value. The net asset value of the fund is based on the actual market price of the assets of the portfolio, including accrued income less liabilities and provisions for accrued expenses. The fund is comprised primarily of

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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 has been classified within the Level 3 category.

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, 2010:

Quarter Ended June 30, 2010 **(Dollars in thousands)**	**Other Invested Assets**
Beginning balance at April 1, 2010	$ 6,548
Total losses (realized / unrealized):	
Included in accumulated other comprehensive income	(58)
Ending balance at June 30, 2010	$ 6,490
Net unrealized losses included in net income for the period related to assets still held at June 30, 2010	$

Six Months Ended June 30, 2010 **(Dollars in thousands)**	**Other Invested Assets**
Beginning balance at January 1, 2010	$ 7,999
Total losses (realized / unrealized):	
Included in equity in net loss of partnership	(44)
Included in accumulated other comprehensive income	(1,397)
Distribution	(68)
Ending balance at June 30, 2010	$ 6,490
Net unrealized losses included in net income for the period related to assets still held at June 30, 2010	$ (44)

The $6.5 million is related to investments in limited partnerships. Of the investments in limited partnerships, $5.4 million was comprised of securities for which there is no readily available independent market price. 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 prior month-end pricing period. Of our investments in limited partnerships, $1.1 million was related to a limited partnership which holds convertible preferred securities of a privately held company. In February, 2011, the Company s remaining interest of $1.1 million was liquidated.

Fair Value of Alternative Investments

Included in Other invested assets in the fair value hierarchy at June 30, 2011 are limited liability partnerships and a mutual fund measured at fair value. The following table provides the fair value and future funding commitments related to these investments at June 30, 2011.

(Dollars in thousands)	Fair Value	Future Funding Commitments
Equity Fund, LP **(1)**	$ 7,185	$ 2,544
Real Estate Fund, LP **(2)**		
Mutual Fund **(3)**	10,394	
Total	$ 17,579	$ 2,544

(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.

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(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 in 2010.

(3) This is an open-ended unincorporated mutual investment fund which seeks to generate attractive long term total returns by investing in companies which benefit from increasing levels of domestic consumption expenditure in the Asia ex Japan region. Investments will primarily be in equity securities within the consumer staples, consumer discretionary and healthcare sectors in the Asia ex Japan region; however, the approach is unconstrained and may opportunistically invest in any sector. The Company may request to redeem units of the portfolio. However, depending on the size of the redemption request, certain restrictions may apply.

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: asset backed securities (ABS), collateralized mortgage obligations (CMO), and municipals. A third vendor provides prices for the remaining fixed maturity categories including mortgage backed securities (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 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.

For CMOs, which are categorized with mortgage-backed securities in the tables listed above, a volatility-driven, multi-dimensional single cash flow stream model or option-adjusted spread model is used. For ABSs, a single expected cash flow stream model is utilized. For both asset classes, evaluations utilize standard inputs plus new issue data, monthly payment information, and collateral performance. The evaluated pricing models incorporate security set-up, prepayment speeds, cash flows, 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 TBA (a forward MBS trade) or benchmarking to value a security.

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

The Company performs certain procedures to validate whether the pricing information received from the pricing vendors is reasonable, to ensure that the fair value determination is consistent with the most recent accounting

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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, 2011, the Company has not needed to adjust 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, 2011 and December 31, 2010:

(Dollars in thousands)	June 30, 2011	December 31, 2010
Reinsurance receivables	$ 332,242	$ 422,844
Collateral securing reinsurance receivables	(184,605)	(289,284)
Reinsurance receivables, net of collateral	$ 147,637	$ 133,560
Allowance for uncollectible reinsurance receivables	$ 10,566	$ 12,742
Prepaid reinsurance premiums	8,842	11,104

The Company regularly evaluates retention levels and reinsurance limits to ensure that net retained losses are aligned with corporate risk tolerance and capital levels. The Company s U.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, 2011, 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. 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, 2011, which provided occurrence coverage for losses of $75.0 million in excess of $15.0 million.

Property Per Risk Excess of Loss Effective January 1, 2011, 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, 2010, which provided coverage of $14.0 million per risk in excess of $1.0 million per risk. 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 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

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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, 2011, the Company renewed its casualty excess of loss treaty and added the professional liability exposure as a separate section to the 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. Allocated loss adjustment expenses are included within limits. The stand-alone casualty treaty that expired April 30, 2011 provided identical coverage. The professional liability section provides coverage of $4.0 million per policy/occurrence in excess of $1.0 million per policy/occurrence.

Casualty Clash Excess of Loss Effective January 1, 2011, 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. This replaces the treaty that expired December 31, 2010, which provided identical coverage.

Property Quota Share Effective January 1, 2010, the Company renewed its 40% quota share treaty related to the Penn-America property line of business. This treaty covers premiums earned in 2010 on policies written in 2009 and 2010. During 2010, the Company ceded $14.1 million of earned premium. This treaty expired on December 31, 2010 and was not renewed.

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.

There were no other significant changes to any of the Company s other reinsurance treaties during the quarter and six months ended June 30, 2011. 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, 28.59% in the Grand Duchy of Luxembourg, and 25.0% on non-trading income and 12.5% on trading income in the Republic of Ireland. For 2010, 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 was divided by total estimated annual pre-tax income to determine the expected annual income tax rate used to compute the income tax provision.

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On an interim basis, the expected 2010 annual income tax rate was applied against interim pre-tax income, excluding net realized gains and losses and limited partnership distributions, and then adding that amount to income taxes on net realized gains and losses, discrete items and limited partnership distributions. For the quarter and year to date ended June 30, 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 the Non-U.S. Subsidiaries and U.S. Subsidiaries, including the results of the quota share agreement between Wind River Reinsurance and the Insurance Operations, for the quarters and six months ended June 30, 2011 and 2010 were as follows:

Quarter Ended June 30, 2011:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 56,758	$ 70,373	$ (32,169)	$ 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		163		163
Total revenues	64,505	40,626	(4,597)	100,534
Losses and Expenses:				
Net losses and loss adjustment expenses	38,685	23,068		61,753
Acquisition costs and other underwriting expenses	20,013	10,184		30,197
Corporate and other operating expenses	3,687	1,000		4,687
Interest expense		6,340	(4,597)	1,743
Income before income taxes	$ 2,120	$ 34	$	$ 2,154

Quarter Ended June 30, 2010:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 56,139	$ 61,532	$ (25,621)	$ 92,050
Net premiums written	$ 56,132	$ 23,391	$	$ 79,523
Net premiums earned	$ 51,458	$ 23,244	$	$ 74,702
Net investment income	10,810	7,728	(4,597)	13,941
Net realized investment gains	465	5,132		5,597
Other income		342		342

Total revenues	62,733	36,446	(4,597)	94,582
Losses and Expenses:				
Net losses and loss adjustment expenses	26,119	6,556		32,675
Acquisition costs and other underwriting expenses	18,674	10,334		29,008
Corporate and other operating expenses	2,825	2,238		5,063
Interest expense		6,430	(4,597)	1,833
Income before income taxes	$ 15,115	$ 10,888	$	$ 26,003

Six Months Ended June 30, 2011:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 115,455	$ 126,840	$ (59,667)	$ 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
Other income		11,832		11,832
Total revenues	129,195	94,533	(9,145)	214,583
Losses and Expenses:				

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Net losses and loss adjustment expenses	79,536	40,559		120,095
Acquisition costs and other underwriting expenses	38,750	21,299		60,049
Corporate and other operating expenses	5,450	2,017		7,467
Interest expense		12,640	(9,145)	3,495
Income before income taxes	$ 5,459	$ 18,018	$	$ 23,477

Six Months Ended June 30, 2010:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 117,785	$ 115,603	$ (48,485)	$ 184,903
Net premiums written	$ 116,999	$ 44,005	$	$ 161,004
Net premiums earned	$ 98,499	$ 46,991	$	$ 145,490
Net investment income	21,671	15,993	(9,144)	28,520
Net realized investment gains	5,496	14,305		19,801
Other income		342		342
Total revenues	125,666	77,631	(9,144)	194,153
Losses and Expenses:				
Net losses and loss adjustment expenses	52,073	22,391		74,464
Acquisition costs and other underwriting expenses	39,049	20,107		59,156
Corporate and other operating expenses	4,993	4,966		9,959
Interest expense		12,716	(9,144)	3,572
Income before income taxes	$ 29,551	$ 17,451	$	$ 47,002

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:

	Quarters Ended June 30,			
	2011		2010	
(Dollars in thousands)	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Expected tax provision at weighted average rate	$ 83	3.8%	$ 3,811	14.7%
Adjustments:				
Tax exempt interest	(496)	(23.0)	(465)	(1.8)
Dividend exclusion	(210)	(9.7)	(84)	(0.3)
Effective tax rate adjustment	(1,698)	(78.8)	(1,804)	(6.9)
Other	34	1.5	33	

Income tax expense	$ (2,287)	(106.2%)	$ 1,491	5.7%

The effective income tax benefit rate for the quarter ended June 30, 2011 was 106.2%, compared to an effective income tax rate of 5.7% for the quarter ended June 30, 2010. 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, 2010. The effective rate differed from the weighted average expected income tax expense rate of 3.8% 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 expense rate of 14.7% for the quarter ended June 30, 2010 primarily due to the fact that the Company recorded income tax expense during interim periods using an expected annual effective tax rate, net of tax-exempt interest and dividends.

	Six Months Ended June 30,			
	2011		**2010**	
(Dollars in thousands)	**Amount**	**% of Pre-Tax Income**	**Amount**	**% of Pre-Tax Income**
Expected tax provision at weighted average rate	$ 6,636	28.3%	$ 6,185	13.2%
Adjustments:				
Tax exempt interest	(1,020)	(4.3)	(984)	(2.1)
Dividend exclusion	(367)	(1.6)	(163)	(0.3)
Effective tax rate adjustment			(1,526)	(3.2)
Other	55	0.2	48	

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Income tax expense	$ 5,304	22.6%	$ 3,560	7.6%

The effective income tax expense rate for the six months ended June 30, 2011 was 22.6%, compared to 7.6% for the six months ended June 30, 2010. The increase in the effective tax rate is primarily due to the Company s settlement with AON as noted in our 2010 Form 10-K. Excluding realized gains and the AON settlement, the Company s effective tax benefit is 49.4%. The effective rate differed from the weighted average expected income tax expense rate of 28.3% for the six months ended June 30, 2011 primarily due to the fact that the Company records income tax expense net of tax-exempt interest and dividends. The effective rate differed from the weighted average expected income tax expense rate of 13.2% for the six months ended June 30, 2010 primarily due to the fact that the Company records interim income tax expense using an expected annual effective tax rate, net of tax-exempt interest and dividends.

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 2007.

The alternative minimum tax credit carryforward was $6.5 million as of June 30, 2011 and December 31, 2010, respectively.

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 $0.7 million as of June 30, 2011 and December 31, 2010. 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, 2011, the Company has recorded $0.1 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, 2011, 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)	**2011**	**2010**	**2011**	**2010**
Balance at beginning of period	$ 1,035,088	$ 1,232,640	$ 1,052,743	$ 1,257,741
Less: Ceded reinsurance receivables	375,846	503,415	407,195	514,467
Net balance at beginning of period	659,242	729,225	645,548	743,274

Incurred losses and loss adjustment expenses related to:				
Current year	67,097	48,493	130,738	93,120
Prior years	(5,344)	(15,818)	(10,643)	(18,656)
Total incurred losses and loss adjustment expenses	61,753	32,675	120,095	74,464
Paid losses and loss adjustment expenses related to:				

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Current year	21,898	9,966	27,021	15,212
Prior years	44,030	50,124	83,555	100,716
Total paid losses and loss adjustment expenses	65,928	60,090	110,576	115,928
Net balance at end of period	655,067	701,810	655,067	701,810
Plus: Ceded reinsurance receivables	320,129	466,949	320,129	466,949
Balance at end of period	$ 975,196	$ 1,168,759	$ 975,196	$ 1,168,759

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

In the second quarter of 2011, the Company reduced its prior accident year loss reserves by $5.3 million, which consisted mainly of a $9.8 million reduction in general liability lines, a $0.8 million reduction in umbrella lines, offset partially by a $4.2 million increase in professional liability lines, a $0.7 million increase in auto liability lines, and a $0.3 million increase in property lines:

General liability: The $9.8 million reduction primarily consisted of reductions of $12.2 million related to our Insurance Operations. This amount included a $16.5 million reduction in accident years 2008 and prior due to continued favorable emergence in our Penn-America and United National business. Incurred losses for these business units have developed at a rate lower than the Company s historical averages. We also decreased our reinsurance allowance by $2.2 million in this line due to changes in our 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 our Casualty Brokerage unit as well as a net increase of $2.4 million related to our Reinsurance Operations due to loss emergence on our Marine treaties. We have addressed pricing and underwriting controls to improve profitability in the Casualty Brokerage general liability line. Gross premiums written in the Casualty Brokerage general liability line were $8.7 million and $13.4 million in the quarter and six months ended June 30, 2011, respectively, compared to $4.1 million and $6.7 million in the quarter and six months ended June 30, 2010, respectively.

Umbrella: The $0.8 million reduction primarily related to all accident years 2010 and prior in our Insurance Operations 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.

Professional liability: The $4.2 million increase related to increases in our Insurance Operations of $9.3 million in accident years 1998, 2009 and 2010, offset partially by decreases of $5.1 million related to all other accident years. In 2011, we exited certain professional liability classes where the volume of premium was low and loss volatility was high. We are focused on writing business where we expect to realize profit that meets our return on investment thresholds. As a result of these actions, the quarter and six months ended June 30, 2011 gross written premiums in this line were $2.1 million and $4.4 million, respectively, compared with $4.4 million and $8.7 million, respectively, for the quarter and six months ended June 30, 2010.

Auto liability: The $0.7 million increase primarily consisted of an increase of $0.3 million related to accident years 2009 and 2010 in our Reinsurance Operations related to a non-standard auto treaty which was not renewed in 2011.

Property: The $0.3 million increase primarily related to a $1.2 million increase on accident year 2010 in our Reinsurance Operations and is due to loss emergence on a worldwide catastrophe treaty. This was offset by a $0.8 million reduction in accident years 2008 through 2010 in our Insurance Operations due to favorable emergence on recent property losses.

In the second quarter of 2010, the Company reduced its prior accident year loss reserves by $15.8 million. The reduction consisted of a $10.7 million reduction in general liability lines, a $2.5 million reduction in professional liability lines, a $2.4 million reduction in umbrella lines, and a $0.2 million reduction in auto liability lines:

General liability: The $10.7 million reduction is primarily related to accident years 2006 through 2009 in

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our Insurance Operations due to less than anticipated severity. Incurred losses for these segments have developed at a rate lower than the Company s historical averages.

Professional liability: The $2.5 million reduction was entirely in our Insurance Operations and primarily consisted of net reductions of $4.0 million related to accident years 2008 and prior, driven by lower than expected paid and incurred activity during the quarter. This reduction was offset by an increase of $1.5 million related to accident year 2009 where the Company experienced higher than expected claim frequency and severity.

Umbrella: The $2.4 million reduction was entirely in our Insurance Operations and primarily consisted of net reductions to accident years 2009 and prior primarily due to less than anticipated severity. As these accident years have matured, more weight has been given to experience based methods which continue to develop favorably compared to the Company s initial indications.

Auto liability: The $0.2 million reduction was entirely in our Insurance Operations and primarily consisted of net reductions of $0.4 million related to accident years 2007 and prior. Programs related to these accident years are in run-off, and loss severity has been lower than the Company s prior projections. This reduction was offset by an increase of $0.2 million to accident year 2009 where losses on the Company s commercial auto product were higher than anticipated.

In the six months ended June 30, 2011, the Company reduced its prior accident year loss reserves by $10.6 million, which consisted mainly of a $14.8 million reduction in general liability lines, a $1.3 million reduction in umbrella lines, and a $0.6 million reduction in property lines, offset by a $3.9 million increase in professional liability lines, a $1.4 million increase in auto liability lines and a $0.9 million increase in workers compensation lines:

General liability: The $14.8 million reduction primarily consisted of reductions of $19.1 million related to our Insurance Operations. This amount included a $22.8 million reduction in accident years 2008 and prior due to continued favorable emergence in our Penn-America and United National business. Incurred losses for these business units have developed at a rate lower than the Company s historical averages. We also decreased our reinsurance allowance by $2.2 million in this line due to changes in our reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of $5.9 million in accident years 2009 and 2010 related to loss emergence in our Casualty Brokerage unit as well as a net increase of $4.4 million related to our Reinsurance Operations in accident year 2010 due to loss emergence on our Marine treaties.

Umbrella: The $1.3 million reduction primarily related to all accident years 2010 and prior in our Insurance Operations 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.

Property: The $0.6 million reduction primarily related to a $1.4 million decrease to accident year 2009 in our Insurance Operations related to anticipated subrogation on a large equine mortality claim. This was offset by a $1.1 million increase related to accident year 2010 in our Reinsurance Operations due to loss emergence on a worldwide catastrophe treaty.

Professional liability: The $3.9 million increase was entirely in our Insurance Operations and primarily consisted of increases of $12.4 million related to accident years 1998, 2009 and 2010, offset partially by decreases of $8.4 million related to all other accident years. The increases in the 2009 and 2010 accident years are primarily due to loss emergence in our Casualty Brokerage unit, while the decreases to the 2008 and prior accident years are due to continued favorable emergence.

Auto liability: The $1.4 million increase primarily consisted of an increase of $0.9 million related to accident years 2009 and 2010 in our Reinsurance Operations related to greater severity on a non-standard auto treaty which was not renewed in 2011.

Workers compensation: The $0.9 million increase primarily related to accident years 2009 and 2010 in our Reinsurance Operations is the result of expected losses recorded on adjustment premiums recorded in 2011.

In the six months ended June 30, 2010, the Company reduced its prior accident year loss reserves by $18.7 million. The reduction consisted of a $12.7 million reduction in general liability lines, a $3.1 million reduction in professional liability lines, a $2.4 million reduction in umbrella lines, a $0.3 million reduction in property lines, and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(Continued)***

(Unaudited)

a $0.2 million reduction in auto liability lines:

General liability: The $12.7 million reduction was entirely in our Insurance Operations and primarily consisted of net reductions related to accident years 2009 and prior primarily due to less than anticipated severity. Incurred losses have developed at a rate lower than the Company s historical averages.

Professional liability: The $3.1 million reduction was entirely in our Insurance Operations and primarily consisted of net reductions of $4.6 million related to accident years 2008 and prior due to lower severity than originally anticipated, partially offset by a $1.5 million increase related to accident year 2009 where the Company experienced higher than expected claim frequency and severity.

Umbrella: The $2.4 million reduction was entirely in our Insurance Operations and primarily consisted of net reductions related to accident years 2009 and prior primarily due to less than anticipated severity. As these accident years have matured, more weight has been given to experience based methods which continue to develop favorably compared to the Company s initial indications.

Property: The $0.3 million reduction primarily consisted of net reductions in our Reinsurance Operations of $0.8 million due to a 2009 reinsurance treaty which experienced lower than expected loss severity. This was offset by net increases of $0.5 million in our Insurance Operations consisting of an increase of $2.1 million primarily related to accident year 2009 that was driven by higher than expected claim frequency and severity, partially offset by net reductions of $1.6 million primarily related to accident years 2008 and prior due to lower than anticipated severity. These reductions were driven by incurred loss emergence during the period that was lower than our historical averages.

Auto liability: The $0.2 million reduction primarily consisted of net reductions of $0.4 million related to accident years 2007 and prior. Programs related to these accident years are in run-off, and loss severity has been lower than the Company s prior projections. This reduction was offset by an increase of $0.2 million to accident year 2009 where losses on the Company s commercial auto product were higher than anticipated.

9. Related Party Transactions

Fox Paine & Company

As of June 30, 2011, Fox Paine & Company beneficially owned shares having approximately 89.5% of the Company s total outstanding voting power. Fox Paine & Company can nominate a certain number 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 of 25% or more of the voting power in the Company. Fox Paine & Company controls the election of all of our Directors due to its controlling share ownership. The Company s Chairman is a member of Fox Paine & Company. The Company relies on Fox Paine & Company to provide management services and other services related to the operations of the Company.

The Company incurred management fees of $0.4 million in each of the quarters ended June 30, 2011 and 2010 and $0.8 million in each of the six months ended June 30, 2011 and 2010 as part of the annual management fee that is paid to Fox Paine & Company.

At June 30, 2011 and December 31, 2010, Wind River Reinsurance was a limited partner in Fox Paine Capital Fund, II, which is managed by Fox Paine & Company. This investment was originally made by United National Insurance Company in June 2000 and pre-dates the September 5, 2003 acquisition by Fox Paine & Company of Wind River Investment Corporation, the holding company for the Company s Predecessor Insurance Operations. The Company s investment in this limited partnership was valued at $7.2 million and $4.3 million at June 30, 2011 and December 31, 2010, respectively. At June 30, 2011, the Company had an unfunded capital commitment of $2.5 million to the partnership. Distributions of $0.15 million and $0.07 million were received from the limited partnership during the six months ended June 30, 2011 and 2010, respectively. There were no distributions received from the limited partnership during the quarters ended June 30, 2011 and 2010.

On July 2, 2010, United America Indemnity, Ltd. entered into an agreement to indemnify the affected indirect owners of the affiliates of Fox Paine & Company that were shareholders of United America Indemnity, Ltd.

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immediately prior to the effective date of our re-domestication to Ireland (See Note 2 for details). The agreement indemnifies them for any tax cost (including interest on tax and penalties, if any) of any triggering event and such affected indirect owners will pay us an amount equal to any tax benefits, if any, realized by them as a result of a triggering event for which they were indemnified, provided that the indirect owners will not be required to pay any amount of tax benefits in excess of the tax costs for which we have indemnified them. A sale or other disposition by these indirect owners of our ordinary shares will not constitute a triggering event for this purpose. In addition, the indemnification agreement provides that, under certain circumstances, in the event the conversion of Global Indemnity plc s Class B ordinary shares to Class A ordinary shares or a sale or other disposition of Global Indemnity plc s Class B ordinary shares is subject to Irish stamp duty, we will indemnify such affiliates of Fox Paine & Company and their transferees against such Irish stamp duty.

Cozen O Connor

During the quarter and six months ended June 30, 2011, the Company did not incur any costs for legal services rendered by Cozen O Connor. During the quarter and six months ended June 30, 2010, the Company incurred $0.03 million and $0.07 million, respectively, for legal services rendered by Cozen O Connor. Stephen A. Cozen, the chairman of Cozen O Connor, was a member of the Company s Board of Directors until his retirement effective December 31, 2010.

Validus Reinsurance, Ltd.

Validus is a participant in a quota share retrocession agreement with Wind River Reinsurance. The Company estimated that the following written premium and losses related to the quota share retrocession agreement have been assumed by Validus from Wind River Reinsurance:

	Quarter Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2011	2010	2011	2010
Ceded written premium	$	$	$ (76)	$ (2,401)
Ceded losses			54	644

Edward J. Noonan, the chairman and chief executive officer of Validus, was a member of the Company s Board of Directors until June 1, 2007, when he resigned from the Company s Board. Validus remains a related party since the current quota share retrocession agreement between Validus and Wind River Reinsurance was put in place during the period when Mr. Noonan was a member of the Company s Board of Directors.

Frank Crystal & Company

During each of the six months ended June 30, 2011 and 2010, the Company paid $0.1 million in brokerage fees to Frank Crystal & Company, an insurance broker. James W. Crystal, the chairman and chief executive officer of Frank Crystal & Company, became a member of the Company s Board of Directors effective July 6, 2010.

10. Commitments and Contingencies

Legal Proceedings

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

There is a greater potential for disputes with reinsurers who are in a runoff of their reinsurance operations. Some of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*Continued*)

(Unaudited)

the Company s reinsurers reinsurance operations 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.

On December 4, 2008, a federal jury in the U.S. District Court for the Eastern District of Pennsylvania (Philadelphia) returned a $24.0 million verdict in favor of United National Insurance Company (United National), an indirect wholly owned subsidiary of the Company, against AON Corp., an insurance and reinsurance broker. On July 24, 2009, a federal judge from the U.S. District Court for the Eastern District of Pennsylvania (Philadelphia) upheld that jury verdict. In doing so, the U.S. District Judge increased the verdict to $32.2 million by adding more than $8.2 million in prejudgment interest. AON filed its Notice of Appeal and a Bond in the amount of $33.0 million. Oral arguments were heard by the Appellate Court on October 26, 2010. In January, 2011, we settled with AON for $16.3 million. We realized approximately $7.5 million, net of income taxes and attorney s fees.

11. Share-Based Compensation Plans

During the six months ended June 30, 2011, the Company granted 65,481 Class A ordinary shares at a weighted average grant date value of $21.44 per share, to key employees of the Company under the Global Indemnity plc Share Incentive Plan (the Plan). Of those shares, 54,233 were subject to certain restrictions and 11,248 vested immediately. The Company did not grant any shares to employees during the quarter ended June 30, 2011.

During the quarter and six months ended June 30, 2011, the Company granted an aggregate of 12,640 and 26,811 fully vested Class A ordinary shares, respectively, subject to certain restrictions, at a weighted average grant date value of $21.50 and $21.14 per share, respectively, to non-employee directors of the Company under the Plan.

12. Earnings Per Share

Earnings per share have been computed using the weighted average number of ordinary shares and ordinary share equivalents outstanding during the period. All share counts and corresponding per share market prices for 2010 have been adjusted to reflect the one-for-two stock exchange of Global Indemnity plc shares for United America Indemnity, Ltd. shares as part of the re-domestication to Ireland. See Note 2 above for more information regarding the re-domestication.

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

(Dollars in thousands, except per share data)	**Quarters Ended June 30, 2011**	**Quarters Ended June 30, 2010**	**Six Months Ended June 30, 2011**	**Six Months Ended June 30, 2010**
Net income	$ 4,441	$ 24,512	$ 18,226	$ 43,413
Basic earnings per share:				
Weighted average shares outstanding basic	30,321,909	30,206,970	30,311,658	30,195,806
Net income per share	$ 0.15	$ 0.81	$ 0.60	$ 1.44
Diluted earnings per share:				
Weighted average shares outstanding diluted	30,367,556	30,233,002	30,349,985	30,216,324

Net income per share	$ 0.15	$ 0.81	$ 0.60	$ 1.44

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

	Quarters Ended June 30,		**Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Weighted average shares for basic earnings per share	30,321,909	30,206,970	30,311,658	30,195,806
Non-vested restricted stock	36,618	26,029	29,407	20,518
Options	9,029	3	8,920	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Unaudited)

Weighted average shares for diluted earnings per share	30,367,556	30,233,002	30,349,985	30,216,324

The weighted average shares outstanding used to determine dilutive earnings per share for the quarters ended June 30, 2011 and 2010 do not include 306,118 and 385,854 shares, respectively, which were deemed to be anti-dilutive. The weighted average shares outstanding used to determine dilutive earnings per share for the six months ended June 30, 2011 and 2010 do not include 308,139 and 403,736 shares, respectively, which were deemed to be anti-dilutive.

13. Segment Information

The Company manages its business through two business segments: Insurance Operations, which includes the operations of the U.S. Insurance Companies, and Reinsurance Operations, which includes the operations of Wind River Reinsurance.

The Insurance Operations segment and the Reinsurance Operations segment follow the same accounting policies used for the Company s consolidated financial statements. For further disclosure regarding the Company s accounting policies, please see Note 4 of the notes to the consolidated financial statements in Item 8 of Part II of the Company s 2010 Annual Report on Form 10-K.

The following are tabulations of business segment information for the quarters and six months ended June 30, 2011 and 2010.

Quarter Ended June 30, 2011: (Dollars in thousands)	Insurance Operations (1)	Reinsurance Operations (2)	Total
Revenues:			
Gross premiums written	$ 70,375	$ 24,587	$ 94,962
Net premiums written	$ 61,820	$ 24,587	$ 86,407
Net premiums earned	$ 56,505	$ 21,550	$ 78,055
Other income	163		163
Total revenues	56,668	21,550	78,218
Losses and Expenses:			
Net losses and loss adjustment expenses	44,243	17,510	61,753
Acquisition costs and other underwriting expenses	23,405(3)	6,792	30,197
Loss from segments	$ (10,980)	$ (2,752)	(13,732)
Unallocated Items:			
Net investment income			13,930
Net realized investment gains			8,386
Corporate and other operating expenses			(4,687)
Interest expense			(1,743)
Income before income taxes			2,154
Income tax benefit			(2,287)

Net income			$ 4,441
Total assets	$ 1,566,975	$ 671,656(4)	$ 2,238,631

(1) Includes business ceded to Reinsurance Operations.
(2) External business only, excluding business assumed from Insurance Operations.
(3) Includes federal excise tax of $293 relating to cessions from Insurance Operations to Reinsurance Operations.
(4) Comprised of Wind River Reinsurance s total assets less its investment in subsidiaries.

Quarter Ended June 30, 2010: (Dollars in thousands)	**Insurance Operations (1)**	**Reinsurance Operations (2)**	**Total**
Revenues:			
Gross premiums written	$ 61,531	$ 30,519	$ 92,050
Net premiums written	$ 49,011	$ 30,512	$ 79,523
Net premiums earned	$ 48,736	$ 25,966	$ 74,702

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(Continued)***

(Unaudited)

Other income	342		342
Total revenues	49,078	25,966	75,044
Losses and Expenses:			
Net losses and loss adjustment expenses	16,284	16,391	32,675
Acquisition costs and other underwriting expenses	22,419(3)	6,589	29,008
Income from segments	$ 10,375	$ 2,986	13,361
Unallocated Items:			
Net investment income			13,941
Net realized investment gains			5,597
Corporate and other operating expenses			(5,063)
Interest expense			(1,833)
Income before income taxes			26,003
Income tax expense			1,491
Net income			$ 24,512
Total assets	$ 1,714,076	$ 642,141(4)	$ 2,356,217

(1) Includes business ceded to Reinsurance Operations.
(2) External business only, excluding business assumed from Insurance Operations.
(3) Includes federal excise tax of $264 relating to cessions from Insurance Operations to Reinsurance Operations.
(4) Comprised of Wind River Reinsurance s total assets less its investment in subsidiaries.

Six Months Ended June 30, 2011: (Dollars in thousands)	**Insurance Operations (1)**	**Reinsurance Operations (2)**	**Total**
Revenues:			
Gross premiums written	$ 126,842	$ 55,786	$ 182,628
Net premiums written	$ 114,231	$ 55,284	$ 169,515
Net premiums earned	$ 111,291	$ 42,733	$ 154,024
Other income	11,832		11,832
Total revenues	123,123	42,733	165,856
Losses and Expenses:			
Net losses and loss adjustment expenses	77,043	43,052	120,095
Acquisition costs and other underwriting expenses	48,583(3)	11,466	60,049

Loss from segments	$ (2,503)	$ (11,785)	(14,288)
Unallocated Items:			
Net investment income			28,344
Net realized investment gains			20,383
Corporate and other operating expenses			(7,467)
Interest expense			(3,495)
Income before income taxes			23,477
Income tax expense			5,304
Income before equity in net income of partnership			18,173
Equity in net income of partnership, net of tax			53
Net income			$ 18,226
Total assets	$ 1,566,975	$ 671,656(4)	$ 2,238,631

(1) Includes business ceded to Reinsurance Operations.
(2) External business only, excluding business assumed from Insurance Operations.
(3) Includes federal excise tax of $577 relating to cessions from Insurance Operations to Reinsurance Operations.
(4) Comprised of Wind River Reinsurance s total assets less its investment in subsidiaries.

Six Months Ended June 30, 2010:

(Dollars in thousands)	Insurance Operations (1)	Reinsurance Operations (2)	Total
Revenues:			
Gross premiums written	$ 115,602	$ 69,301	$ 184,903
Net premiums written	$ 92,489	$ 68,515	$ 161,004
Net premiums earned	$ 98,480	$ 47,010	$ 145,490
Other income	342		342
Total revenues	98,822	47,010	145,832

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(Continued)***

(Unaudited)

Losses and Expenses:			
Net losses and loss adjustment expenses	45,998	28,466	74,464
Acquisition costs and other underwriting expenses	45,119(3)	14,037	59,156
Income from segments	$ 7,705	$ 4,507	12,212
Unallocated Items:			
Net investment income			28,520
Net realized investment gains			19,801
Corporate and other operating expenses			(9,959)
Interest expense			(3,572)
Income before income taxes			47,002
Income tax expense			3,560
Income before equity in net loss of partnership			43,442
Equity in net loss of partnership, net of tax			(29)
Net income			$ 43,413
Total assets	$ 1,714,076	$ 642,141(4)	$ 2,356,217

(1) Includes business ceded to Reinsurance Operations.
(2) External business only, excluding business assumed from Insurance Operations.
(3) Includes federal excise tax of $524 relating to cessions from Insurance Operations to Reinsurance Operations.
(4) Comprised of Wind River Reinsurance s total assets less its investment in subsidiaries.

14. Supplemental Cash Flow Information

The Company paid the following amounts in cash for net U.S. federal income taxes and interest during the quarters and six months ended June 30, 2011 and 2010:

	Quarters Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Net U.S. federal income taxes paid	$ 4,146	$ 2,054	$ 4,099	$ 2,054
Interest paid	320	320	3,443	3,443

15. New Accounting Pronouncements

In May, 2011, the FASB issued new accounting guidance which was intended to bring about further convergence of International Financial Reporting Standards (IFRS) and U.S. GAAP on the topic of fair value. The guidance clarifies wording to provide harmonization when compared to IFRS, provides additional guidance for the application of fair value measurement in practice, and updates disclosure requirements surrounding fair value. This guidance is effective for calendar years beginning after December 15, 2011. The Company is still in the process of evaluating the impact that this guidance will have on our consolidated financial position and results of operations.

16. Subsequent Events

On July 20, 2011, the Company made a principle payment of $18.0 million on our $90.0 million Guaranteed Senior Notes. We are required to prepay $18.0 million of the principle amount on July 20th of each year through July 20, 2015, when we will be required to pay any outstanding remaining principle amount on the notes. These notes are guaranteed by Global Indemnity (Cayman), Ltd.

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

The following discussion and analysis of our 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 our plans and strategy, constitutes forward-looking statements that involve risks and uncertainties. Please see Cautionary Note Regarding Forward-Looking Statements at the end of this Item 2 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein. For more information regarding our business and operations, please see our Annual Report on Form 10-K for the year ended December 31, 2010.

Recent Developments

On July 20, 2011, the Company made a principal payment of $18.0 million on our $90.0 million Guaranteed Senior Notes. We are required to prepay $18.0 million of the principal amount on July 20th of each year through July 20, 2015, when we will be required to pay any outstanding remaining principal amount on the notes. These notes are guaranteed by Global Indemnity (Cayman), Ltd.

Overview

Our Insurance Operations distribute property and casualty insurance products through a group of approximately 98 professional general agencies that have limited quoting and binding authority, as well as a number of wholesale insurance brokers who in turn sell our insurance products to insureds through retail insurance brokers. We operate predominantly in the excess and surplus lines marketplace. To manage our operations, we differentiate 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.

Our Reinsurance Operations are comprised of the operations of Wind River Reinsurance, a Bermuda based treaty reinsurer of excess and surplus lines and specialty property and casualty insurance.

We derive our revenues primarily from premiums paid on insurance policies that we write and from income generated by our investment portfolio, net of fees paid for investment management services. The amount of insurance premiums that we receive is a function of the amount and type of policies we write, as well as of prevailing market prices.

Our expenses include losses and loss adjustment expenses, acquisition costs and other underwriting expenses, corporate and other operating expenses, interest, other investment expenses, and income taxes. Losses and loss adjustment expenses are estimated by management and reflect our best estimate of ultimate losses and costs arising during the reporting period and revisions of prior period estimates. We record losses and loss adjustment expenses based on an actuarial analysis of the estimated losses we expect to incur on the insurance policies we write. The ultimate losses and loss adjustment expenses will depend on the actual costs to resolve claims. Acquisition costs consist principally of commissions that are typically a percentage of the premiums on the insurance policies we write, net of ceding commissions earned from reinsurers and allocated internal costs. 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 fees, including 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

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Our consolidated financial statements are prepared in conformity with GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions. We believe that of our 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, we believe that the liability for unpaid losses and loss adjustment expenses reflects our best estimate for future amounts needed to pay losses and related loss adjustment expenses and the impact of our reinsurance coverages with respect to insured events.

In developing loss and loss adjustment expense (loss or losses) reserve estimates for our Insurance Operations, our 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. Most of our business can be characterized as medium to long-tail. For medium to long-tail business, it will generally be several years between the time the business is written and the time when all claims are settled. Our 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. For further discussion about our product classifications, see General Business Segments Our Insurance Operations in Item 1 of Part I of our 2010 Annual Report on Form 10-K. Each of our product classifications contain both long-tail and short-tail exposures. Every reserve category is analyzed by our actuaries each quarter. The analyses generally include reviews of losses gross and net of reinsurance.

In addition to our internal reserve analysis, independent external actuaries performed a detailed review of our reserves during the second quarter of 2011 and 2010. We do not rely upon the review of the independent actuaries to develop our reserves; however, the data is used to corroborate the analysis performed by the in-house actuarial staff.

Loss reserve estimates for our Reinsurance Operations are developed internally and by independent, external actuaries. Similar to our Insurance Operations, the data provided by our external actuaries is used to corroborate the analysis performed by the in-house actuarial staff. The data for this analysis is organized by treaty and treaty year. As with our reserves for our Insurance Operations, reserves for our Reinsurance Operations are characterized as short-tail through long-tail. Most of our business can be characterized as medium to long-tail. Medium to long-tail exposures include workers compensation, professional liability, auto liability, marine liability and excess and umbrella liability. Short-tail exposures are primarily catastrophe exposed property accounts and marine hull. Every treaty is reviewed each quarter, both gross and net of reinsurance.

The methods that we use to project ultimate losses for long-tail through 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

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rate, changes in any of these factors can impact the results. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.

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

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

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

The Bornhuetter-Ferguson method using premiums and paid losses is a combination of the Paid Development method and the Expected Loss Ratio method. This method normally determines expected loss ratios similar to the method used for the Expected Loss Ratio method and requires analysis of the same factors described above. The method assumes that only future losses will develop at the expected loss ratio level. The percent of paid loss to ultimate loss implied from the Paid Development method is used to determine what percentage of ultimate loss is yet to be paid. The use of the pattern from the Paid Development method requires consideration of all factors listed in the description of the Paid 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, and 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 us, 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, our actuaries typically assign more weight to the Incurred Development method than to the Paid Development method. As claims continue to settle and the volume of paid losses increases, the actuaries may assign additional weight to the Paid Development method. For most of our 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, we 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 our history includes a sufficient number of years to cover the entire period over which paid and incurred losses are expected to change. However, we 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, we use additional methods tailored to the characteristics of the specific situation. Such reserve categories include losses from construction defects and asbestos and environmental losses (A&E).

For construction defect losses, our 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 us, 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 the second quarter of 2008 to reflect its best estimate of A&E exposures. In 2009, one of our 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 will trigger financial obligations by the insurance company. Management will continue to monitor the developments of the litigation to determine if any additional financial exposure is present.

Reserve analyses performed by our internal and external actuaries result in actuarial point estimates. The results of the detailed reserve reviews were summarized and discussed with our 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 our pricing and underwriting, and overall pricing and underwriting trends in the insurance market.

Management s best estimate at June 30, 2011 was recorded as the loss reserve. Management s best estimate is as of a particular point in time and is based upon known facts, our actuarial analyses, current law, and our judgment. This resulted in carried gross and net reserves of $975.2 million and $655.1 million, respectively, as of June 30, 2011. A breakout of our gross and net reserves, excluding the effects of our intercompany pooling arrangements and intercompany stop loss and quota share reinsurance agreements, as of June 30, 2011 is as follows:

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(Dollars in thousands)	Gross Reserves Case	IBNR (1)	Total
Insurance Operations	$ 338,238	$ 534,568	$ 872,806
Reinsurance Operations	32,915	69,474	102,389
Total	$ 371,153	$ 604,042	$ 975,195

	Net Reserves (2) Case	IBNR (1)	Total
Insurance Operations	$ 213,063	$ 340,479	$ 553,542
Reinsurance Operations	32,794	68,732	101,526
Total	$ 245,857	$ 409,211	$ 655,068

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

We continually review these estimates and, based on new developments and information, we include 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 our historical experience or that cannot yet be quantified or estimated. We regularly analyze our reserves and review 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 8 of the notes to the consolidated financial statements in Item 1 of Part I of this report for details concerning the changes in the estimate for incurred loss and loss adjustment expenses related to prior accident years.

The detailed reserve analyses that our internal and external actuaries complete use a variety of generally accepted actuarial methods and techniques to produce a number of estimates of ultimate loss. We determine our best estimate of ultimate loss by reviewing the various estimates and assigning weight to each estimate given the characteristics of the reserve category being reviewed. The reserve estimate is the difference between the estimated ultimate loss and the losses paid to date. The difference between the estimated ultimate loss and the case incurred loss (paid loss plus case reserve) is considered to be 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, we review our reserve estimates on a regular basis and make 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 our 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 our identification of information and trends that have caused us to increase or decrease our 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 our results of operations, equity, business and insurer financial strength and debt ratings. Factors affecting loss

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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 us. The length of the loss reporting lag affects our 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 our reserving classes, we believe that frequency can be predicted with greater accuracy than severity. Therefore, we believe management s best estimate is more sensitive to changes in severity than frequency. The following table, which we believe reflects a reasonable range of variability around our best estimate based on our historical loss experience and management s judgment, reflects the impact of changes (which could be favorable or unfavorable) in frequency and severity on our current accident year gross loss estimate of $130.7 million for claims occurring during the six months ended June 30, 2011:

		Severity Change				
(Dollars in thousands)		**-10%**	**-5%**	**0%**	**5%**	**10%**
Frequency Change	-5%	$ (18,957)	$ (12,747)	$ (6,537)	$ (327)	$ 5,883
-3%		(16,604)	(10,263)	(3,922)	2,419	8,759
-2%		(15,427)	(9,021)	(2,615)	3,791	10,198
-1%		(14,250)	(7,779)	(1,307)	5,164	11,636
0%		(13,074)	(6,537)		6,537	13,074
1%		(11,897)	(5,295)	1,307	7,910	14,512
2%		(10,721)	(4,053)	2,615	9,282	15,950
3%		(9,544)	(2,811)	3,922	10,655	17,388
5%		(7,191)	(327)	6,537	13,401	20,264

Our net reserves for losses and loss expenses of $655.1 million as of June 30, 2011 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

We regularly review the collectability of our reinsurance receivables and include 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 reinsurers are several of the factors that we consider 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 our reinsurers dispute a loss or if the reinsurer is unable to pay. If our reinsurers do not pay, we are still legally obligated to pay the loss. At June 30, 2011, our reinsurance receivables were $332.2 million, net of an allowance for uncollectible reinsurance receivables of $10.6 million. See Note 6 of the notes to the consolidated financial statements in Item 1 of Part I of this report for more details concerning the collectability of our reinsurance receivables.

Investments

The carrying amount of our investments approximates their estimated fair value. We regularly perform 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 our review, we consider 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 we determine 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 4 of the notes to consolidated financial statements in Item 1 of Part I of this report for the specific methodologies and significant assumptions used by asset

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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 our securities with gross unrealized losses as of June 30, 2011 and December 31, 2010, and for other than temporary impairment losses that we recorded for the quarters and six months ended June 30, 2011 and 2010, please see Note 4 of the notes to the consolidated financial statements in Item 1 of Part I of this report.

Fair Value Measurements

We categorize our assets that are accounted for at fair value in the consolidated financial 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 5 of the notes to the consolidated financial statements in Item 1 of Part I of this report for further information about the fair value hierarchy and our assets that are accounted for at fair value.

Goodwill and Intangible Assets

The Company tests for impairment of goodwill at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Impairment of goodwill is recognized only if the carrying amount of the business unit, including goodwill, exceeds the fair value of the reporting unit. The amount of the impairment loss would be equal to the excess carrying value of the goodwill over the implied fair value of the reporting unit goodwill.

Impairment of intangible assets with indefinite useful lives is tested at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Impairment of indefinite lived intangible assets is recognized only if the carrying amount of the intangible assets exceeds the fair value of said assets. The amount of the impairment loss would be equal to the excess carrying value of the assets over the fair value of said assets.

Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. The carrying amounts of definite lived intangible assets are regularly reviewed for indicators of impairment in accordance with applicable accounting guidance. Impairment is recognized only if the carrying amount of the intangible asset is in excess of its undiscounted projected cash flows. The impairment is measured as the difference between the carrying amount and the estimated fair value of the asset.

Taxation

We provide for income taxes in accordance with applicable accounting guidance. Our deferred tax assets and liabilities primarily result from temporary differences between the amounts recorded in our consolidated financial statements and the tax basis of our 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 our assessment of uncertain tax positions and projections of future taxable income from each tax-paying component in each jurisdiction, principally derived from business plans and available tax planning strategies. There are no valuation allowances as of June 30, 2011 or December 31, 2010. The deferred tax asset balance is analyzed regularly by management. Based on these analyses, we have determined that our 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, our assumptions and estimates that resulted in our 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 our financial condition, results of operations, and liquidity.

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On an interim basis, we book our tax provision using the expected full year effective tax rate. Forecasts which compute taxable income and taxes expected to be incurred in the jurisdictions where we do business are prepared several times per year. The effective tax rate is computed by dividing forecasted income tax expense not including net realized investment gains (losses) and limited partnership distributions by forecasted pre-tax income not including net realized investment gains (losses) and limited partnership distributions. Changes in pre-tax and taxable income in the jurisdictions where we do business can change the effective tax rate. In 2010, to compute our income tax expense on an interim basis, we applied our expected full year effective tax rate against our pre-tax income excluding net realized investment gains (losses) and limited partnership distributions and then added actual tax on net realized investment gains (losses) and limited partnership distributions to that result. During the quarter and six months ended June 30, 2011, our tax provision was recorded using our current year-to-date income tax provision in lieu of using the full year s effective tax rate due to wide variability in the expected annual effective income tax rate across several similar pre-tax income scenarios.

We apply 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 7 of the notes to the consolidated financial statements in Item 1 of Part I of this report for a discussion of our tax uncertainties.

Our Business Segments

We manage our business through two business segments: Insurance Operations, which includes the operations of the U.S. Insurance Companies, and Reinsurance Operations, which are the operations of Wind River Reinsurance.

We evaluate the performance of our Insurance Operations and Reinsurance Operations segments based on gross and net premiums written, revenues in the form of net premiums earned and commission and fee income, and expenses in the form of (1) net losses and loss adjustment expenses, (2) acquisition costs, and (3) other underwriting expenses.

For a description of our segments, see Business Segments in Item 1 of Part I in our 2010 Annual Report on Form 10-K.

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

	Quarters Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Insurance Operations premiums written:				
Gross premiums written	$ 70,375	$ 61,531	$ 126,842	$ 115,602
Ceded premiums written	8,555	12,520	12,611	23,113
Net premiums written	$ 61,820	$ 49,011	$ 114,231	$ 92,489
Reinsurance Operations premiums written:				
Gross premiums written	$ 24,587	$ 30,519	$ 55,786	$ 69,301
Ceded premiums written		7	502	786
Net premiums written	$ 24,587	$ 30,512	$ 55,284	$ 68,515
Revenues: **(1)**				
Insurance Operations	$ 56,668	$ 49,078	$ 123,123	$ 98,822
Reinsurance Operations	21,550	25,966	42,733	47,010
Total revenues	$ 78,218	$ 75,044	$ 165,856	$ 145,832

Expenses: **(2)**				
Insurance Operations **(3)**	$ 67,648	$ 38,703	$ 125,626	$ 91,117
Reinsurance Operations	24,302	22,980	54,518	42,503
Total expenses	$ 91,950	$ 61,683	$ 180,144	$ 133,620
Income (loss) from segments:				
Insurance Operations	$ (10,980)	$ 10,375	$ (2,503)	$ 7,705
Reinsurance Operations	(2,752)	2,986	(11,785)	4,507
Total income (loss) from segments	$ (13,732)	$ 13,361	$ (14,288)	$ 12,212
Insurance combined ratio analysis: **(4)**				

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Insurance Operations				
Loss ratio	78.3	33.4	69.3	46.7
Expense ratio	41.4	46.0	43.7	45.8
Combined ratio	119.7	79.4	113.0	92.5
Reinsurance Operations				
Loss ratio	81.3	63.1	100.7	60.5
Expense ratio	31.5	25.4	26.8	29.9
Combined ratio	112.8	88.5	127.5	90.4
Consolidated				
Loss ratio	79.2	43.7	78.0	51.2
Expense ratio	38.7	38.8	39.0	40.7
Combined ratio	117.9	82.5	117.0	91.9

(1) Excludes net investment income and net realized investment gains, which are not allocated to our segments.

(2) Excludes corporate and other operating expenses and interest expense, which are not allocated to our segments.

(3) Includes excise tax of $293 and $264 for the quarters ended June 30, 2011 and 2010, respectively, and excise tax of $577 and $524 for the six months ended June 30, 2011 and 2010, respectively, related to cessions from our Insurance Operations to our Reinsurance Operations.

(4) Our insurance combined ratios are non-GAAP financial measures that are generally viewed in the insurance industry as indicators of underwriting profitability. The loss ratio is the ratio of net losses and loss adjustment expenses to net premiums earned. The expense ratio is the ratio of acquisition costs and other underwriting expenses to net premiums earned. The combined ratio is the sum of the loss and expense ratios.

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Results of Operations

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

Quarter Ended June 30, 2011 Compared with the Quarter Ended June 30, 2010

Insurance Operations

The components of income from our Insurance Operations segment and corresponding underwriting ratios are as follows:

	Quarters Ended June 30,		Increase / (Decrease)	
(Dollars in thousands)	**2011**	**2010**	**$**	**%**
Gross premiums written	$ 70,375	$ 61,531	$ 8,844	14.4%
Net premiums written	$ 61,820	$ 49,011	$ 12,809	26.1%
Net premiums earned	$ 56,505	$ 48,736	$ 7,769	15.9%
Other income	163	342	(179)	(52.3%)
Total revenues	$ 56,668	$ 49,078	$ 7,590	15.5%
Losses and expenses:				
Net losses and loss adjustment expenses	44,243	16,284	27,959	171.7%
Acquisition costs and other underwriting expenses **(1)**	23,405	22,419	986	4.4%
Income (loss) from segment	$ (10,980)	$ 10,375	$ (21,355)	(205.8%)
Underwriting Ratios:				
Loss ratio:				
Current accident year	94.4	65.8	28.6	
Prior accident year	(16.1)	(32.4)	16.3	
Calendar year loss ratio	78.3	33.4	44.9	
Expense ratio	41.4	46.0	(4.6)	
Combined ratio	119.7	79.4	40.3	

(1) Includes excise tax of $293 and $264 related to cessions from our Insurance Operations to our Reinsurance Operations for the quarters ended June 30, 2011 and 2010, respectively.

Premiums

Gross premiums written, which represent the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions, were $70.4 million for the quarter ended June 30, 2011, compared with $61.5 million for the quarter ended June 30, 2010, an increase of $8.8 million or 14.4%. The increase is primarily related to growth in Diamond State property, middle market and casualty brokerage operations.

Net premiums written, which equal gross premiums written less ceded premiums written, were $61.8 million for the quarter ended June 30, 2011, compared with $49.0 million for the quarter ended June 30, 2010, an increase of $12.8 million or 26.1%. The increase was primarily due to the increase in gross premiums written above, the cancellation of a property quota share reinsurance treaty effective January 1, 2011 and an increase in retention related to the property excess of loss treaty which renewed January 1, 2011.

The ratio of net premiums written to gross premiums written was 87.8% for the quarter ended June 30, 2011 and 79.7% for the quarter ended June 30, 2010, an increase of 8.1 points, which was primarily due to changes in our reinsurance structure on our property business noted above.

Net premiums earned were $56.5 million for the quarter ended June 30, 2011, compared with $48.7 million for the quarter ended June 30, 2010, an increase of $7.8 million or 15.9%. The increase was primarily due to increases in net premiums written within the previous year. Property net premiums earned for the quarters ended June 30, 2011

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and 2010 were $24.9 million and $18.8 million, respectively. Casualty net premiums earned for the quarters ended June 30, 2011 and 2010 were $31.6 million and $29.9 million, respectively.

Other Income

Other income was $0.2 million and $0.3 million for the quarters ended June 30, 2011 and 2010, respectively. Other income is comprised of commission and fee income.

Net Losses and Loss Adjustment Expenses

The loss ratio for our Insurance Operations was 78.3% for the quarter ended June 30, 2011 compared with 33.4% for the quarter ended June 30, 2010. The loss ratio is a non-GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

The current accident year loss ratio for the quarter ended June 30, 2011 increased 28.6 points from the quarter ended June 30, 2010:

The current accident year property loss ratio increased 28.9 points from 65.0% in the quarter ended June 30, 2010 to 93.9% in the quarter ended June 30, 2011, which consists of a 2.5 point decrease in the non-catastrophe loss ratio from 52.1% in the quarter ended June 30, 2010 to 49.6% in the quarter ended June 30, 2011 and a 31.3 point increase in the catastrophe loss ratio from 12.9% in the quarter ended June 30, 2010 to 44.2% in the quarter ended June 30, 2011. The decrease in the non-catastrophe loss ratio is primarily due to decreases in frequency and severity. Non-catastrophe losses were $12.3 million and $9.8 million for the quarters ended June 30, 2011 and 2010, respectively. The increase in the catastrophe loss ratio is primarily due to severe weather and tornadoes in the Midwest, Alabama and North Carolina. Catastrophe losses were $11.0 million and $2.4 million for the quarters ended June 30, 2011 and 2010, respectively. Property net premiums earned for the quarters ended June 30, 2011 and 2010 were $24.9 million and $18.8 million, respectively.

The current accident year casualty loss ratio increased 28.6 points from 66.3% in the quarter ended June 30, 2010 to 94.9% in the quarter ended June 30, 2011 primarily due to loss emergence in our general liability line in our Casualty Brokerage Unit. We have addressed pricing and underwriting controls to improve profitability in the Casualty Brokerage general liability line. Gross premiums written in the Casualty Brokerage general liability line were $8.7 million in the quarter ended June 30, 2011, compared to $4.1 million in the quarter ended June 30, 2010. Casualty net premiums earned for the quarters ended June 30, 2011 and 2010 were $31.6 million and $29.9 million, respectively.

The impact of changes to prior accident years is 16.1 points resulting from a reduction of net losses and loss adjustment expenses for prior accident years of $9.1 million in the quarter ended June 30, 2011. This was compared to a reduction of $15.8 million in the quarter ended June 30, 2010, which resulted in a 32.4 point reduction in net losses and loss adjustment expenses for prior accident years. When analyzing loss reserves and prior year development, we consider many factors, including the frequency and severity of claims, loss trends, case reserve settlements that may have resulted in significant development, and any other additional or pertinent factors that may impact reserve estimates.

In the second quarter of 2011, the Company reduced its prior accident year loss reserves by $9.1 million, which 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 in our Penn-America and United National business. Incurred losses for these business units have developed at a rate lower than the Company s historical averages. We also decreased our reinsurance allowance by $2.2 million in this line due to changes in our reinsurance exposure on specifically identified claims and general decreases in ceded

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reserves. Offsetting these decreases were increases of $6.5 million in accident years 2009 and 2010 related to loss emergence in our Casualty Brokerage unit. We have addressed pricing and underwriting controls to improve profitability in the Casualty Brokerage general liability line. Gross premiums written in the Casualty Brokerage general liability line were $8.7 million in the quarter ended June 30, 2011, compared to $4.1 million in the quarter ended June 30, 2010.

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.

Professional liability: The $4.2 million increase is primarily consisted of increases of $9.3 million related to accident years 1998, 2009 and 2010, offset partially by decreases of $5.1 million related to all other accident years. In 2011, we exited certain professional liability classes where the volume of premium was low and loss volatility was high. We are focused on writing business where we expect to realize profit that meets our return on investment thresholds. As a result of these actions, the quarter to date June 30, 2011 gross written premiums in this line were $2.1 million compared with $4.4 million for the quarter to date June 30, 2010.

In the second quarter of 2010, the Company reduced its prior accident year loss reserves by $15.8 million. The reduction consisted of a $10.7 million reduction in general liability lines, a $2.5 million reduction in professional liability lines, a $2.4 million reduction in umbrella lines, and a $0.2 million reduction in auto liability lines:

General liability: The $10.7 million reduction primarily related to accident years 2006 through 2009 due to lower than anticipated severity. Incurred losses for these segments have developed at a rate lower than our historical averages.

Professional liability: The $2.5 million reduction primarily consisted of net reductions of $4.0 million related to accident years 2008 and prior, driven by lower than expected paid and incurred activity during the quarter. This reduction was offset by an increase of $1.5 million related to accident year 2009 where we experienced higher than expected claim frequency and severity.

Umbrella: The $2.4 million reduction primarily consisted of net reductions primarily related to accident years 2009 and prior primarily due to less than anticipated severity. As these accident years have matured, more weight has been given to experience based methods which continue to develop favorably compared to our initial indications.

Auto liability: The $0.2 million reduction primarily consisted of net reductions of $0.4 million related to accident years 2007 and prior. Programs related to these accident years are in run-off, and loss severity has been lower than our prior projections. This reduction was offset by an increase of $0.2 million related to accident year 2009 where losses on our commercial auto product were higher than anticipated.

Net losses and loss adjustment expenses were $44.2 million for the quarter ended June 30, 2011, compared with $16.3 million for the quarter ended June 30, 2010, an increase of $28.0 million or 171.7%. Excluding the $9.1 million reduction of net losses and loss adjustment expenses for prior accident years in the quarter ended June 30, 2011 and the $15.8 million reduction of net losses and loss adjustment expenses for prior accident years in the quarter ended June 30, 2010, the current accident year net losses and loss adjustment expenses were $53.4 million and $32.1 million for the quarters ended June 30, 2011 and 2010, respectively. This increase is primarily attributable to the increase in net premiums earned, and the factors described above.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were $23.4 million for the quarter ended June 30, 2011, compared with $22.4 million for the quarter ended June 30, 2010, an increase of $1.0 million or 4.4%. The increase is comprised of a $1.4 million increase in acquisition costs and a $0.4 million decrease in other underwriting expenses:

The $1.4 million increase in acquisition costs is primarily due to an increase in commissions resulting mainly from an increase in net earned premiums, a decrease in ceding commissions resulting from an

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increase in retained business, offset partially by a net decrease in contingent commissions related to loss emergence.

The $0.4 million decrease in other underwriting expenses is primarily due to an overall decrease in employee compensation related to the Profit Enhancement Initiative as well as a decrease in employee costs.

Expense and Combined Ratios

The expense ratio for our Insurance Operations was 41.4% for the quarter ended June 30, 2011, compared with 46.0% for the quarter ended June 30, 2010. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The decrease in the expense ratio is primarily due to decreases in employee compensation costs related to the Profit Enhancement Initiative, as well as a decrease in other employee costs.

The combined ratio for our Insurance Operations was 119.7% for the quarter ended June 30, 2011, compared with 79.4% for the quarter ended June 30, 2010. The combined ratio is a non-GAAP financial measure and is the sum of our loss and expense ratios. Excluding the $9.1 million reduction of net losses and loss adjustment expenses for prior accident years in the quarter ended June 30, 2011 and the $15.8 million reduction of net losses and loss adjustment expenses for prior accident years in the quarter ended June 30, 2010, the combined ratio increased from 111.8% for the quarter ended June 30, 2010 to 135.8% for the quarter ended June 30, 2011. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph above for an explanation of this increase.

Income (loss) from segment

The factors described above resulted in a loss for our Insurance Operations of $11.0 million for the quarter ended June 30, 2011, compared to income of $10.4 million for the quarter ended June 30, 2010.

Reinsurance Operations

The components of income from our Reinsurance Operations segment and corresponding underwriting ratios are as follows:

	Quarters Ended June 30,		Increase / (Decrease)	
(Dollars in thousands)	**2011**	**2010**	**$**	**%**
Gross premiums written	$ 24,587	$ 30,519	$ (5,932)	(19.4%)
Net premiums written	$ 24,587	$ 30,512	$ (5,925)	(19.4%)
Net premiums earned	$ 21,550	$ 25,966	$ (4,416)	(17.0%)
Losses and expenses:				
Net losses and loss adjustment expenses	17,510	16,391	1,119	6.8%
Acquisition costs and other underwriting expenses	6,792	6,589	203	3.1%
Income (loss) from segment	$ (2,752)	$ 2,986	$ (5,738)	(192.2%)
Underwriting Ratios:				
Loss ratio:				
Current accident year	63.8	63.2	0.6	
Prior accident year	17.5	(0.1)	17.6	
Calendar year loss ratio	81.3	63.1	18.2	

Expense ratio	31.5	25.4	6.1
Combined ratio	112.8	88.5	24.3

Premiums

Gross premiums written, which represent the amount received or to be received for reinsurance agreements written

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without reduction for reinsurance costs or other deductions, were $24.6 million for the quarter ended June 30, 2011, compared with $30.5 million for the quarter ended June 30, 2010, a decrease of $5.9 million or 19.4%. The decrease was primarily due to the sale of a company that elected not to renew its treaty with Wind River post-acquisition and non-renewing a treaty that did not meet our return hurdles, offset partially by several new treaties written in 2011.

Net premiums written, which equal gross premiums written less ceded premiums written, were $24.6 million for the quarter ended June 30, 2011, compared with $30.5 million for the quarter ended June 30, 2010, a decrease of $5.9 million or 19.4%. The decrease was primarily due to the decrease in gross premiums written noted above. The ratio of net premiums written to gross premiums written was 100.0% for both of the quarters ended June 30, 2011 and 2010.

Net premiums earned were $21.6 million for the quarter ended June 30, 2011, compared with $26.0 million for the quarter ended June 30, 2010, a decrease of $4.4 million or 17.0%. Property net premiums earned for the quarters ended June 30, 2011 and 2010 were $8.5 million and $9.8 million, respectively. Casualty net premiums earned for the quarters ended June 30, 2011 and 2010 were $13.1 million and $16.2 million, respectively.

Net Losses and Loss Adjustment Expenses

The loss ratio for our Reinsurance Operations was 81.3% for the quarter ended June 30, 2011 compared with 63.1% for the quarter ended June 30, 2010. The loss ratio is a non-GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

The current accident year loss ratio for the quarter ended June 30, 2011 increased 0.6 points from the quarter ended June 30, 2010.

The current accident year property loss ratio decreased 16.2 points from 50.0% in the quarter ended June 30, 2010 to 33.8% in the quarter ended June 30, 2011. This decrease was primarily due to a revision in our initial loss estimates related to an earthquake and tsunami in Japan, which reduced current accident year property loss reserves by $3.6 million during the quarter offset partially by losses from Alabama tornadoes. Current accident year property losses for the quarters ended June 30, 2011 and 2010 were $2.9 million and $4.9 million, respectively.

The current accident year casualty loss ratio increased 12.2 points from 71.1% in the quarter ended June 30, 2010 to 83.3% in the quarter ended June 30, 2011. This increase was primarily due to higher losses than anticipated on our Marine general liability business.

The impact of changes to prior accident years is 17.5 points resulting from an increase in net losses and loss adjustment expenses for prior accident years of $3.8 million in the quarter ended June 30, 2011. This was compared to a reduction of $0.02 million in the quarter ended June 30, 2010, which resulted in a 0.1 point reduction in net losses and loss adjustment expenses for prior accident years. When analyzing loss reserves and prior year development, we consider many factors, including the frequency and severity of claims, loss trends, case reserve settlements that may have resulted in significant development, and any other additional or pertinent factors that may impact reserve estimates.

In the second quarter of 2011, the Company increased its prior accident year loss reserves by $3.8 million, which consisted of a $2.4 million increase in general liability lines, a $1.2 million increase in property lines, and a $0.3 million increase in auto liability lines:

General liability: The $2.4 million increase primarily related to accident year 2010 due to marine loss emergence that was greater than expected.

Property: The $1.2 million increase primarily related to accident year 2010 and is primarily related to loss emergence on a worldwide catastrophe treaty.

Auto liability: The $0.3 million increase primarily consisted of a net increase of $0.3 million related to accident years 2009 and 2010 related to a non-standard auto treaty which was not renewed in 2011.

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In the second quarter of 2010, the Company reduced its prior accident year loss reserves by $0.02 million. This reduction was primarily due to a decrease in our estimate of unallocated loss adjustment expenses.

Net losses and loss adjustment expenses were $17.5 million for the quarter ended June 30, 2011, compared with $16.4 million for the quarter ended June 30, 2010, an increase of $1.1 million or 6.8%. Excluding the $3.8 million increase of net losses and loss adjustment expenses for prior accident years in the quarter ended June 30, 2011 and the $0.02 million reduction of net losses and loss adjustment expenses for prior accident years in the quarter ended June 30, 2010, the current accident year net losses and loss adjustment expenses decreased from $16.4 million for the quarter ended June 30, 2010 to $13.7 million for the quarter ended June 30, 2011. This decrease is primarily attributable to a decrease in net earned premiums for the period. Property net premiums earned for the quarters ended June 30, 2011 and 2010 were $8.5 million and $9.8 million, respectively. Casualty net premiums earned for the quarters ended June 30, 2011 and 2010 were $13.1 million and $16.2 million, respectively.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were $6.8 million for the quarter ended June 30, 2011, compared with $6.6 million for the quarter ended June 30, 2010, an increase of $0.2 million or 3.1%. The increase is due to a $0.4 million increase in other underwriting expenses, offset by a $0.2 million decrease in acquisition costs:

- The $0.4 million increase in other underwriting expenses is primarily due to an increase in compensation related to the hiring of new employees within this business unit.

- The $0.2 million decrease in acquisition costs is primarily due to the decrease in net earned premiums for the period.

Expense and Combined Ratios

The expense ratio for our Reinsurance Operations was 31.5% for the quarter ended June 30, 2011, compared with 25.4% for the quarter ended June 30, 2010. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The increase in the expense ratio is primarily due to the factors described above and a higher commission on new 2011 marine treaties.

The combined ratio for our Reinsurance Operations was 112.8% for the quarter ended June 30, 2011, compared with 88.5% for the quarter ended June 30, 2010. The combined ratio is a non-GAAP financial measure and is the sum of our loss and expense ratios. Excluding the impact of a $3.8 million increase of net losses and loss adjustment expenses for prior accident years in the quarter ended June 30, 2011 and a $0.02 million reduction of net losses and loss adjustment expenses for prior accident years in the quarter ended June 30, 2010, the combined ratio increased from 88.6% for the quarter ended June 30, 2010 to 95.3% for the quarter ended June 30, 2011. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in the preceding paragraph above for an explanation of this increase.

Income (loss) from segment

The factors described above resulted in a loss from our Reinsurance Operations of $2.8 million for the quarter ended June 30, 2011 compared to income of $3.0 million for the quarter ended June 30, 2010.

Unallocated Corporate Items

The following items are not allocated to our Insurance Operations or Reinsurance Operations segments:

(Dollars in thousands)	Quarters Ended June 30, 2011	2010	Increase / (Decrease) $	%
Net investment income	$ 13,930	$ 13,941	$ (11)	(0.1%)
Net realized investment gains	8,386	5,597	2,789	49.8%

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Corporate and other operating expenses	(4,687)	(5,063)	(376)	(7.4%)
Interest expense	(1,743)	(1,833)	(90)	(4.9%)
Income tax (expense) benefit	2,287	(1,491)	3,778	253.4%

Net Investment Income

Net investment income, which is gross investment income less investment expenses, was $13.9 million for both quarters ended June 30, 2011 and 2010.

Gross investment income, excluding realized gains and losses, was $15.2 million for the quarter ended June 30, 2011, compared with $15.6 million for the quarter ended June 30, 2010, a decrease of $0.4 million or 2.8%. The decrease was primarily due to lower yields on fixed maturities when compared to the corresponding period in 2010.

Investment expenses were $1.2 million for the quarter ended June 30, 2011, compared with $1.7 million for the quarter ended June 30, 2010, a decrease of $0.4 million or 25.4%. The decrease is primarily due to trust fee reductions in the current period.

At June 30, 2011, the Company held mortgage-backed securities with a book value of $312.1 million. Excluding the mortgage-backed securities, the average duration of our fixed maturities portfolio was 2.5 years as of June 30, 2011, compared with 2.7 years as of December 31, 2010 and 2.9 years as of June 30, 2010. Including cash and short-term investments, the average duration of our investments, excluding mortgage-backed securities, was 2.3 years as of June 30, 2011 compared to 2.7 years as of June 30, 2010. At June 30, 2011, our embedded book yield on our fixed maturities, not including cash, was 3.5% compared with 3.8% at June 30, 2010. The embedded book yield on the $233.1 million of municipal bonds in our portfolio was 3.60% at June 30, 2011, compared to an embedded book yield of 3.66% on our municipal bond portfolio of $242.5 million at June 30, 2010.

Net Realized Investment Gains

Net realized investment gains were $8.4 million and $5.6 million for the quarters ended June 30, 2011 and 2010, respectively. The net realized investment gains for the quarters ended June 30, 2011 and 2010 consist entirely of net gains relative to our fixed maturities and equity portfolios.

See Note 4 of the notes to the consolidated financial statements in Item 1 of Part I of this report for an analysis of total investment return on an after-tax basis for the quarters ended June 30, 2011 and 2010.

Corporate and Other Operating Expenses

Corporate and other operating expenses consist of outside legal fees, other professional fees, directors fees, management fees, salaries and benefits for holding company personnel, development costs for new products, and taxes incurred which are not directly related to operations. Corporate and other operating expenses were $4.7 million for the quarter ended June 30, 2011, compared with $5.1 million for the quarter ended June 30, 2010, a decrease of $0.4 million or 7.4%. The decrease is primarily due to cost savings resulting from our previously disclosed Profit Enhancement Initiative, offset partially by an increase in employee costs allocated to corporate overhead and an increase in outside legal fees.

Interest Expense

Interest expense was $1.7 million and $1.8 million for the quarters ended June 30, 2011 and 2010, respectively. On July 20, 2011, the Company made a principal payment of $18.0 million on our $90.0 million Guaranteed Senior Notes. We are required to prepay $18.0 million of the principal amount on July 20th of each year through July 20, 2015, when we will be required to pay any outstanding remaining principal amount on the notes. These notes are guaranteed by Global Indemnity (Cayman), Ltd. See Note 11 of the notes to the consolidated financial statements in Item 8 of Part II of our 2010 Annual Report on Form 10-K for details on our debt.

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Income Tax (Expense) Benefit

Income tax was a benefit of $2.3 million and expense of $1.5 million for the quarters ended June 30, 2011 and 2010, respectively. See Note 7 of the notes to the consolidated financial statements in Item 1 of Part I of this report for a comparison of income tax expense between periods.

Net Income

The factors described above resulted in net income of $4.4 million and $24.5 million for the quarters ended June 30, 2011 and 2010, respectively, a decrease of $20.1 million or 81.9%.

Six Months Ended June 30, 2011 Compared with the Six Months Ended June 30, 2010

Insurance Operations

The components of income from our Insurance Operations segment and corresponding underwriting ratios are as follows:

	Six Months Ended June 30,		Increase / (Decrease)	
(Dollars in thousands)	**2011**	**2010**	**$**	**%**
Gross premiums written	$ 126,842	$ 115,602	$ 11,240	9.7%
Net premiums written	$ 114,231	$ 92,489	$ 21,742	23.5%
Net premiums earned	$ 111,291	$ 98,480	$ 12,811	13.0%
Other income	11,832	342	11,490	3,359.6%
Total revenues	$ 123,123	$ 98,822	$ 24,301	24.6%
Losses and expenses:				
Net losses and loss adjustment expenses	77,043	45,998	31,045	67.5%
Acquisition costs and other underwriting expenses **(1)**	48,583	45,119	3,464	7.7%
Income (loss) from segment	$ (2,503)	$ 7,705	$ (10,208)	(132.5%)
Underwriting Ratios:				
Loss ratio:				
Current accident year	85.3	64.9	20.4	
Prior accident year	(16.0)	(18.2)	2.2	
Calendar year loss ratio	69.3	46.7	22.6	
Expense ratio	43.7	45.8	(2.1)	
Combined ratio	113.0	92.5	20.5	

(2)

Includes excise tax of $577 and $524 related to cessions from our Insurance Operations to our Reinsurance Operations for the six months ended June 30, 2011 and 2010, respectively.

Premiums

Gross premiums written, which represent the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions, were $126.8 million for the six months ended June 30, 2011, compared with $115.6 million for the six months ended June 30, 2010, an increase of $11.2 million or 9.7%. The increase is primarily related to growth in Diamond State brokerage operations, offset partially by decreases in Penn-America.

Net premiums written, which equal gross premiums written less ceded premiums written, were $114.2 million for the six months ended June 30, 2011, compared with $92.5 million for the six months ended June 30, 2010, an increase of $21.7 million or 23.5%. The increase was primarily due to the increase in gross written premiums above, the cancellation of a property quota share reinsurance treaty effective January 1, 2011 and an increase in retention related to the property excess of loss treaty which renewed January 1, 2011.

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The ratio of net premiums written to gross premiums written was 90.1% for the six months ended June 30, 2011 and 80.0% for the six months ended June 30, 2010, an increase of 10.1 points, which was primarily due to changes in our reinsurance structure on our property business noted above.

Net premiums earned were $111.3 million for the six months ended June 30, 2011, compared with $98.5 million for the six months ended June 30, 2010, an increase of $12.8 million or 13.0%. The increase was primarily due to increases in net premiums written within the previous year. Property net premiums earned for the six months ended June 30, 2011 and 2010 were $49.0 million and $38.1 million, respectively. Casualty net premiums earned for the six months ended June 30, 2011 and 2010 were $62.2 million and $60.4 million, respectively.

Other Income

Other income was $11.8 million and $0.3 million for the six months ended June 30, 2011 and 2010, respectively. Other income is comprised of commissions and fee income and in addition, for 2011, $11.5 million received from our settlement with AON, net of attorney s fees. Income from the AON settlement is non-recurring. Please see Note 10 to the consolidated financial statements in Item 1 of Part I of this report for additional details regarding income and related tax expense from this settlement.

Net Losses and Loss Adjustment Expenses

The loss ratio for our Insurance Operations was 69.3% for the six months ended June 30, 2011 compared with 46.7% for the six months ended June 30, 2010. The loss ratio is a non-GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

The current accident year loss ratio for the six months ended June 30, 2011 increased 20.4 points from the six months ended June 30, 2010:

The current accident year property loss ratio increased 20.5 points from 63.1% in the six months ended June 30, 2010 to 83.6% in the six months ended June 30, 2011, which consists of a 3.4 point increase in the non-catastrophe loss ratio from 55.8% in the six months ended June 30, 2010 to 59.2% in the six months ended June 30, 2011 and a 17.0 point increase in the catastrophe loss ratio from 7.3% in the six months ended June 30, 2010 to 24.3% in the six months ended June 30, 2011. The increase in the non-catastrophe loss ratio is primarily due to severity from fire losses. Non-catastrophe losses were $29.1 million and $21.2 million for the six months ended June 30, 2011 and 2010, respectively. The increase in the catastrophe loss ratio is primarily due to tornado and severe weather related losses in the Midwest, Alabama and North Carolina. Catastrophe losses were $11.9 million and $2.8 million for the six months ended June 30, 2011 and 2010, respectively. Property net premiums earned for the six months ended June 30, 2011 and 2010 were $49.0 million and $38.1 million, respectively.

The current accident year casualty loss ratio increased 20.6 points from 66.0% in the six months ended June 30, 2010 to 86.6% in the six months ended June 30, 2011 primarily due to a professional lines loss in a class of business that we are exiting and loss emergence in our general liability line in our Casualty Brokerage Unit. We have addressed pricing and underwriting controls to improve profitability in the Casualty Brokerage general liability line. Gross premiums written in the Casualty Brokerage general liability line were $13.4 million in the six months ended June 30, 2011, compared to $6.7 million in the six months ended June 30, 2010. Casualty net premiums earned for the six months ended June 30, 2011 and 2010 were $62.2 million and $60.4 million, respectively.

The impact of changes to prior accident years is 16.0 points resulting from a reduction of net losses and loss adjustment expenses for prior accident years of $17.8 million in the six months ended June 30, 2011. This was compared to a reduction of $17.9 million in the six months ended June 30, 2010, which resulted in an 18.2 point reduction in net losses and loss adjustment expenses for prior accident years. When analyzing loss reserves and prior year development, we consider many factors, including the frequency and severity of claims, loss trends, case reserve settlements that may have resulted in significant development, and any other additional or pertinent factors that may impact reserve estimates.

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For the first six months of 2011, the Company reduced its prior accident year loss reserves by $17.8 million, which consisted of a $19.1 million reduction in general liability lines, a $1.8 million reduction in property lines, and a $1.3 million reduction in umbrella lines, offset by a $3.9 million increase in professional liability lines and $0.5 million in net increases in all other lines:

General liability: The $19.1 million reduction primarily consisted of reductions of $22.8 million in accident years 2008 and prior due to continued favorable emergence in our Penn-America and United National business. Incurred losses for these business units have developed at a rate lower than the Company s historical averages. We also decreased our reinsurance allowance by $2.2 million in this line due to changes in our reinsurance exposure on specifically identified claims and general decreases in ceded reserves. Offsetting these decreases were increases of $5.9 million in accident years 2009 and 2010 related to loss emergence in our Casualty Brokerage unit. We have addressed pricing and underwriting controls to improve profitability in the Casualty Brokerage general liability line. Gross premiums written in the Casualty Brokerage general liability line were $13.4 million in the six months ended June 30, 2011, compared to $6.7 million in the six months ended June 30, 2010.

Property: The $1.8 million reduction primarily related to accident year 2009 related to anticipated subrogation on a large equine mortality claim.

Umbrella: The $1.3 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.

Professional liability: The $3.9 million increase primarily consisted of increases of $12.4 million related to accident years 1998, 2009 and 2010, offset partially by decreases of $8.4 million related to all other accident years. In 2011, we exited certain professional liability classes where the volume of premium was low and loss volatility was high. We are focused on writing business where we expect to realize profit that meets our return on investment thresholds. As a result of these actions, the six months ended June 30, 2011 gross written premiums in this line were $4.4 million compared with $8.7 million for the six months ended June 30, 2010.

For the first six months of 2010, the Company reduced its prior accident year loss reserves by $17.9 million. The reduction consisted of a $12.7 million reduction in general liability lines, a $3.1 million reduction in professional liability lines, a $2.4 million reduction in umbrella lines, and a $0.2 million reduction in auto liability lines, offset by a $0.5 million increase in property lines:

General liability: The $12.7 million reduction primarily related to accident years 2009 and prior and was due to less than anticipated severity. Incurred losses have developed at a rate lower than our historical averages.

Professional liability: The $3.1 million reduction primarily consisted of net reductions of $4.9 million related to accident years 2008 and prior due to lower severity than originally anticipated, partially offset by an increase of $1.8 million related to accident year 2009 where we experienced higher than expected claim frequency and severity.

Umbrella: The $2.4 million reduction primarily consisted of net reductions related to accident years 2009 and prior primarily due to less than anticipated severity. As these accident years have matured, more weight has been given to experience based methods which continue to develop favorably compared to our initial indications.

Auto liability: The $0.2 million reduction primarily consisted of net reductions of $0.4 million related to accident years 2007 and prior. Programs related to these accident years are in run-off, and loss severity has been lower than our prior projections. This reduction was offset by an increase of $0.2 million related to accident year 2009 where losses on our commercial auto product were higher than anticipated.

Property: The $0.5 million increase primarily consisted of an increase of $2.1 million primarily related to accident year 2009 that was driven by higher than expected claim frequency and severity, partially offset by net reductions of $1.6 million primarily related to accident years 2008 and prior due to lower than anticipated severity. These reductions were driven by incurred loss emergence during the period that was lower than our historical averages.

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Net losses and loss adjustment expenses were $77.0 million for the six months ended June 30, 2011, compared with $46.0 million for the six months ended June 30, 2010, an increase of $31.0 million or 67.5%. Excluding the $17.8 million reduction of net losses and loss adjustment expenses for prior accident years in the six months ended June 30, 2011 and the $17.9 million reduction of net losses and loss adjustment expenses for prior accident years in the six months ended June 30, 2010, the current accident year net losses and loss adjustment expenses were $94.9 million and $63.9 million for the six months ended June 30, 2011 and 2010, respectively. This increase is primarily attributable to the increase in net premiums earned, and the factors described above.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were $48.6 million for the six months ended June 30, 2011, compared with $45.1 million for the six months ended June 30, 2010, an increase of $3.5 million or 7.7%. The increase is comprised of a $3.4 million increase in acquisition costs and a $0.02 million increase in other underwriting expenses:

- The $3.4 million increase in acquisition costs is primarily due to an increase in commissions and premium taxes resulting mainly from an increase in net earned premiums and a decrease in ceding commissions resulting from an increase in retained business.

- The $0.02 million increase in other underwriting expenses is primarily due to an increase in compensation costs related to underwriting units that were acquired or formed in the middle of 2010 and overall bonus compensation, partially offset by a decrease in employee compensation related to the Profit Enhancement Initiative and a decrease in employee costs.

Expense and Combined Ratios

The expense ratio for our Insurance Operations was 43.7% for the six months ended June 30, 2011, compared with 45.8% for the six months ended June 30, 2010. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The decrease in the expense ratio is primarily due to the increase in earned premium, a decrease in contingent commissions recorded in the current period compared to the same period last year, a decrease in employee compensation costs related to the Profit Enhancement Initiative, and a decrease in other employee costs.

The combined ratio for our Insurance Operations was 113.0% for the six months ended June 30, 2011, compared with 92.5% for the six months ended June 30, 2010. The combined ratio is a non-GAAP financial measure and is the sum of our loss and expense ratios. Excluding the $17.8 million reduction of net losses and loss adjustment expenses for prior accident years in the six months ended June 30, 2011 and the $17.9 million reduction of net losses and loss adjustment expenses for prior accident years in the six months ended June 30, 2010, the combined ratio increased from 110.7% for the six months ended June 30, 2010 to 129.0% for the six months ended June 30, 2011. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in preceding paragraph above for an explanation of this increase.

Income (loss) from segment

The factors described above resulted in a loss for our Insurance Operations of $2.5 million for the six months ended June 30, 2011, compared to income of $7.7 million for the six months ended June 30, 2010.

Reinsurance Operations

The components of income from our Reinsurance Operations segment and corresponding underwriting ratios are as follows:

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(Dollars in thousands)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Increase / (Decrease) $	Increase / (Decrease) %
Gross premiums written	$ 55,786	$ 69,301	$ (13,515)	(19.5%)
Net premiums written	$ 55,284	$ 68,515	$ (13,231)	(19.3%)
Net premiums earned	$ 42,733	$ 47,010	$ (4,277)	(9.1%)
Losses and expenses:				
Net losses and loss adjustment expenses	43,052	28,466	14,586	51.2%
Acquisition costs and other underwriting expenses	11,466	14,037	(2,571)	(18.3%)
Income (loss) from segment	$ (11,785)	$ 4,507	$ (16,292)	(361.5%)
Underwriting Ratios:				
Loss ratio:				
Current accident year	83.9	62.2	21.7	
Prior accident year	16.8	(1.7)	18.5	
Calendar year loss ratio	100.7	60.5	40.2	
Expense ratio	26.8	29.9	(3.1)	
Combined ratio	127.5	90.4	37.1	

Premiums

Gross premiums written, which represent the amount received or to be received for reinsurance agreements written without reduction for reinsurance costs or other deductions, were $55.8 million for the six months ended June 30, 2011, compared with $69.3 million for the six months ended June 30, 2010, a decrease of $13.5 million or 19.5%. The decrease was primarily due to the sale of a company that elected not to renew its treaty with Wind River post-acquisition and non-renewing a treaty that did not meet our return hurdles, offset partially by several new general liability treaties written in 2011.

Net premiums written, which equal gross premiums written less ceded premiums written, were $55.3 million for the six months ended June 30, 2011, compared with $68.5 million for the six months ended June 30, 2010, a decrease of $13.2 million or 19.3%. The decrease was primarily due to the decrease of gross premiums written noted above. The ratio of net premiums written to gross premiums written was 99.1% for the six months ended June 30, 2011 and 98.9% for the six months ended June 30, 2010, an increase of 0.2 points.

Net premiums earned were $42.7 million for the six months ended June 30, 2011, compared with $47.0 million for the six months ended June 30, 2010, a decrease of $4.3 million or 9.1%. Property net premiums earned for the six months ended June 30, 2011 and 2010 were $16.8 million and $18.2 million, respectively. Casualty net premiums earned for the six months ended June 30, 2011 and 2010 were $26.0 million and $28.8 million, respectively.

Net Losses and Loss Adjustment Expenses

The loss ratio for our Reinsurance Operations was 100.7% for the six months ended June 30, 2011 compared with 60.5% for the six months ended June 30, 2010. The loss ratio is a non-GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

The current accident year loss ratio for the six months ended June 30, 2011 increased 21.7 points from the six months ended June 30, 2010.

The current accident year property loss ratio increased 49.8 points from 47.7% in the six months ended June 30, 2010 to 97.5% in the six months ended June 30, 2011. This increase was primarily due to catastrophe losses of $5.2 million, $1.0 million, $2.6 million and $6.6 million during the first six months of 2011 related to the Japan earthquake and tsunami, New Zealand earthquakes, Australian floods and Alabama tornadoes, respectively. Current accident year property losses for the six months ended June 30, 2011 and 2010 were $16.3 million and $8.7 million, respectively.

The current accident year casualty loss ratio increased 3.8 points from 71.3% in the six months ended June 30, 2010 to 75.1% in the six months ended June 30, 2011. This increase was primarily due to higher losses than anticipated on our Marine general liability business.

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The impact of changes to prior accident years is 16.8 points resulting from an increase in net losses and loss adjustment expenses for prior accident years of $7.2 million in the six months ended June 30, 2011. This was compared to a reduction of $0.8 million in the six months ended June 30, 2010, which resulted in a 1.7 point reduction in net losses and loss adjustment expenses for prior accident years. When analyzing loss reserves and prior year development, we consider many factors, including the frequency and severity of claims, loss trends, case reserve settlements that may have resulted in significant development, and any other additional or pertinent factors that may impact reserve estimates.

For the first six months of 2011, the Company increased its prior accident year loss reserves by $7.2 million, which consisted of a $4.3 million increase in general liability lines, a $1.2 million increase in property lines, a $0.8 million increase in workers compensation lines, and a $0.9 million increase in auto liability lines:

General liability: The $4.3 million increase primarily related to accident year 2010 due to marine loss emergence that was greater than expected.

Property: The $1.2 million increase primarily related to accident year 2010 and is primarily related to loss emergence on a worldwide catastrophe treaty.

Workers compensation: The $0.8 million increase primarily related to accident years 2009 and 2010 and is the result of expected losses recorded on adjustment premiums recorded in 2011.

Auto liability: The $0.9 million increase is primarily related to accident years 2009 and 2010 resulting from greater severity on a non-standard auto treaty which was not renewed in 2011.

For the first six months of 2010, the Company reduced its prior accident year loss reserves by $0.8 million. This reduction is primarily due to a reduction of $0.8 million in our property lines that is primarily due to a 2009 reinsurance treaty which experienced lower than expected loss severity. There were also offsetting adjustments made to our general liability and professional liability lines for accident years 2007 through 2009 that resulted in no net change.

Net losses and loss adjustment expenses were $43.1 million for the six months ended June 30, 2011, compared with $28.5 million for the six months ended June 30, 2010, an increase of $14.6 million or 51.2%. Excluding the $7.2 million increase of net losses and loss adjustment expenses for prior accident years in the six months ended June 30, 2011 and the $0.8 million reduction of net losses and loss adjustment expenses for prior accident years in the six months ended June 30, 2010, the current accident year net losses and loss adjustment expenses increased from $29.2 million for the six months ended June 30, 2010 to $35.9 million for the six months ended June 30, 2011. This increase is primarily attributable to large catastrophe losses incurred during the first six months of 2011 as discussed above. Property net premiums earned for the six months ended June 30, 2011 and 2010 were $16.8 million and $18.2 million, respectively. Casualty net premiums earned for the six months ended June 30, 2011 and 2010 were $26.0 million and $28.8 million, respectively.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs and other underwriting expenses were $11.5 million for the six months ended June 30, 2011, compared with $14.0 million for the six months ended June 30, 2010, a decrease of $2.6 million or 18.3%. The decrease is due to a $3.2 million decrease in acquisition costs and a $0.7 million increase in other underwriting expenses:

The $3.2 million decrease in acquisition costs is primarily due to a decrease in contingent commissions resulting from severe current accident year losses discussed above.

The $0.7 million increase in other underwriting expenses is primarily due to an increase in compensation related to the hiring of new employees within this business unit.

Expense and Combined Ratios

The expense ratio for our Reinsurance Operations was 26.8% for the six months ended June 30, 2011, compared

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with 29.9% for the six months ended June 30, 2010. The expense ratio is a non-GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned. The decrease in the expense ratio is primarily due to the factors described above and a higher commission on new 2011 marine treaties.

The combined ratio for our Reinsurance Operations was 127.5% for the six months ended June 30, 2011, compared with 90.4% for the six months ended June 30, 2010. The combined ratio is a non-GAAP financial measure and is the sum of our loss and expense ratios. Excluding the impact of a $7.2 million increase of net losses and loss adjustment expenses for prior accident years in the six months ended June 30, 2011 and a $0.8 million reduction of net losses and loss adjustment expenses for prior accident years in the six months ended June 30, 2010, the combined ratio increased from 92.1% for the six months ended June 30, 2010 to 110.7% for the six months ended June 30, 2011. See discussion of loss ratio included in Net Losses and Loss Adjustment Expenses above and discussion of expense ratio in the preceding paragraph above for an explanation of this increase.

Income (loss) from segment

The factors described above resulted in a loss from our Reinsurance Operations of $11.8 million for the six months ended June 30, 2011 compared to income of $4.5 million for the six months ended June 30, 2010.

Unallocated Corporate Items

The following items are not allocated to our Insurance Operations or Reinsurance Operations segments:

	Six Months Ended June 30,		Increase / (Decrease)	
(Dollars in thousands)	**2011**	**2010**	**$**	**%**
Net investment income	$ 28,344	$ 28,520	$ (176)	(0.6%)
Net realized investment gains	20,383	19,801	582	2.9%
Corporate and other operating expenses	(7,467)	(9,959)	(2,492)	(25.0%)
Interest expense	(3,495)	(3,572)	(77)	(2.2%)
Income tax expense	(5,304)	(3,560)	1,744	49.0%
Equity in net income (loss) of partnership, net of tax	53	(29)	82	282.8%

Net Investment Income

Net investment income, which is gross investment income less investment expenses, was $28.3 million for the six months ended June 30, 2011, compared with $28.5 million for the six months ended June 30, 2010, a decrease of $0.2 million or 0.6%.

Gross investment income, excluding realized gains and losses, was $30.7 million for the six months ended June 30, 2011, compared with $31.6 million for the six months ended June 30, 2010, a decrease of $0.9 million or 3.1%. The decrease was primarily due to lower yields on fixed maturities when compared to the corresponding period in 2010.

Investment expenses were $2.3 million for the six months ended June 30, 2011, compared with $3.1 million for the six months ended June 30, 2010, a decrease of $0.8 million or 25.7%. The decrease is primarily due to trust fee reductions in the current period.

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

Net Realized Investment Gains

Net realized investment gains were $20.4 million and $19.8 million for the six months ended June 30, 2011 and 2010, respectively. The net realized investment gains for the six months ended June 30, 2011 and 2010 consist

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entirely of net gains relative to our fixed maturities and equity portfolios.

See Note 4 of the notes to the consolidated financial statements in Item 1 of Part I of this report for an analysis of total investment return on an after-tax basis for the six months ended June 30, 2011 and 2010.

Corporate and Other Operating Expenses

Corporate and other operating expenses consist of outside legal fees, other professional fees, directors fees, management fees, salaries and benefits for holding company personnel, development costs for new products, and taxes incurred which are not directly related to operations. Corporate and other operating expenses were $7.5 million for the six months ended June 30, 2011, compared with $10.0 million for the six months ended June 30, 2010, a decrease of $2.5 million or 25.0%. The decrease is primarily due to cost savings resulting from our previously disclosed Profit Enhancement Initiative offset partially by an increase in employee costs allocated to corporate overhead and an increase in outside legal fees.

Interest Expense

Interest expense was $3.5 million and $3.6 million for the six months ended June 30, 2011 and 2010, respectively. On July 20, 2011, the Company made a principal payment of $18.0 million on our $90.0 million Guaranteed Senior Notes. We are required to prepay $18.0 million of the principal amount on July 20th of each year through July 20, 2015, when we will be required to pay any outstanding remaining principal amount on the notes. These notes are guaranteed by Global Indemnity (Cayman), Ltd. See Note 11 of the notes to the consolidated financial statements in Item 8 of Part II of our 2010 Annual Report on Form 10-K for details on our debt.

Income Tax Expense

Income tax expense was $5.3 million and $3.6 million for the six months ended June 30, 2011 and 2010, respectively. See Note 7 of the notes to the consolidated financial statements in Item 1 of Part I of this report for a comparison of income tax expense between periods.

Equity in Net Income (Loss) of Partnerships

Equity in net income (loss) of partnerships, net of tax was income of $0.05 million and a loss of $0.03 million for the six months ended June 30, 2011 and 2010, respectively, an increase of $0.08 million.

Net Income

The factors described above resulted in net income of $18.2 million and $43.4 million for the six months ended June 30, 2011 and 2010, respectively, a decrease of $25.2 million or 58.0%.

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Liquidity and Capital Resources

Sources and Uses of Funds

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

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

The U.S. Insurance Companies are restricted by statute as to the amount of dividends that they may pay without the prior approval of regulatory authorities. The U.S. Insurance Companies may pay dividends without advance regulatory approval only out of unassigned surplus. For 2011, the maximum amount of distributions that could be paid by the United National Insurance Companies and Penn-America Insurance Companies as dividends under applicable laws and regulations without regulatory approval is approximately $42.4 million and $21.4 million, respectively. The Penn-America Insurance Companies limitation includes $7.0 million that would be distributed to United National Insurance Company or its subsidiary Penn Independent Corporation based on the December 31, 2010 ownership percentages. The U.S. Insurance Companies did not declare or pay any dividends during the quarter or six months ended June 30, 2011.

For 2011, we believe that Wind River Reinsurance, including distributions it could receive from its subsidiaries, should have sufficient liquidity and solvency to pay dividends. Wind River Reinsurance is prohibited, without the approval of the Bermuda Monetary Authority (BMA), from reducing by 15% or more its total statutory capital as set out in its previous year s statutory financial statements, and any application for such approval must include such information as the BMA may require. Based upon the total statutory capital plus the statutory surplus as set out in its 2010 statutory financial statements that were filed with the BMA in 2011, we believe Wind River Reinsurance could pay a dividend in 2011 of up to $248.5 million without requesting BMA approval.

Cash Flows

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

Our reconciliation of net income to cash provided from operations is generally influenced by the following:

- the fact that we collect premiums, net of commissions, in advance of losses paid;
- the timing of our settlements with our reinsurers; and
- the timing of our loss payments.

Net cash provided by (used for) operating activities was $6.5 million and ($15.0) million for the six months ended June 30, 2011 and 2010, respectively. The increase in operating cash flows of approximately $21.4 million from the prior year was primarily a net result of the following items:

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	Six Months Ended June 30,		
(Dollars in thousands)	2011	2010	Change
Net premiums collected	$ 153,723	$ 146,951	$ 6,772
Net losses paid	(107,040)	(105,731)	(1,309)
Underwriting and corporate expenses	(64,546)	(80,515)	15,969
Net investment income	31,253	31,536	(283)
Net federal income taxes paid	(4,098)	(3,760)	(338)
Interest paid	(3,443)	(3,443)	
Other	623	(12)	635
Net cash provided by (used for) operating activities	$ 6,472	$ (14,974)	$ 21,446

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

Liquidity

There have been no significant changes to our liquidity during the quarter or six months ended June 30, 2011. Please see Item 7 of Part II in our 2010 Annual Report on Form 10-K for information regarding our liquidity.

Capital Resources

There have been no significant changes to our capital resources during the quarter or six months ended June 30, 2011. On July 20, 2011, the Company made a principal payment of $18.0 million on our $90.0 million Guaranteed Senior Notes. We are required to prepay $18.0 million of the principal amount on July 20th of each year through July 20, 2015, when we will be required to pay any outstanding remaining principal amount on the notes. These notes are guaranteed by Global Indemnity (Cayman), Ltd. Please see Item 7 of Part II in our 2010 Annual Report on Form 10-K for information regarding our capital resources.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements other than the Trust Preferred Securities and floating rate common securities discussed in the Liquidity and Capital Resources sections in Item 7 of Part II of our 2010 Annual Report on Form 10-K.

Cautionary Note Regarding Forward-Looking Statements

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

Our business and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: (1) the ineffectiveness of our business strategy due to changes in current or future market conditions; (2) the effects of competitors pricing policies, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products; (3) greater frequency or severity of claims and loss activity than our underwriting, reserving or investment practices have anticipated; (4) decreased level of demand for our insurance products or increased competition due to

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an increase in capacity of property and casualty insurers; (5) risks inherent in establishing loss and loss adjustment expense reserves; (6) uncertainties relating to the financial ratings of our insurance subsidiaries; (7) uncertainties arising from the cyclical nature of our business; (8) changes in our relationships with, and the capacity of, our general agents, brokers, insurance companies and reinsurance companies from which we derive our business; (9) the risk that our reinsurers may not be able to fulfill obligations; (10) investment performance and credit risk; (11) risks associated with our completed re-domestication to Ireland, which may include encountering difficulties moving jurisdictions and opening new offices and functions, tax and financial expectations and advantages not materializing or changing, our stock price could decline, and Irish corporate governance and regulatory schemes could prove different or more challenging than currently expected; (12) new tax legislation or interpretations that could lead to an increase in our tax burden; (13) uncertainties relating to governmental and regulatory policies, both domestically and internationally; (14) foreign currency fluctuations; (15) impact of catastrophic events; (16) estimates of the projected annual savings and costs for the Profit Enhancement Initiative, which we made based on information available at the time the charges were recorded; (17) our subsidiaries ability to pay dividends; and (18) uncertainties relating to ongoing or future litigation matters.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are set forth in Risk Factors in Item 1A and elsewhere in our 2010 Annual Report on Form 10-K. Our forward-looking statements speak only as of the date of this report or as of the date they were made. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the second quarter of 2011, risk appetite deteriorated amid signs of a deepening sovereign debt crisis in Europe and signs that the US economic recovery was losing momentum. Uncertainties over the ongoing debt ceiling negotiations in the US further weighed on investor sentiment. During the quarter, all fixed income sectors posted positive absolute returns, helped by the decline in Treasury yields. However performance was mixed relative to Treasuries with credit sensitive sectors such as high yield, corporate bonds and commercial mortgage backed securities (CMBS) underperforming amid a heightened level of risk aversion.

The investment grade fixed income portfolio continues to maintain high quality investments with an AA average rating. During the quarter, the effective duration of the portfolio decreased from 2.8 to 2.4 years, whereby reducing interest rate sensitivity. Portfolio purchases were focused on high quality government, corporate credit and shorter duration U.S. mortgage backed securities (MBS). These purchases were funded primarily through portfolio sales consisting of longer duration corporate credit and MBS.

During the quarter, there were no significant changes to asset allocation for the total investment portfolio. The investment grade fixed income portfolio continues to be defensively positioned in the event that interest rates rise. Allocations to corporate floating rate loans, large cap value equity and a small allocation to Asian Consumption oriented equity remain in place. During the quarter, the large cap value equity opportunity set was expanded to allow for a larger allocation to Non-US equities. During the quarter the market value percentage of Non-US equities within the large cap value equity portfolio increased from 8.4% to 10.6%.

There have been no other significant changes to our market risk since March 31, 2011. Please see Item 7A of Part II in our 2010 Annual Report on Form 10-K for information regarding our market risk.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of June 30, 2011. Based upon that evaluation and subject to the foregoing, the Company s Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2011, the design and operation of the Company s disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Controls

During the quarter ended June 30, 2011 there have been no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that occurred that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II-OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation regarding claims. There is a greater potential for disputes with reinsurers who are in a runoff of their reinsurance operations. Some of our reinsurers are in a runoff of their reinsurance operations, and therefore, we closely monitor those relationships. We do 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 our business, consolidated financial position or results of operations. We anticipate that, similar to the rest of the insurance and reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business.

Item 1A. Risk Factors

Our results of operations and financial condition are subject to numerous risks and uncertainties described in Item 1A of Part I in our 2010 Annual Report on Form 10-K, filed with the SEC on March 16, 2011. The risk factors identified therein have not materially changed.

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

Our Share Incentive Plan allows employees to surrender our Class A ordinary shares as payment for the tax liability incurred upon the vesting of restricted stock that was issued under the Plan. There were 1,565 shares purchased from our employees during the quarter ended June 30, 2011. All Class A ordinary shares purchased from employees by us are held as treasury stock and recorded at cost.

The following table provides information with respect to the Class A ordinary shares that were surrendered or repurchased during the quarter ended June 30, 2011:

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Period (1)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program
April 1-30, 2011	85(2)	$ 21.05		$
May 1-31, 2011	1,110(2)	$ 22.53		$
June 1-30, 2011	370(2)	$ 21.86		$
Total	1,565	$ 22.29		N/A

(1) Based on settlement date.
(2) Surrendered by employees as payment of taxes withheld on the vesting of restricted stock.

Item 5. Other Information

None.

Item 6. Exhibits

31.1+ Certification of Chief Executive Officer pursuant to Rule 13a-14 (a) / 15d-14 (a) of the Securities Exchange of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2+ Certification of Chief Financial Officer pursuant to Rule 13a-14 (a) / 15d-14 (a) of the Securities Exchange of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1+ Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2+ Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.1+ The following financial information from Global Indemnity plc s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010; (ii) Consolidated Statements of Operations for the quarters and six months ended June 30, 2011 and 2010; (iii) Consolidated Statements of Comprehensive Income for the quarters and six months ended June 30, 2011 and 2010; (iv) Consolidated Statements of Changes in Shareholders Equity as of June 30, 2011 and December 31, 2010; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010; and (vi) Notes to Consolidated Financial Statements.

\+ Filed or furnished herewith, as applicable.

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SIGNATURE

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

GLOBAL INDEMNITY PLC

Registrant

August 9, 2011	By: /s/ Thomas M. McGeehan
Date: August 9, 2011	Thomas M. McGeehan
	Chief Financial Officer
	(Authorized Signatory and Principal Financial and Accounting Officer)

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