

2019 Global Indemnity Annual Report



DIRECTED TOWARD
PROFITABLE GROWTH



GLOBAL INDEMNITY LTD
Insurance & Reinsurance

2019 ANNUAL REPORT

With world headquarters located just outside Philadelphia, PA, Global Indemnity Ltd. (NASDAQ: GBLI) is a group of specialty property and casualty insurance and reinsurance companies providing underwriting, claims, and actuarial support to its individual operating units. Focusing on underserved niche markets, these direct and indirect wholly-owned subsidiary companies issue coverage for specialty risks and programs that are generally not provided by traditional insurance and reinsurance organizations. All of Global Indemnity's member insurance companies have earned a group rating of "A" (Excellent) by AM Best.

DEAR FELLOW SHAREHOLDERS

We are pleased to report that Global Indemnity Ltd. set record benchmarks across the Company in 2019.

Earnings per share reached an all-time high of \$4.88 on net income of \$70.0 million—an increase of \$126.7 million over 2018. Our gross written premiums rose by 16.2% to \$636.9 million, and the figure of \$562.1 million for net written premiums was the highest in our history.

In 2019 the combined ratio of 92.2% represented a 20.1 point improvement over 2018. Book value per share rose by 17.2% (including dividends paid to shareholders in 2019) to \$50.82, up from \$44.21.

Our adherence to a long-term investment strategy was further validated in 2019. With more than three-quarters of the Company's \$1.6 billion portfolio conservatively invested in fixed-maturity bonds, total investment return in 2019 reached an impressive 7.8%.

In last year's letter, we reaffirmed our intention to steadily reduce our catastrophe exposure and redeploy resources to less volatile and more profitable ventures. Consequently, we exited two international catastrophe treaties which contributed \$53.5 million of premium in 2019 and further



reduced personal lines premiums in catastrophe-prone states. Our progress in this direction was a factor in enabling the growth and success we enjoyed in 2019 to be broadly shared across all segments of the Company.

Commercial Specialty operations saw an increase of 19.0% in gross written premiums and 14.1% in net written premiums while Specialty Property operations increased net written premiums by 10.4%. This more than balanced Specialty Property's 3.9% decrease in gross written premiums, which was a result of the planned reduction in catastrophe exposure. Farm, Ranch & Stable operations increased gross written premiums by 10.0% and net written premiums by 6.0%.

Internationally, we also fared well. Our Reinsurance operations saw record growth in premiums written, from \$48.0 million to \$88.3 million—an 83.8% increase in just a single year.

Much has changed over the past twelve months, but one thing has stayed the same: in recognition of Global Indemnity's financial strength, diverse mix of specialty niche businesses, and long-term

profitability, we were again recognized by AM Best, the country's most respected rating agency of insurance companies, with an "A" (Excellent) rating. We remain firmly dedicated to pursuing our long-standing goal of Profitable Growth.

On behalf of the Board and all of our more than 400 employees, we thank you for your continued confidence and support.

Very truly yours,



Saul A. Fox
Chairman
Global Indemnity Ltd.



Cynthia Y. Valko
Chief Executive Officer
Global Indemnity Ltd.





A CLEAR & PURPOSEFUL STRATEGY

The true test of a strategic vision is not simply how well it can foster prosperity, but how durably it can weather adversity. Where 2018 was unusually challenging, 2019 has been especially rewarding. In both cases, our strength and resiliency have kept us on the path to our unchanging goal of *Profitable Growth*. From the start, we have followed the same clear and purposeful strategy: to be opportunistic in uncovering niche markets underserved by more traditional firms and innovative in developing new and better ways to serve them. This disciplined approach, fortified by continuous investment in technology and underwriting expertise, has enabled all our companies to achieve dramatic advances in growth and profitability and to once again retain our group rating of "A" (Excellent) from AM Best.



Proven in Performance

Our corporate culture has long been expressed in just two words: "Successful Together," but rarely has it been brought to life as resoundingly as in the past year. In 2019, the Company as a whole and each of our operating units achieved impressive, often remarkable, results. This includes record profitability and growth and superior returns across the board. Furthermore, the strong relationships we have forged throughout our unique distribution network mean that the managing general agents,

wholesalers, program administrators, and retailers we work with have a stake in our success as well.

Built on Success

While it is only natural to celebrate the gains of the past year, it is far more valuable to capitalize on them and use them as a foundation for even greater success in years to come. We do so by being innovative in developing new products and programs. Especially notable in 2019 were the first-to-market launch of our Hemp Growers program by the Farm, Ranch & Stable division. Several new program launches in



2019, such as liability coverage for residential condominiums and general and professional liability for home inspectors, have allowed our Commercial operation to grow significantly.

Prepared for Tomorrow

Yogi Berra once said that, "It's hard to make predictions. Especially about the future." This especially applies to an industry that has to bear the brunt of often unforeseeable and usually catastrophic events. In addition, we expect to be challenged by rising reinsurance costs, a hardening of the property and casualty market, and an aging of the industry talent pool. But we have faced similar challenges in the past, and thanks to the fundamental soundness and resiliency of our guiding principles, we will emerge stronger. Whatever the future brings, we are confident we can "weather the storm."



2019 FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share and ratio data)

Stock Price as of December 31, 2019

Exchange/Symbol: GBLI

Closing Price: \$29.63

52-Week Range: \$24.01 - \$41.77

Market Capitalization: \$423.7M

Price/Book Ratio: 0.58

	2016	2017	2018	2019
GROSS WRITTEN PREMIUM	\$565,845	\$516,334	\$547,897	\$636,861
INCOME STATEMENT				
Net Earned Premiums	468,465	438,034	467,775	525,262
Net Investment Income	33,983	39,323	46,342	42,052
Net Realized Gains/(Loss)	21,721	1,576	(16,907)	35,342
Other Income	10,345	6,582	1,728	1,816
Total Revenues	534,514	485,515	498,938	604,472
Total Expenses	484,646	495,066	555,634	534,457
Net Income/(Loss)	49,868	(9,551) (1)	(56,696) (4)	70,015
Earnings/(Loss) Per Share (Diluted)	\$2.84	(\$0.55)	(\$4.02)	\$4.88
Net Operating Income/(Loss)	35,781	7,173	(31,316)	41,439
Operating Income/(Loss) Per Share (Diluted)	\$2.04	\$0.41	(\$2.22)	\$2.89
BALANCE SHEET				
Total Assets	1,972,946	2,001,669	1,960,266	2,075,885
Shareholders' Equity	797,951	718,394 (2)	629,059	726,809
Book Value Per Share	\$45.42	\$50.57	\$44.21	\$ 50.82
GAAP RATIOS				
Combined Ratio	98.4	103.4 (3)	112.3 (5)	92.2
Market Capitalization (As of year-end)	671,346	596,967 (2)	515,505	423,722

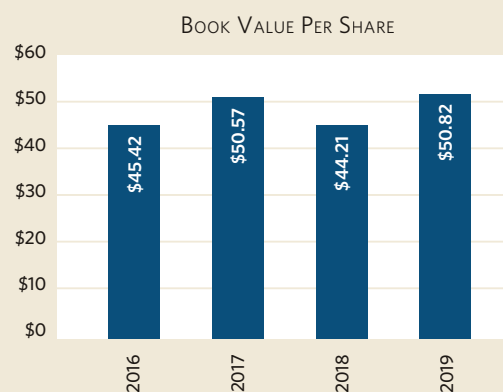
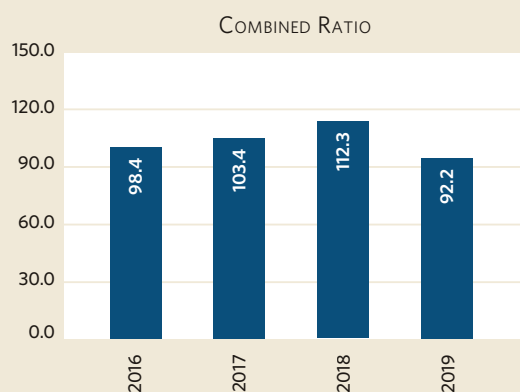
(1) Excluding losses related to the Texas and Florida hurricanes, the California wildfires, and a one-time tax charge related to the "Tax Cuts and Jobs Act of 2017," net income would have been \$53.5 million.

(2) On December 29, 2017 the Company redeemed \$83 million of its Common Stock.

(3) Excluding hurricanes Harvey, Irma, and Maria, and the California wildfires, the combined ratio would have been 90.5%.

(4) Excluding losses related to hurricane Michael and the California wildfires, net income would have been (\$3.7) million.

(5) Excluding hurricane Michael and the California wildfires, the combined ratio would have been 99.3%.



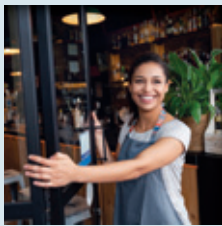
ASSURING FLEXIBILITY & OPPORTUNITY

Global Indemnity continues a full commitment to *Profitable Growth* that is achieved with its exclusive multi-channel approach and by sustaining a strong capital and broad underwriting position. Providing a varied line of targeted products distributed through a wide agent network, Global Indemnity and its partner agents are assured both flexibility and opportunity.

The Company supports its valued network of producers by continuously making substantial investments in technology, providing automated product offerings, and ensuring fast and efficient delivery for its agents and customers.

Through its wholly-owned operating units, the Company offers both admitted and non-admitted specialty property and casualty insurance in the United States, in addition to reinsurance services worldwide. Each of Global Indemnity's wholly-owned U.S. operating units hold admitted business and surplus lines qualifications in all 50 states and the District of Columbia. The "A" (Excellent) AM Best group rating Global Indemnity companies have achieved reinforces long-standing relationships with current customers and helps us earn new clients as well as attract prospective partners and investors. That top-of-the-line rating continues to be a source of pride to our more than 400 employees.

Commercial Specialty Insurance



Penn-America Group®

Penn-America Group has a distribution network of experienced managing general agents with specific binding authority who offer property and casualty products for small businesses.

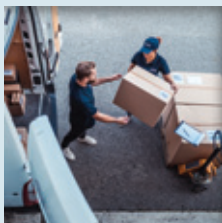
Penn-America.com



Diamond State Group®

Diamond State Group distributes commercial property, general liability, and professional lines products in 50 states and the District of Columbia through specially selected wholesale brokers.

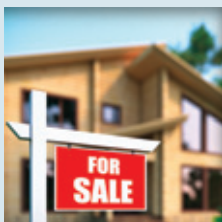
DiamondStateGroup.com



United National Group®

The property and general liability products of United National Group are distributed nationwide by a network of program administrators. With a concentration on the program market, United National Group's principal focus is on specific classes.

UnitedNat.com



VacantExpress.com®

VacantExpress.com specializes in coverage for residential and commercial properties that are vacant or being renovated, or are new construction. In most states, landlord insurance also may be obtained. This state-of-the-art program can be accessed 24/7 and enables agents to quote, bind, and issue policies in most states completely online.

VacantExpress.com



Farm, Ranch & Stable Insurance



American Reliable Insurance Company®

Dedicated to protecting the agriculture and equine industries, American Reliable Insurance Company has a network of specially selected general and independent agents distribute these products throughout the country.

AmericanReliableAg.com



Specialty Property Insurance



American Reliable Insurance Company®

A specialty property and casualty insurance provider for manufactured homes and dwellings, American Reliable Insurance Company distributes its products through a nationwide cadre of general and independent agents.

AmericanReliable.com



Collectibles Insurance Services, LLC™

Collectibles Insurance Services, LLC was founded by collectors for collectors more than 50 years ago. It is a specialty retail agency offering coverage for a wide variety of popular collectibles that include comic books, toys, sports cards and memorabilia, firearms, stamps, and more.

CollectInsure.com



International Reinsurance



GLOBAL INDEMNITY RE

Global Indemnity Reinsurance Company Ltd.

Global Indemnity Reinsurance Company Ltd. is a treaty and facultative reinsurer of specialty casualty insurance, including professional lines. The firm serves the international marketplace from its center of operations in Bermuda.

GlobalIndemnityRe.bm

Successful Together Four Shared Principles that Define Our Culture





Saul A. Fox
Chairman
Global Indemnity Ltd.



Cynthia Y. Valko
Chief Executive Officer
Global Indemnity Ltd.

BOARD MEMBERS & OFFICERS

The Global Indemnity Board continues to provide the Company with valued counsel that contributes significantly to our continued success. Composed of knowledgeable and successful business leaders, our Board and our experienced and motivated Senior Officers and Staff are all committed to implementing the Company's vision.



Jay W. Brown



Michele A. Colucci



Seth J. Gersch



Jason B. Hurwitz



Bruce R. Lederman



James D. Wehr

Board Members

Saul A. Fox, Chairman (4) (6)

Jay W. Brown (2) (3) (7)
Retired Chief Executive Officer
MBIA, Inc.

Michele A. Colucci (1) (2) (6)
Co-founder & Managing Partner
DigitalDX Ventures

Seth J. Gersch (1) (4) (5) (7)
Advisory Panel
Fox Paine & Company, LLC

Jason B. Hurwitz (1) (3) (5)
Managing Member
Hurwitz Capital LLC

Bruce R. Lederman (1) (5) (6)
Retired Partner
Latham & Watkins

Cynthia Y. Valko
Chief Executive Officer
Global Indemnity Ltd.

James D. Wehr (2) (3) (5) (7)
Retired Insurance Executive

Officers

Cynthia Y. Valko
Chief Executive Officer

Thomas M. McGeehan
Executive Vice President
Finance and Operations
& Chief Financial Officer

Jonathan Oltman
Executive Vice President
Commercial Lines

Michael Loftus
Vice President & General Auditor

Steve Green
President
Global Indemnity Reinsurance Company Ltd.

- (1) Audit Committee
- (2) Compensation & Benefits Committee
- (3) Enterprise Risk Management Committee
- (4) Executive Committee
- (5) Investment Committee
- (6) Nominating & Governance Committee
- (7) Technology Committee

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2019

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 LIMITED

(Exact name of registrant as specified in its charter)

**Cayman Islands
(State or other jurisdiction
of incorporation or organization)**

**98-1304287
(I.R.S. Employer
Identification No.)**

**27 HOSPITAL ROAD
GEORGE TOWN, GRAND CAYMAN
KY1-9008**

CAYMAN ISLANDS

(Address of principal executive office including zip code)

Registrant's telephone number, including area code: (345) 949-0100

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
A Ordinary Shares	GBLI	NASDAQ Global Select Market
7.75% Subordinated Notes due 2045	GBLIZ	NASDAQ Global Select Market
7.875% Subordinated Notes due 2047	GBLIL	NASDAQ Global Select Market

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

NONE

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

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

Large accelerated filer ;

Accelerated filer ;

Non-accelerated filer ;

Smaller reporting company ;

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the common equity held by non-affiliates of the registrant, computed by reference to the price of the registrant's A ordinary shares as of the last business day of the registrant's most recently completed second fiscal quarter (based on the last reported sale price on the Nasdaq Global Select Market as of such date), was \$258,924,978. There are no B ordinary shares held by non-affiliates of the registrant.

As of February 27, 2020, the registrant had outstanding 10,162,332 A ordinary shares and 4,133,366 B ordinary shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to the 2020 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019 are incorporated by reference into Part III of this report.

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PART I

Item 1. BUSINESS

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

History

Global Indemnity Limited ("Global Indemnity") is a holding company formed on February 9, 2016 under the laws of the Cayman Islands. On November 7, 2016, Global Indemnity Limited replaced Global Indemnity plc, an Irish company, as the ultimate parent company pursuant to a scheme of arrangement whereby all of Global Indemnity plc's A ordinary shares were cancelled and replaced with one A ordinary share of Global Indemnity Limited on a one for one basis and each B ordinary share of Global Indemnity plc was cancelled and replaced with one B ordinary share of Global Indemnity Limited on a one for one basis. Global Indemnity's A ordinary shares are publicly traded on the NASDAQ Global Select Market under the trading symbol "GBLI."

General

Global Indemnity provides its insurance products across a distribution network that includes binding authority, program, brokerage, and reinsurance. The Company manages the distribution of these products through four business segments. Commercial Specialty offers specialty property and casualty products designed for product lines such as Small Business Binding Authority, Property Brokerage, Vacant Express, and Programs, which are written through the United National Plus brand and provide insurance for businesses such as snowplowing and pest control. Specialty Property offers specialty personal lines property and casualty insurance products. Farm, Ranch, & Stable offers specialized property and casualty coverage including Commercial Farm Auto and Excess/Umbrella Coverage for the agriculture industry as well as specialized insurance products for the equine mortality and equine major medical industry. Reinsurance Operations provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.

The Commercial Specialty, Specialty Property, and Farm, Ranch, & Stable segments comprise the Company's U.S. Insurance Operations ("Insurance Operations").

Business Segments

See Note 19 of the notes to consolidated financial statements in Item 8 of Part II of this report for gross and net written premiums, income and total assets of each operating segment for the years ended December 31, 2019, 2018 and 2017. For a discussion of the variances between years, see "Results of Operations" in Item 7 of Part II of this report.

During the first quarter of 2019, the Company re-evaluated its Personal Lines segment and determined that Personal Lines should be bifurcated into two reportable segments: Specialty Property and Farm, Ranch, & Stable. This is the result of changing how Specialty Property and Farm, Ranch, & Stable are managed and reported. Specialty Property is managed out of the Company's Scottsdale, Arizona office; whereas, Farm, Ranch, & Stable is managed out of the Company's Omaha, Nebraska office. In the past, Farm, Ranch, & Stable reported to the Scottsdale, Arizona office and now it reports directly to the Company's main headquarters in Bala Cynwyd, Pennsylvania. Results for Specialty Property and Farm, Ranch, & Stable are separately measured, resources are separately allocated to each of these lines, and employees in each line are now being rewarded based on each line's separate results. Accordingly, the Company now reports Specialty Property and Farm, Ranch, & Stable as two separate reportable segments. In addition, the Company has changed the name of its Commercial Lines segment to Commercial Specialty to better align with its key product offerings. The segment results for the years ended December 31, 2018 and 2017 have been revised to reflect these changes.

Commercial Specialty

The Company's Commercial Specialty segment distribute specialty property and casualty insurance products and operates predominantly in the excess and surplus lines, or non-admitted, marketplace. The excess and surplus lines market differs significantly from the standard property and casualty insurance market. For additional information on the standard property and casualty insurance market, see "Specialty Property" below.

The excess and surplus lines market provides coverage for businesses that often do not fit the underwriting criteria of an insurance company operating in the standard markets due to their relatively greater unpredictable loss patterns and unique niches of exposure requiring rate and policy form flexibility. Without the excess and surplus lines market, certain businesses would have to self-insure their exposures, or seek coverage outside the U.S. market.

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

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

Commercial Specialty's insurance products target specific, defined groups of insureds with customized coverage to meet their needs. To manage operations, the Commercial Specialty segment differentiates its products by product classification. These product classifications are as follows:

- Penn-America Group distributes property and general liability products for small commercial businesses through a select network of wholesale general agents with specific binding authority;
- United National Group distributes property, general liability, and professional lines products through program administrators with specific binding authority; and
- Diamond State Group distributes property, casualty, and professional lines products through wholesale brokers that are underwritten by the Company's personnel and selected brokers with specific binding authority.
- Vacant Express primarily distributes products for dwellings which are currently vacant, undergoing renovations, or are under construction through aggregators, brokers, and retail agents.

These product classifications comprise the Commercial Specialty business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage.

The Company's Commercial Specialty segment provide property, casualty, and professional liability products utilizing customized guidelines, rates, and forms tailored to the Company's risk and underwriting philosophy. See "Underwriting" below for a discussion on how the Company's insurance products are underwritten.

In 2019, gross written premiums for the Commercial Specialty segment were \$297.3 million compared to \$249.9 million for 2018. For 2019, surplus lines business accounts for approximately 89.2% of the business written while specialty admitted business accounts for the remaining 10.8%.

Specialty Property

The Company's Specialty Property segment distributes specialty personal lines property and casualty insurance products and operates primarily in the standard, or admitted markets. In this standard property and casualty insurance market, insurance rates and forms are highly regulated; products and coverage are largely uniform and have relatively predictable exposures. In the standard market, policies must be written by insurance companies that are admitted to transact business in the state in which the policy is issued. As a result, in the standard property and casualty insurance market, insurance companies tend to compete for customers primarily on the basis of price, coverage, value-added service, and financial strength.

The Company's Specialty Property segment writes specialty products such as mobile homes, manufactured homes, homeowners, and collectibles via American Reliable. These products are distributed through retail agents, wholesale general agents, and brokers. The insurance products are either underwritten via specific binding authority or by internal personnel.

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

In 2019 and 2018, gross written premiums for the Specialty Property segment were \$163.5 million and \$170.2 million, respectively, and includes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement in the amount of (\$0.3) million and (\$2.1) million, respectively.

Farm, Ranch & Stable

The Company's Farm, Ranch, & Stable segment provides specialized property and casualty coverage including Commercial Farm Auto and Excess/Umbrella Coverage for the agriculture industry as well as specialized insurance products for the equine mortality and equine major medical industry on an admitted basis. These insurance products are sold through wholesalers and retail agents, with a selected number having specific binding authority. For additional information on the standard property and casualty insurance market, see "Specialty Property" above.

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

In 2019, gross written premiums for the Farm, Ranch, & Stable segment were \$87.7 million compared to \$79.7 million for 2018

Reinsurance Operations

Global Indemnity Reinsurance Company, Ltd. ("Global Indemnity Reinsurance"), a direct subsidiary of the Company, is a Bermuda based treaty reinsurer of specialty property and casualty insurance and reinsurance companies. The Company's Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies, and consists solely of the operations of Global Indemnity Reinsurance.

The reinsurance markets face many of the same issues confronted in the primary insurance markets including excess capital capacity, low investment returns and increased pressure on generating acceptable return on investment.

The availability of capacity in the market has diminished in the past year which has put pressure on pricing levels and created opportunities. Global Indemnity Reinsurance is focused on using its capital capacity to write casualty and catastrophe-oriented placements or specialty-focused excess of loss contracts meeting the Company's risk tolerance and return thresholds.

In 2019, gross written premiums from third parties were \$88.3 million compared to \$48.0 million for 2018.

Products and Product Development

The Company's U.S. Insurance Operations distribute property and casualty insurance products. The Company's Specialty Property and Farm, Ranch, & Stable segments operate primarily in the admitted marketplace; whereas, its Commercial Specialty segment operates predominantly in the excess and surplus lines marketplace. To manage its operations, the Company seeks to differentiate its products by product classification. See "Commercial Specialty", "Specialty Property", and "Farm, Ranch, & Stable" above for a description of these product classifications. The U.S. Insurance Operations are licensed to write on a surplus lines (non-admitted) basis and/or an admitted basis in all 50 U.S. States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, which provides the Company with flexibility in designing products and programs, and in determining rates to meet emerging risks and discontinuities in the marketplace.

The Company's Reinsurance Operations offer third party treaty reinsurance for property and casualty insurance and reinsurance companies as well as professional liability products to companies. Prior to January 1, 2018, the Company's Reinsurance Operations also provided reinsurance to its Insurance Operations in the form of quota share arrangements. As a result of the enactment of the Tax Cuts and Jobs Act of 2017 ("TCJA"), effective January 1, 2018, premiums being ceded under the quota share arrangement could have potentially been subject to a 10% base erosion minimum tax ("BEAT"). As a result, Global Indemnity Reinsurance and the Company's U.S. insurance companies terminated the quota share arrangement effective January 1, 2018.

Geographic Concentration

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

(Dollars in thousands)	For the Years Ended December 31,					
	2019		2018		2017	
	Amount	Percent	Amount	Percent	Amount	Percent
California	\$ 54,850	8.5%	\$ 58,744	10.8%	\$ 58,669	11.4%
Texas	54,381	8.5	49,544	9.1	44,420	8.6
Florida	48,093	7.6	42,116	7.7	36,922	7.1
New York	37,288	5.9	28,718	5.2	24,317	4.7
Arizona	21,975	3.5	20,973	3.8	20,593	4.0
Louisiana	21,710	3.4	21,610	3.9	25,121	4.9
North Carolina	19,989	3.1	19,021	3.5	18,476	3.6
Georgia	19,427	3.1	15,017	2.7	12,669	2.5
Massachusetts	18,510	2.9	15,968	2.9	14,909	2.9
New Jersey	15,318	2.4	13,931	2.5	12,541	2.4
Subtotal	311,541	48.9	285,642	52.1	268,637	52.1
All other states	237,039	37.2	214,212	39.1	193,810	37.5
Reinsurance Operations	88,281	13.9	48,043	8.8	53,887	10.4
Total	<u>\$636,861</u>	<u>100.0%</u>	<u>\$547,897</u>	<u>100.0%</u>	<u>\$516,334</u>	<u>100.0%</u>

Marketing and Distribution

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

The Company’s Commercial Specialty segment distributes its insurance products primarily through a group of approximately 180 wholesale general agents, wholesale insurance brokers, and program administrators. Of Commercial Specialty’s non-affiliated professional wholesale general agents, wholesale insurance brokers, and program administrators, the top five accounted for 35.5% of Commercial Specialty’s gross written premiums for the year ended December 31, 2019. One agency represented 10.9% of Commercial Specialty’s gross written premiums.

The Company’s Specialty Property segment distributes specialty personal lines property and casualty insurance products through a group of approximately 240 wholesale general agents and retail agents. Its retail distribution is limited to products written primarily in New Mexico and Arizona. Of Specialty Property’s non-affiliated professional wholesale general agents and retail agents, the top five accounted for 37.9% of Specialty Property’s gross written premiums for the year ended December 31, 2019. One agency represented 12.5% of Specialty Property’s gross written premiums.

The Company’s Farm, Ranch, & Stable segment distributes their insurance products through a group of approximately 210 wholesale general agents and retail agents. Farm, Ranch, & Stable’s top five agents accounted for 23.7% of its gross written premiums for the year ended December 31, 2019. No one agency represented more than 10% of Farm, Ranch, & Stable’s gross written premiums.

There is no agency which accounts for more than 10% of the Company’s consolidated revenues for the year ended December 31, 2019.

Global Indemnity Reinsurance assumed premiums on three treaties from three cedants which accounted for 91% of the Reinsurance Operations’ 2019 gross written premiums. There was no treaty that accounted for 10% or more of the Company’s consolidated revenues for the year ended December 31, 2019.

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

Underwriting

For Commercial Specialty, the Company's insurance products are primarily underwritten via specific binding authority in which the Company grants underwriting authority to its wholesale general agents and program administrators and via brokerage in which the Company's internal personnel underwrites business submitted by wholesale insurance brokers.

For Specialty Property and Farm, Ranch, & Stable, the Company's insurance products are distributed through retail agents, wholesale general agents, and brokers. The insurance products for these two segments are either underwritten via specific binding authority or by internal personnel. Some of the Company's specialized property business for these two segments is submitted by retail agents and underwritten by internal personnel. Some of Specialty Property's specialized property business is submitted directly from insureds and is underwritten by internal personnel.

Specific Binding Authority—Several of the Company's wholesale general agents, retail agents, and program administrators for the Company's Insurance Operations have specific quoting and binding authority with respect to the lines they write and some have limited quoting and binding authority with respect to multiple products.

The Company's wholesale general agents, retail agents, and program administrators will either utilize company administered policy systems with the Company's underwriting guidelines embedded within the system or the agents will use their own proprietary systems. When the agents use their own proprietary systems, the Company provides its wholesale general agents, retail agents, and program administrators with a comprehensive, regularly updated underwriting manual that specifically outlines risk eligibility which is developed based on the type of insured, nature of exposure and overall expected profitability. This manual also outlines (a) premium pricing, (b) underwriting guidelines, including but not limited to policy forms, terms and conditions, and (c) policy issuance instructions.

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

Farm, Ranch, & Stable partners are not provided with underwriting manuals. Rather, they are provided with letters of authority; whereby, policies and endorsement issuance rights are extended.

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

- automated system criteria edits and exception reports;
- individual policy reviews to measure adherence to the Company's underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;
- periodic on-site comprehensive audits to evaluate processes, controls, profitability and adherence to all aspects of the Company's underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;
- internal quarterly actuarial analysis of loss ratios produced by business underwritten by the Company's wholesale general agents, retail agents, and program administrators; and
- internal quarterly analysis of financial results, including premium growth and overall profitability of business produced by the Company's wholesale general agents, retail agents, and program administrators.

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

Brokerage—The wholesale insurance brokers are within the Company’s Commercial Specialty segment and are subject to the same guidelines and monitoring as discussed above. The majority of the Company’s wholesale insurance brokers do not have specific binding authority; therefore, these risks are submitted to the Company’s underwriting personnel for review and processing. There is only one wholesale insurance broker with specific binding authority.

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

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

- individual policy reviews to measure the Company’s underwriters’ adherence to the underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;
- periodic underwriting review to evaluate adherence to all aspects of the Company’s underwriting manual including: risk selection, underwriting compliance, policy issuance and pricing;
- internal quarterly actuarial analysis of loss ratios produced by business underwritten by the Company’s underwriters; and
- internal quarterly analysis of financial results, including premium growth and overall profitability of business produced by the Company’s underwriters.

Reinsurance—The Company’s direct subsidiary, Global Indemnity Reinsurance, primarily offers retrocessional coverage to Bermuda based reinsurance companies. The business currently assumed is primarily quota share treaties on property catastrophe and marine. The Company also writes a small amount of professional lines excess liability business. Prior to entering into any agreement, the Company evaluates a number of factors for each cedant including, but not limited to, reputation and financial condition, underwriting and claims practices and historical claims experience. The Company also models proposed treaties for both the catastrophe exposure and the marginal impact on the Company’s existing catastrophe portfolio.

Contingent Commissions

Certain professional general agencies of the U.S. Insurance Operations are paid special incentives, referred to as contingent commissions, when results of business produced by these agencies are more favorable than predetermined thresholds. Similarly, in some circumstances, companies that cede business to the Reinsurance Operations are paid a profit commission based on the profitability of the ceded portfolio. These commissions are charged to other underwriting expenses when incurred.

Pricing

Actuaries establish pricing tailored to each specific product the Company underwrites, taking into account historical loss experience, historical rate level changes, property catastrophe modeling output, and individual risk and coverage characteristics. The Company generally uses the actuarial loss costs promulgated by the Insurance Services Office as a benchmark in the development of pricing for most products. Specific products will utilize proprietary rating when deemed appropriate. The Company will seek to only write business if it believes it can achieve an adequate risk adjusted rate of return.

Reinsurance of Underwriting Risk

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

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

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

The Company analyzes its reinsurance contracts to ensure that they meet the risk transfer requirements of applicable accounting guidance, which requires that the reinsurer must assume significant insurance risk under the reinsured portions of the underlying insurance contracts and that there must be a reasonably possible chance that the reinsurer may realize a significant loss from the transaction.

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

The Company's Insurance Operations' material 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, 2019, the Company purchased three layers of occurrence coverage for losses of \$275 million in excess of \$25 million. The first layer provides coverage of 50% of \$25 million in excess of \$25 million and can be reinstated twice at no additional charge. The second layer provides coverage of \$50 million in excess of \$50 million and is unable to be reinstated. The third layer provides coverage of \$200 million in excess of \$100 million and includes one 100% paid reinstatement. The second layer also includes a cascading feature. Any erosion of the first layer lowers the attachment point of the second layer by the same amount. Should the second layer of limit be exhausted and reinstated, the attachment point would be in excess of \$50 million.

This replaced the treaty which expired on May 31, 2019 and provided two layers of occurrence coverage for losses of \$250 million in excess of \$50 million. The first layer provides coverage of \$50 million in excess of \$50 million and is unable to be reinstated. The second layer provides coverage of \$200 million in excess of \$100 million and includes one 100% paid reinstatement. The second layer also includes a cascading feature. Any erosion of the first layer lowers the attachment point of the second layer by the same amount. Should the second layer of limit be exhausted and reinstated, the attachment point would be in excess of \$50 million.

Location-Specific Quota Share—Effective May 1, 2016, the Company entered into an agreement, which is currently in run-off, to cede 50% of the net underwriting results for certain Specialty Property products in certain states, subject to an occurrence limit of \$50 million for property coverages and \$1.5 million for casualty coverages.

Catastrophe Quota Share—Effective June 1, 2019, the Company renewed its agreement to cede 50% of its catastrophe losses which are above \$3 million. The occurrence limit was reduced to \$25 million and the aggregate limit was reduced to \$75 million. This replaced the treaty which expired on May 31, 2019, which had an occurrence limit of \$50 million and an aggregate limit of \$150 million.

Property Per Risk Excess of Loss—Effective January 1, 2020, the Company renewed its property per risk excess of loss treaty. This treaty provides coverage of \$8 million per risk in excess of \$2 million per risk, of which the Company participated on 25% of the placement. This treaty also provides coverage of \$20 million per risk in excess of \$10 million per risk and \$20 million per risk in excess of \$30 million per risk for Property Brokerage business only. This replaced the treaty which expired on December 31, 2019 and provided coverage in two sections: \$4 million per risk in excess of \$1 million per risk for all business except the Property Brokerage unit, and \$8 million per risk in excess of \$2 million per risk for Property Brokerage business, of which the Company participated on 25% of the placement. This treaty also provided coverage of \$20 million per risk in excess of \$10 million per risk and \$20 million per risk in excess of \$30 million per risk for Property Brokerage business.

Casualty Excess of Loss—Effective January 1, 2018, the Company entered into a casualty excess of loss treaty, which is still in effect, that provides coverage of \$10 million per occurrence in excess of \$2 million per occurrence for all casualty lines of business. The treaty is subject to an aggregate limit of \$20 million.

100% Ceded Quota Share to American Bankers, former parent of American Reliable—Effective December 1, 2014, American Reliable entered into four treaties to cede 100% of its liabilities related to certain businesses to American Bankers Insurance Company that were not included in the acquisition of American Reliable. These treaties are still in effect at December 31, 2019. American Reliable recorded ceded written premiums of (\$0.3) million and (\$2.1) million, and ceded earned premiums of \$2.3 million and \$7.3 million to American Bankers Insurance Company for the years ended December 31, 2019 and 2018, respectively.

100% Assumed Quota Share from American Bankers, former parent of American Reliable—Effective December 1, 2014, American Reliable entered into two treaties to assume 100% of its liabilities from various insurers owned by Assurant, Inc. for business included in the acquisition but not written directly by American Reliable. These treaties are still in effect at December 31, 2019. American Reliable recorded assumed written premiums of (\$0.04) million and \$4.7 million, and assumed earned premiums of \$0.9 million and \$16.7 million from insurance companies owned by Assurant, Inc. for the years ended December 31, 2019 and 2018, respectively.

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. There were no other significant changes to any of the Company's Insurance Operations' reinsurance treaties during 2019.

The following table sets forth the ten reinsurers for which the Company has the largest reinsurance receivables as of December 31, 2019. Also shown are the amounts of premiums ceded by the Company to these reinsurers during the year ended December 31, 2019.

(Dollars in millions)	A.M. Best Rating	Gross Reinsurance Receivables	Percent of Total	Ceded Premiums Written	Percent of Total
Munich Re America Corp.	A+	\$44.1	47.4%	\$28.0	37.4%
General Reinsurance Corp.	A++	7.5	8.0	5.4	7.2
Arch Reinsurance Company	A+	5.1	5.5	0.6	0.8
Westport Insurance Corporation	A+	4.8	5.1	—	—
Clearwater Insurance Company	NR	2.9	3.1	—	—
Scor Reinsurance Company	A+	2.8	3.0	4.9	6.6
American Bankers Insurance Company	A	2.4	2.6	(0.3)	(0.4)
Transatlantic Reinsurance	A+	1.9	2.0	1.2	1.6
Swiss Reinsurance America Corp.	A+	1.8	1.9	3.8	5.1
American Standard Insurance Company of WI	A	1.3	1.4	7.0	9.4
Subtotal		<u>\$74.6</u>	<u>80.0%</u>	<u>\$50.6</u>	<u>67.7%</u>
All other reinsurers		<u>18.7</u>	<u>20.0</u>	<u>24.2</u>	<u>32.3</u>
Total reinsurance receivables before purchase accounting adjustments and allowance for uncollectible reinsurance		<u>\$93.3</u>	<u>100.0%</u>	<u>\$74.8</u>	<u>100.0%</u>
Purchase accounting adjustments and allowance for uncollectible reinsurance		<u>(9.4)</u>			
Total receivables, net of purchase accounting adjustments and allowance for uncollectible reinsurance		<u>83.9</u>			
Collateral held in trust from reinsurers		<u>(3.8)</u>			
Net receivables		<u>\$80.1</u>			

At December 31, 2019, the Company carried reinsurance receivables, net of collateral held in trust, of \$80.1 million. This amount is net of a purchase accounting adjustment and an allowance for uncollectible reinsurance receivables. The purchase accounting adjustment resulted from the Company's acquisition of Wind River Investment Corporation on September 5, 2003 and is related to discounting the acquired loss reserves to their present value and applying a risk margin to the discounted reserves. This adjustment was \$0.4 million at December 31, 2019. The allowance for uncollectible reinsurance receivables was \$9.0 million at December 31, 2019.

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

Claims Management and Administration

The Company's approach to claims management is designed to investigate reported incidents at the earliest juncture, to select, manage, and supervise all legal and adjustment aspects of claims, including settlement, for the mutual benefit of the Company, its professional general agents, wholesale brokers, reinsurers and insureds. The Company's professional general agents and wholesale brokers have no authority to settle claims or otherwise exercise control over the claims process, with the exception of one statutory managing general agent. The Insurance Operations' claims management staff supervises or processes all claims. The Company's Insurance Operations has a formal claims review process, and all claims greater than \$250,000 are reviewed by senior claims management and certain senior executives. Large loss trends and analysis are reviewed by a Large Loss committee.

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

As of December 31, 2019, the Company had \$133.6 million of direct outstanding losses and loss adjustment expense case reserves at its Insurance Operations. Claims relating to approximately 90% of those reserves are handled by in-house claims management professionals, while claims relating to approximately 1% of those reserves are handled by TPAs, which send the Company detailed financial and claims information on a monthly basis. The Company also individually supervises in-house any significant or complicated TPA handled claims, and conducts on-site audits of material TPAs at least twice a year. Approximately 9% of its reserves are handled by the Company's assuming reinsurers. The Company reviews and supervises the claims handled by its reinsurers seeking to protect its reputation and minimize exposure.

Reserves for Unpaid Losses and Loss Adjustment Expenses

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

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

- knowledge of the circumstances surrounding the claim;
- the severity of injury or damage;
- jurisdiction of the occurrence;
- the potential for ultimate exposure;
- litigation related developments;
- the type of loss; and
- the Company's experience with the insured and the line of business and policy provisions relating to the particular type of claim.

The Company generally estimates such losses and claims costs through an evaluation of individual reported claims. The Company also establishes reserves for incurred but not reported losses ("IBNR"). IBNR reserves are based in part on statistical information and in part on industry experience with respect to the expected number and nature of claims arising from occurrences that have not been reported. The Company also establishes its reserves based on estimates of future trends in claims severity and other subjective factors. Insurance companies are not permitted to reserve for a catastrophe until it has occurred. Reserves are recorded on an undiscounted basis other than fair value adjustments recorded under purchase accounting. The Company's Insurance Operations' reserves are reviewed quarterly by the in-house actuarial staff. Loss reserve estimates for the Company's Reinsurance Operations are developed by independent, external actuaries; however management is responsible for the final determination of loss reserve selections. The data for this analysis is organized by treaty and treaty year. Reviews for both Insurance Operations and Reinsurance Operations are generally performed both gross and net of reinsurance and ceded reviews are also completed for most reserve categories.

In addition to the Company's internal reserve analysis, independent external actuaries perform a full, detailed review of the Insurance Operations' reserves annually. The Company does not rely upon the review by the independent actuaries to develop its reserves; however, the data is used to corroborate the analysis performed by the in-house actuarial staff. The Company's independent external actuaries also perform a full, detailed review of the Reinsurance Operations' reserves annually. The results of the detailed reserve reviews by internal and external actuaries are summarized and discussed with the Company's senior management to determine the best estimate of reserves.

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

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

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

Asbestos and Environmental ("A&E") Exposure

The Company's environmental exposure arises from the sale of general liability and commercial multi-peril insurance. Currently, the Company's policies continue to exclude classic environmental contamination claims. However, in some states, the Company is required, depending on the circumstances, to provide coverage for certain bodily injury claims, such as an individual's exposure to a release of chemicals. The Company has also issued policies that were intended to provide limited pollution and environmental coverage. These policies were specific to certain types of products underwritten by the Company. The Company has also received a number of asbestos-related claims, the majority of which are declined based on well-established exclusions. In establishing the liability for unpaid losses and loss adjustment expenses related to A&E exposures, management considers facts currently known and the current state of the law and coverage litigations. Estimates of these liabilities are reviewed and updated continually.

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

The liability for unpaid losses and loss adjustment expenses, inclusive of A&E reserves, reflects the Company's best estimates for future amounts needed to pay losses and related loss adjustment expenses as of each of the balance sheet dates reflected in the financial statements herein in accordance with GAAP. As of December 31, 2019, the Company had \$15.8 million of net loss reserves for asbestos-related claims and \$13.2 million for environmental claims. The Company attempts to estimate the full impact of the A&E exposures by establishing specific case reserves on all known losses. See Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report for tables showing the Company's gross and net reserves for A&E losses.

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

See Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report for the survival ratios on a gross and net basis for the Company's A&E claims.

Investments

The Company's investment policy is determined by the Investment Committee of the Board of Directors. The Company engages third-party investment advisors to oversee and manage its investments and to make recommendations to the Investment Committee. The Company's investment policy allows it to invest in taxable and tax-exempt fixed income investments including corporate bonds as well as publicly traded equities and private equity and private debt investments. In order to provide diversification, the Company limits exposure to individual issuers. With respect to fixed income investments, the maximum exposure per issuer varies as a function of the credit quality of the security. The allocation between taxable and tax-exempt bonds is determined based on market conditions and tax considerations. The Company's maximum allowable exposure to equities and alternatives is 50% of the portfolio not backing loss reserves, unearned premium reserves, and catastrophe exposure. At December 31, 2019, such maximum allowable exposure was \$357.8 million. As of December 31, 2019, the Company had \$1,607.8 million of investments and cash and cash equivalent assets, including \$263.1 million of equity securities and \$47.3 million of limited partnership investments.

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

The following table summarizes by type the estimated fair value of Global Indemnity's investments and cash and cash equivalents as of December 31, 2019, 2018, and 2017:

(Dollars in thousands)	December 31, 2019		December 31, 2018		December 31, 2017	
	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total
Cash and cash equivalents	\$ 44,271	2.8%	\$ 99,497	6.6%	\$ 74,414	4.8%
U.S. treasury and agency obligations	156,689	9.7	78,855	5.2	104,680	6.8
Obligations of states and political subdivisions	63,838	4.0	95,613	6.3	95,114	6.2
Mortgage-backed securities (1)	328,374	20.4	117,854	7.8	149,350	9.7
Asset-backed securities	168,537	10.5	183,754	12.2	203,701	13.3
Commercial mortgage-backed securities	188,104	11.7	202,722	13.4	139,795	9.1
Corporate bonds	248,259	15.4	440,855	29.2	425,410	27.8
Foreign corporate bonds	99,358	6.2	115,502	7.6	123,387	8.0
Total fixed maturities	1,253,159	77.9	1,235,155	81.7	1,241,437	80.9
Equity securities	263,104	16.4	124,747	8.3	140,229	9.2
Other invested assets	47,279	2.9	50,753	3.4	77,820	5.1
Total investments and cash and cash equivalents (2)	\$1,607,813	100.0%	\$1,510,152	100.0%	\$1,533,900	100.0%

(1) Includes collateralized mortgage obligations of \$146,868, \$96,897, and \$68,183 for 2019, 2018, and 2017, respectively.

(2) Does not include net receivable (payable) for securities sold (purchased) of (\$850), \$15, and \$1,543 for 2019, 2018, and 2017, respectively.

The Company does not acquire fixed maturities with the intention to sell these securities in a short period of time. The Company can hold fixed maturities to recovery and/or maturity; however, the Company regularly re-evaluates its positions and will sell a security if warranted by market conditions.

The overall weighted average duration of the Company's fixed maturities portfolio was 4.2 years as of December 31, 2019. The Company's fixed maturities, excluding the asset-backed, mortgage-backed, commercial mortgage-backed and collateralized mortgage obligations, had a weighted average maturity of 7.0 years and a weighted average duration, including cash and short-term investments, of 5.0 years as of December 31, 2019. The weighted average duration of the Company's asset-backed, mortgage-backed and commercial mortgage-backed securities is 3.2 years.

The Company's financial statements reflect a net unrealized gain on fixed maturities available for sale as of December 31, 2019 of \$21.6 million on a pre-tax basis.

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

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Average fixed maturities at book value	\$1,244,699	\$1,250,487	\$1,242,242
Gross income on fixed maturities (1)	\$ 36,673	\$ 37,085	\$ 33,020
Book yield	2.95%	2.97%	2.66%
Fixed maturities at book value	\$1,231,568	\$1,257,830	\$1,243,144
Unrealized gain (loss)	\$ 21,591	\$ (22,675)	\$ (1,707)

(1) Represents income earned by fixed maturities, gross of investment expenses and excluding realized gains and losses.

The Company has sought to structure its portfolio to reduce the risk of default on collateralized commercial real estate obligations and asset-backed securities. Of the \$328.4 million of mortgage-backed securities, \$181.5 million is invested in U.S. agency paper and \$146.9 million is invested in collateralized mortgage obligations, of which \$115.0 million, or 78.3%, are rated AA+ or better. In addition, the Company holds \$168.5 million in asset-backed securities, of which 70.9% are rated AA or better and \$188.1 million in commercial mortgaged-backed securities, of which 86.0% are rated AA+ or better. The weighted average credit enhancement for the Company's asset-backed securities is 28.7. The Company also faces liquidity risk. Liquidity risk is when the fair value of an investment is not able to be realized due to lack of interest by outside parties in the marketplace. The Company attempts to diversify its investment holdings to

minimize this risk. The Company's investment managers run periodic analysis of liquidity costs to the fixed income portfolio. The Company also faces credit risk. 94.9% of the Company's fixed income securities are investment grade securities. 12.7% of the Company's fixed maturities are rated AAA. See "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of Part II of this report for a more detailed discussion of the credit market and the Company's investment strategy.

The following table summarizes, by Standard & Poor's rating classifications, the estimated fair value of Global Indemnity's investments in fixed maturities, as of December 31, 2019 and 2018:

(Dollars in thousands)	December 31, 2019		December 31, 2018	
	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total
AAA	\$ 159,118	12.7%	\$ 225,753	18.3%
AA	633,090	50.5	378,163	30.6
A	177,611	14.2	231,939	18.8
BBB	219,111	17.5	343,611	27.8
BB	8,820	0.7	39,257	3.2
B	1,921	0.1	8,530	0.7
CCC	2,595	0.2	291	—
CC	858	0.1	104	—
C	—	—	17	—
Not rated	50,035	4.0	7,490	0.6
Total fixed maturities	<u>\$1,253,159</u>	<u>100.0%</u>	<u>\$1,235,155</u>	<u>100.0%</u>

The following table sets forth the expected maturity distribution of Global Indemnity's fixed maturities portfolio at their estimated market value as of December 31, 2019 and 2018:

(Dollars in thousands)	December 31, 2019		December 31, 2018	
	Estimated Market Value	Percent of Total	Estimated Market Value	Percent of Total
Due in one year or less	\$ 18,931	1.5%	\$ 89,071	7.2%
Due in one year through five years	272,472	21.7	412,006	33.4
Due in five years through ten years	186,057	14.9	221,311	17.9
Due in ten years through fifteen years	26,338	2.1	4,855	0.4
Due after fifteen years	64,346	5.1	3,582	0.3
Securities with fixed maturities	568,144	45.3	730,825	59.2
Mortgaged-backed securities	328,374	26.2	117,854	9.5
Commercial mortgage-backed securities	188,104	15.0	202,722	16.4
Asset-backed securities	168,537	13.5	183,754	14.9
Total fixed maturities	<u>\$1,253,159</u>	<u>100.0%</u>	<u>\$1,235,155</u>	<u>100.0%</u>

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

As of December 31, 2019, the Company had aggregate equity securities of \$263.1 million that consisted of common stocks, preferred stocks, and mutual funds.

The Company's investments in other invested assets is comprised of four limited liability partnership investments. At December 31, 2019, a partnership that invests in distressed securities and assets was valued at \$24.0 million, a partnership that invests in real estate was valued at zero, a partnership that invests in stressed and distressed debt instruments was valued at \$13.5 million, and a partnership that invests in REIT qualifying assets was valued at \$9.8 million. There is no readily available independent market price for these limited liability partnership investments. The Company does not have access to daily valuations; therefore, the estimated fair value of these limited partnerships is based on the net asset value as a practical expedient for each limited partnership. The Company receives annual audited financial statements from each of the partnership investments it owns.

Net realized investment gains, including other than temporary impairments, were \$35.3 million, \$16.9 million and \$1.6 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Competition

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

- American International Group
- American Modern Insurance Group
- Argo Group International Holdings, Ltd.
- Berkshire Hathaway
- Everest Re Group, Ltd.
- Foremost Insurance Group
- Great American Insurance Group
- Hallmark Financial Services, Inc.
- HCC Insurance Holdings, Inc.
- IFG Companies
- James River Group Holdings
- Kinsale Capital Group, Inc.
- Markel Corporation
- Nationwide Insurance
- RLI Corporation
- Selective Insurance Group, Inc.
- The Hartford
- The Travelers Companies, Inc.
- W.R. Berkley Corporation

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

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

Employees

At December 31, 2019, the Company had approximately 412 employees. None of the Company's employees are covered by collective bargaining agreements as of December 31, 2019.

Ratings

A.M. Best has seven rating categories in the A.M. Best Financial Strength Rating Scale. The categories ranging from best to worst are Superior, Excellent, Good, Fair, Marginal, Weak, and Poor. Within each rating category, there are rating notches of plus or minus to show additional gradation of the ratings. A.M. Best currently assigns the Company's Insurance Operations, which consist of its United States based insurance companies and Global Indemnity Reinsurance, a financial strength rating of "A" (Excellent).

Publications of A.M. Best indicate that "A" (Excellent) ratings are assigned to those companies that, in A.M. Best's opinion, have an excellent ability to meet their ongoing obligations to policyholders. To determine a credit rating, A.M. Best performs quantitative and qualitative analysis which includes evaluating balance sheet strength, operating performance, enterprise risk management, and the business profile. These ratings are based on factors relevant to policyholders, general agencies, insurance brokers and intermediaries and are not directed to the protection of investors.

Regulation

General

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

U.S. Regulation

At December 31, 2019, the Company had six operating insurance subsidiaries domiciled in the United States; United National Insurance Company, Penn-America Insurance Company, and Penn-Star Insurance Company, which are domiciled in Pennsylvania; Diamond State Insurance Company which is domiciled in Indiana; Penn-Patriot Insurance Company, which is domiciled in Virginia; and American Reliable Insurance Company, which is domiciled in Arizona.

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

State Insurance Regulation

State insurance authorities have broad regulatory powers with respect to various aspects of the business of U.S. insurance companies, including, but not limited to, licensing companies to transact admitted business or determining eligibility to write surplus lines business, accreditation of reinsurers, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, management of enterprise risk, regulating investments and dividends, approving policy forms and related materials in certain instances and approving premium rates in certain instances. State insurance laws and regulations may require the Company's U.S. insurance companies to file financial statements with insurance departments everywhere they will be licensed or eligible or accredited to conduct insurance business, and their operations are subject to review by those departments at any time. The Company's U.S. insurance companies prepare statutory financial statements in accordance with statutory accounting principles ("SAP") and procedures prescribed or permitted by these departments. State insurance departments also conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years, although market conduct examinations may take place at any time. These examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. In addition, admitted insurers are

subject to targeted market conduct examinations involving specific insurers by state insurance regulators in any state in which the insurer is admitted. The insurance departments for the states of Indiana, Virginia, Arizona, and Pennsylvania completed their most recent financial examinations of the Company's U.S. insurance subsidiaries for the period ended December 31, 2017. Their final reports were issued in 2019 and there were no materially adverse findings.

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the insurer is domiciled. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider factors such as the financial strength of the applicant, the integrity and management of the applicant's Board of Directors and executive officers, the acquirer's plans for the management, Board of Directors, executive officers, and employees of the company being acquired, the acquirer's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of the domestic insurer. Because a person acquiring 10% or more of the Company's ordinary shares would indirectly control the same percentage of the stock of the U.S. insurance companies, the insurance change of control laws of Pennsylvania, Indiana, Virginia and Arizona would likely apply to such a transaction. While the Company's articles of association limit the voting power of any U.S. shareholder to less than 9.5%, there can be no assurance that the applicable state insurance regulator would agree that any shareholder did not control the applicable insurance company.

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

Insurance Regulatory Information System Ratios

The NAIC Insurance Regulatory Information System ("IRIS") was developed by a committee of the state insurance regulators and is intended primarily to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies "usual values" for each ratio. Departure from the usual values of the ratios can lead to inquiries from individual state insurance commissioners that require the insurer to describe certain aspects of a business that are causing such departures. It is not uncommon for companies to have ratios that fall outside of these usual values. The Company's U.S. insurance subsidiaries do have departures from usual values for certain IRIS ratios predominantly driven by termination of their affiliated quota share reinsurance treaty with Global Indemnity Reinsurance as of January 1, 2018 and catastrophe losses in 2018. The Company has been able to satisfy any inquiries received from regulators regarding these departures. Although the Company's U.S. insurance subsidiaries have departures from usual values of certain IRIS ratios, the Company believes that their U.S. insurance subsidiaries have adequate capital and liquidity to meet their operational needs.

The Company's U.S. insurance subsidiaries departures from usual values of certain IRIS ratios are as follows:

- Two-year operating ratio for Penn-America Insurance Company was outside of IRIS range due to termination of their affiliated quota share reinsurance treaty with Global Indemnity Reinsurance as of January 1, 2018 and catastrophe losses in 2018.
- Investment yields were lower than the IRIS range for Penn-America Insurance Company. A high percentage of their invested assets consisted of wholly-owned subsidiaries, Penn-Star Insurance Company and Penn-Patriot Insurance Company, which did not distribute dividends in 2019.
- Adjusted liabilities to liquid assets ratio for United National Insurance Company and Penn-America Insurance Company were outside of the IRIS range mainly due to intercompany payables to parents and affiliates that were settled in the 1st quarter of 2020.
- Estimated current reserve deficiencies were outside of the range for United National Insurance Company, Diamond State Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company and American Reliable Insurance Company due to termination of their affiliated quota share reinsurance treaty with Global Indemnity Reinsurance as of January 1, 2018.

Risk-Based Capital Regulations

The state insurance departments of Pennsylvania, Indiana, Virginia and Arizona require that each domestic insurer report its risk-based capital based on a formula calculated by applying factors to various asset, premium and reserve

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

Based on the standards currently adopted, the U.S. insurance companies reported in their 2019 statutory filings that their capital and surplus are above the prescribed risk-based capital requirements. The cancellation of the quota share arrangement between Global Indemnity Reinsurance and the U.S. Insurance Companies increased the capital requirements of its U.S. Insurance Companies. The Company will continue to manage capital levels in its U.S. Insurance Companies to ensure its capital and surplus will remain above the prescribed risk-based capital requirements. See Note 18 of the notes to the consolidated financial statements in Item 8 of Part II of this report for additional information on the NAIC's risk-based capital model for determining the levels of statutory capital and surplus an insurer must maintain.

Statutory Accounting Principles (“SAP”)

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

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

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

State Dividend Limitations

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

See the “Liquidity and Capital Resources” section in Item 7 of Part II of this report for a more complete description of the state dividend limitations. See Note 18 of the notes to consolidated financial statements in Item 8 of Part II of this report for the maximum amount of distributions that U.S. insurance companies could pay as dividends in 2020.

Guaranty Associations and Similar Arrangements

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

Federal Insurance Regulation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) includes a number of provisions having a direct impact on the insurance industry, most notably, the creation of a Federal Insurance Office to monitor the insurance industry, streamlining of surplus lines insurance, credit for reinsurance, and systemic risk

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

Operations of Global Indemnity Reinsurance

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

As a reinsurer that is not licensed, accredited, or approved in any state in the United States, Global Indemnity Reinsurance is required to post collateral security with respect to the reinsurance liabilities it assumes from its third party U.S. ceding companies as well as for the reinsurance liabilities that it assumed from the Company’s Insurance Operations prior to the January 1, 2018 termination of the quota share agreement. The posting of collateral security is generally required in order for U.S. ceding companies to obtain credit on their U.S. statutory financial statements with respect to reinsurance liabilities ceded to unlicensed or unaccredited reinsurers. Under applicable United States “credit for reinsurance” statutory provisions, the security arrangements generally may be in the form of letters of credit, reinsurance trusts maintained by third-party trustees or funds-withheld arrangements whereby the ceded premium is held by the ceding company. If “credit for reinsurance” laws or regulations are made more stringent in Pennsylvania, Indiana, Virginia and Arizona or other applicable states or any of the U.S. insurance companies re-domesticate to one of the few states that do not allow credit for reinsurance ceded to non-licensed reinsurers, the Company may be unable to realize some of the benefits expected from its business plan. Accordingly, Global Indemnity Reinsurance could be adversely affected.

Global Indemnity Reinsurance generally is not subject to regulation by U.S. jurisdictions. Specifically, rate and form regulations otherwise applicable to authorized insurers generally do not apply to Global Indemnity Reinsurance’s transactions.

Bermuda Insurance Regulation

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

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

The BMA utilizes a risk-based approach when it comes to licensing and supervising insurance companies. As part of the BMA’s risk-based system, an assessment of the inherent risks within each particular class of insurer is used to

determine the limitations and specific requirements which may be imposed. Thereafter the BMA keeps its analysis of relative risk within individual institutions under review on an ongoing basis, including through the scrutiny of regular audited statutory financial statements, and, as appropriate, meeting with senior management during onsite visits.

On March 25, 2016, Bermuda's prudential framework for (re)insurance and group supervision was confirmed as being fully equivalent to the regulatory standards applied to European reinsurance companies and insurance groups in accordance with the requirements of the Solvency II Directive. Bermuda was granted this full "Solvency II equivalence" for an unlimited period by the European Commission based on an assessment conducted by the European Insurance and Occupational Pensions Authority, and the equivalence decision was applied retroactively to January 1, 2016.

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

Cancellation of Insurer's Registration

An insurer's registration may be canceled by the BMA on certain grounds specified in the Bermuda Insurance Act, including failure of the insurer to comply with its obligations under the Bermuda Insurance Act or if, in the opinion of the BMA, the insurer has not been carrying on business in accordance with sound insurance principles.

Principal Representative and Principal Office

Every registered insurer or reinsurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda, subject to certain prescribed requirements under the Bermuda Insurance Act. Further, any registered insurer that is a Class 3A insurer or above is required to maintain a head office in Bermuda and direct and manage its insurance business from Bermuda. The recent amendments to the Bermuda Insurance Act provide that in considering whether an insurer satisfies the requirements of having its head office in Bermuda, the BMA may consider (a) where the underwriting, risk management, and operational decision making occurs; (b) whether the presence of senior executives who are responsible for, and involved in, the decision making are located in Bermuda; and (c) where meetings of the board of directors occur. The BMA will also consider (a) the location where management meets to effect policy decisions; (b) the residence of the officers, insurance managers or employees; and (c) the residence of one or more directors in Bermuda.

Global Indemnity Reinsurance maintains its principal office in Hamilton, Bermuda and its external management firm has been appointed as its principal representative.

It is the duty of the principal representative upon reaching the view that there is a likelihood of the insurer for which the principal representative acts becoming insolvent or that a reportable "event" has, to the principal representative's knowledge, occurred or is believed to have occurred, to immediately notify the BMA and to make a report in writing to the BMA within 14 days of the prior notification setting out all the particulars of the case that are available to the principal representative.

Where there has been a significant loss which is reasonably likely to cause the insurer to fail to comply with its enhanced capital requirement (in respect of its general business, as described below under the Enhanced Capital Requirement ("ECR") and Minimum Solvency Margin ("MSM") section), the principal representative must also furnish the BMA with a capital and solvency return reflecting an enhanced capital requirement prepared using post-loss data. The principal representative must provide this within 45 days of notifying the BMA regarding the loss.

Furthermore, where a notification has been made to the BMA regarding a material change to an insurer's business or structure (including a merger or amalgamation), the principal representative has 30 days from the date of such notification to furnish the BMA with unaudited interim statutory financial statements in relation to such period if so requested by the BMA, together with a general business solvency certificate in respect to those statements.

Independent Approved Auditor

Every registered insurer, such as Global Indemnity Reinsurance, must appoint independent auditors who will audit and report annually on the statutory financial statements, the statutory financial return of the insurer and U.S. GAAP statements, which are required to be filed annually with the BMA.

Loss Reserve Specialist

As a registered Class 3B insurer, Global Indemnity Reinsurance is required to submit an opinion of its approved loss reserve specialist in respect of its technical provisions contained within its Economic Balance Sheet (see below).

Annual Financial Statements and Annual Statutory Financial Return

As prescribed by the Insurance Act, Global Indemnity Reinsurance, a Class 3B insurer, must prepare annual statutory financial statements. The statutory financial return shall consist of an insurer information sheet, a report of the approved independent auditor on the GAAP financial statements, a statutory balance sheet, a statutory statement of income, a statutory statement of capital and surplus, notes to the statutory financial statements and a statutory declaration of compliance.

In addition to preparing statutory financial statements, Global Indemnity Reinsurance must file financial statements prepared in accordance with GAAP in respect of each financial year. Such statements must be filed with the BMA within a period of four months from the end of the financial year or such longer period, not exceeding seven months, as the BMA may determine. The audited financial statements will be published by the BMA.

Commercial insurers are also required to prepare a Financial Condition Report providing details of, among other things, measures governing the business operations, corporate governance framework, solvency and financial performance of the insurer.

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

The BMA has promulgated the Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment Rules 2008, as amended (the “Rules”) which, among other things, mandate that a Class 3B insurer’s ECR be calculated by either (a) the model set out in Schedule I to the Rules, or (b) an internal capital model which the BMA has approved for use for this purpose. Global Indemnity Reinsurance used the BMA’s model to calculate its capital and solvency requirements.

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

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

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

The risk-based solvency capital framework referred to above represents a modification of the minimum solvency margin test set out in the Insurance Returns and Solvency Amendment Regulations 1980 (as amended). While it must calculate its ECR annually by reference to either the BSCR or an approved internal model, Global Indemnity Reinsurance must also ensure at all times that its ECR is at least equal to the MSM for a Class 3B insurer in respect of its general business, which is the greater of:

- (i) \$1.0 million;
- (ii) 50% of net written premiums;
- (iii) 15% of net losses and loss adjustment expense reserves and other general business insurance reserves.
- (iv) 25% of the insurer’s enhanced capital requirement.

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

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

Economic Balance Sheet Framework

The Economic Balance Sheet (“EBS”) framework is an accounting balance sheet approach using market consistent values for all current assets and current obligations relating to in-force business which applies to Class 3B and 4 insurers. The EBS framework is embedded as part of the Capital and Solvency Return and forms the basis for the insurer’s ECR.

Minimum Liquidity Ratio

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

Restrictions on Dividends and Distributions

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

Global Indemnity Reinsurance is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital or 25% or more of its total statutory capital and surplus as set out in its previous year’s financial statements, and any application for such approval must include such information as the BMA may require. In addition, if at any time it fails to meet its minimum margin of solvency, Global Indemnity Reinsurance is required within 30 days after becoming aware of such failure or having reason to believe that such failure has occurred, to file with the BMA a written report containing certain information.

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

Supervision, Investigation and Intervention

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

The BMA may also make additional rules prescribing prudential standards in relation to the ECR, CSR, insurance reserves and eligible capital which Global Indemnity Reinsurance must comply with.

Bermuda Code of Conduct

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

Group Supervision

Emerging international norms in the regulation of global insurance groups are trending increasingly towards the imposition of group-wide supervisory regimes by one principal “home” regulator over all the legal entities in the group, no matter where incorporated. Amendments to the Insurance Act in 2010 introduced such a regime into Bermuda insurance regulation. The Insurance Act contains provisions regarding group supervision, the authority to exclude specified entities from group supervision, the power for the BMA to withdraw as a group supervisor, the functions of the BMA as group supervisor and the power of the BMA to make rules regarding group supervision.

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

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

Notifications to the BMA

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

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

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

- acquisition or transfer of insurance business being part of a scheme falling within section 25 of the Insurance Act or section 99 of the Companies Act;
- amalgamation with or acquisition of another firm; and
- a material change in the insurer’s business plan not otherwise reported to the BMA.

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

- the interest of the policyholders and potential policyholders of the insurer or the group would not in any manner be threatened by the material change; and
- without prejudice to the first point, that, having regard to the material change, the requirements of the Insurance Act would continue to be complied with, or, if any of those requirements are not complied with, that the insurer concerned is likely to undertake adequate remedial action.

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

Disclosure of Information

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

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

Certain Other Bermuda Law Considerations

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

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

Available Information

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

The public may also read and copy any materials the Company files with the U.S. Securities and Exchange Commission ("SEC") at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. The SEC maintains, free of charge, an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. RISK FACTORS

The risks and uncertainties described below are those the Company believes to be material. If any of the following actually occur, the Company's business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected.

Risks Related to the Company's Business

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

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

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

- claim and expense payments;
- frequency and severity of claims;
- legislative and judicial developments; and
- changes in economic conditions, including the effect of inflation.

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

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

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

Results of operations of property and casualty insurers are subject to man-made and natural catastrophes. The Company has experienced, and expects to experience in the future, catastrophe losses. It is possible that a catastrophic event or a series of multiple catastrophic events could have a material adverse effect on the Company's operating results and financial condition. The Company's operating results could be negatively impacted if it experiences losses from catastrophes that are in excess of the catastrophe reinsurance coverage of its Insurance Operations. The Company's Reinsurance Operations also have exposure to losses from catastrophes as a result of the reinsurance treaties that it writes. Operating results could be negatively impacted if losses and expenses related to property catastrophe events exceed premiums assumed. Catastrophes, the severity of which may be impacted by continued climate change, include windstorms, hurricanes, typhoons, floods, earthquakes, tornadoes, tsunamis, hail, severe winter

weather, fires and may include terrorist events such as the attacks of September 11, 2001. The Company cannot predict how severe a particular catastrophe may be until after it occurs. The extent of losses from catastrophes is a function of the total amount and type of losses incurred, the number of insureds affected, the frequency of the events and the severity of the particular catastrophe. Most catastrophes occur in small geographic areas. However, some catastrophes may produce significant damage in large, heavily populated areas.

The benefits of acquiring American Reliable may not be realized which could have a material adverse effect on the Company's business operations and financial results.

There may be difficulties in the continued integration of American Reliable business, which could result in a failure to realize the potential benefits of the acquisition. Achieving the anticipated benefits of the acquisition will depend in part upon whether the common aspects of the business can continue to be integrated in an efficient and effective manner with Global Indemnity's existing businesses. Furthermore, the risk that the Company's or American Reliable's prospective insurance premiums, investment yield, or net earnings are less than anticipated (including as a result of unexpected events including but not limited to catastrophe events, competition, costs, charges or outlays whether as a consequence of the transaction or otherwise) could negatively impact the Company's profitability and results of operations.

A failure in the Company's operational systems or infrastructure or those of third parties, including security breaches or cyber-attacks, could disrupt the Company's business, its reputation, and / or cause losses which would have a material effect on the Company's business operations and financial results.

The Company's business is dependent upon the secure processing, storage, and transmission of information over computer networks using applications, systems and other technologies. The business depends on effective information security and systems to perform accounting, policy administration, claims, underwriting, actuarial and all aspects of day to day operations necessary to service the Company's customers and agents, to value the Company's investments and to timely and accurately report the Company's financial results.

The information systems the Company relies upon must ensure confidentiality, integrity and availability of the data, including systems maintained by the Company as well as data in and assets held through third-party service providers and systems. The Company employs various measures, systems, applications and software to address the data security. The Company reviews its existing security measures and systems on a continuing basis through internal and independent evaluations. The Company has implemented administrative and technical controls and takes protective actions in an attempt to reduce the risk of cyber incidents.

The Company's internal and external controls, processes, and the vendors used to protect networks, systems and applications, individually or together, may be insufficient to prevent a security incident. Employee or third party vendor errors, malicious acts, unauthorized access, computer viruses, malware, the introduction of malicious code, system failures and disruptions and or cyber-attacks can result in business interruption, compromise of data and loss of assets and that could have security consequences. Complexity of the Company's technology increases regularly and has increased the risk of a security incident involving data, network, systems and applications.

The Company has, from time to time, experienced security incidents, none of which had a material adverse impact on the Company's business, results of operations, or financial condition. Security incidents have the potential to interrupt business, cause delays in processes and procedures directly affecting the Company, and jeopardize the Company's, insureds, claimants, agents and others confidential data resulting in data loss and loss of assets and reputational damages. If this occurs it could have a material adverse effect on the Company's business operations and financial results.

Security incidents could require significant resources, both internal and external, to resolve or remediate and could result in financial losses that may not be covered by insurance or not fully recoverable under any insurance. The Company may be subject to litigation and damages or regulatory action under data protection and privacy laws and regulations enacted by federal, state and foreign governments, or other regulatory bodies. As a result, the Company's ability to conduct its business and its results of operations might be materially and adversely affected.

The Company's failure to adequately protect personal information could have a material adverse effect on its business.

A wide variety of local, state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data, including laws mandating the privacy and security of personal health and financial data. These data protection and privacy-related laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. The Company's failure

to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against it, including fines, imprisonment of company officials and public censure, claims for damages by customers and other affected individuals, damage to the Company's reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could have a material adverse effect on its operations, financial performance and business.

Evolving and changing definitions of personal data and personal information within the European Union, the United States, and elsewhere may limit or inhibit the Company's ability to operate or expand its business, including limiting technology alliance partners that may involve the sharing of data. Additionally, there is a risk that failures in systems designed to protect private, personal or proprietary data held by the Company will allow such data to be disclosed to or acquired or seen by others, resulting in potential regulatory investigations, enforcement actions, or penalties, remediation obligations and/or private litigation by parties whose data were improperly disclosed. There is also a risk that the Company could be found to have failed to comply with U.S. or foreign laws or regulations regarding the collection, consent, handling, transfer, or disposal of such privacy, personal or proprietary data, which could subject it to fines or other sanctions, as well as adverse reputational impact. Even the perception of privacy concerns, whether or not valid, may harm the Company's reputation, inhibit adoption of its products by current and future customers, or adversely impact its ability to attract and retain workforce talent.

Our business practices with respect to data could give rise to liabilities or reputational harm as a result of governmental regulation, legal requirements or industry standards relating to consumer privacy and data protection.

In June 2018, California enacted the California Consumer Privacy Act of 2018 (the "CCPA"), which went into effect on January 2020. The CCPA, among other things, requires covered companies to provide new disclosures to California consumers and afford such consumers with the rights to opt-out of certain sales of personal information. The CCPA creates a private right of action for statutory damages for certain breaches of information. In addition, the Office of the California Attorney General will be promulgating regulations to establish procedures to facilitate these new rights. The proposed regulations were published in October 2019, and the deadline for the California Attorney General to release final regulations is July 1, 2020. As such, it remains unclear what, if any, modifications will be made to the regulations or how the CCPA will be interpreted and enforced. In addition, other states have enacted or proposed legislation that regulates the collection, use, and sale of personal information, and such regimes might not be compatible with the CCPA. The Company cannot yet predict the impact of the CCPA or impending legislation on its business or operations, but it may require the Company to modify its data processing practices and policies and to incur substantial costs and expenses in an effort to comply. If the Company fails to protect the privacy of third-party data or implement practices and procedures deemed necessary by regulators or consumers or to comply with the CCPA or other applicable regimes, the Company may be subject to fines, penalties, litigation, and reputational harm and our business may be seriously harmed. In addition, various government and consumer agencies and public advocacy groups have called for new regulation and changes in industry practices. It is possible that new laws, regulations, standards, recommendations, best practices or requirements will be adopted that would affect the Company's business. To the extent that the Company is subject to new laws or recommendations or chooses to adopt new standards, recommendations, or other requirements, the Company may have greater compliance burdens. If the Company is perceived as not operating in accordance with industry best practices or any such guidelines or codes with regard to privacy, the Company's reputation may suffer, and the Company could lose relationships with customers or partners.

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

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

Ratings have become an increasingly important factor in establishing the competitive position for insurance companies. A.M. Best has seven rating categories in the A.M. Best Financial Strength Rating Scale. The categories ranging from best to worst are Superior, Excellent, Good, Fair, Marginal, Weak, and Poor. Within each rating category, there are rating notches of plus or minus to show additional gradation of the ratings.

A.M. Best currently assigns the companies in the Insurance Operations and Reinsurance Operations a financial strength rating of "A" (Excellent). The objective of A.M. Best's rating system is to provide potential policyholders an opinion of an insurer's financial strength and its ability to meet ongoing obligations, including paying claims. To determine a

credit rating, A.M. Best performs quantitative and qualitative analysis which includes evaluating balance sheet strength, operating performance, enterprise risk management, and the business profile. These ratings are based on factors relevant to policyholders, general agencies, insurance brokers, reinsurers, and intermediaries and are not directed to the protection of investors. These ratings are not an evaluation of, nor are they directed to, investors in the Company's A ordinary shares and are not a recommendation to buy, sell or hold the Company's A ordinary shares. Publications of A.M. Best indicate that companies are assigned "A" (Excellent) ratings if, in A.M. Best's opinion, they have an excellent ability to meet their ongoing obligations to policyholders. These ratings are subject to periodic review by, and may be revised downward or revoked at the sole discretion of A.M. Best.

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

The Company cedes a portion of gross written premiums to third party reinsurers under reinsurance contracts. Although reinsurance makes the reinsurer liable to the Company to the extent the risk is transferred, it does not relieve the Company of its liability to its policyholders. Upon payment of claims, the Company will bill its reinsurers for their share of such claims. The reinsurers may not pay the reinsurance receivables that they owe to the Company or they may not pay such receivables on a timely basis. If the reinsurers fail to pay it or fail to pay on a timely basis, the Company's financial results would be adversely affected. Lack of reinsurer liquidity, perceived improper underwriting or claim handling by the Company, and other factors could cause a reinsurer not to pay. See "Business—Reinsurance of Underwriting Risk" in Item 1 of Part I of this report.

See Note 7 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding the Company's reinsurance receivable balances as of December 31, 2019 and 2018.

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

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

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

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

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

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond the Company's control. Although the Company attempts to take measures to manage the risks of investing in a changing interest rate environment, the

Company may not be able to mitigate interest rate sensitivity effectively. A significant increase in interest rates could have a material adverse effect on the market value of the Company's fixed maturities securities.

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

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

See Note 3 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding the Company's investments as of December 31, 2019 and 2018.

Deterioration in the debt and equity markets could result in a margin call which could have a material adverse effect on the Company's financial condition and/or results of operations.

The collateral backing the Company's margin borrowing facility currently consist of equity securities but could also include fixed income securities in the future. Declines in financial markets could negatively impact the value of the Company's collateral. Adverse changes in market value could result in a margin call which would require the posting of additional collateral thereby reducing liquidity. Additionally, if such a margin call is not met, the Company could be required to liquidate securities and incur realized losses or it could potentially decrease the Company's borrowing capacity.

Borrowings under the Company's margin borrowing facility are based upon a variable rate of interest, which could result in higher expense in the event of increases in interest rates.

As of December 31, 2019, \$73.6 million of the Company's outstanding indebtedness bore interest at a rate that varies depending upon the Fed Funds Effective rate. If Fed Funds Effective rate rises, the interest rates on outstanding debt will increase resulting in increased interest payment obligations under the Company's margin borrowing facility. This could have a negative effect on the Company's cash flow and financial condition.

The Company's outstanding indebtedness could adversely affect its financial flexibility and a failure by the Company or its co-obligor, Global Indemnity Group, LLC (formerly known as "Global Indemnity Group, Inc.") to make periodic payments related to the Subordinated Notes could adversely affect the Company.

In 2015, the Company sold \$100 million aggregate principal amount of its 7.75% Subordinated Notes due in 2045. In 2017, the Company sold \$130 million aggregate principal amount of its 7.875% Subordinated Notes due in 2047. In 2018, the Company's indirect subsidiary, Global Indemnity Group, LLC became a co-obligor on both notes. The level of debt outstanding could adversely affect the Company's financial flexibility, including:

- increasing vulnerability to changing economic, regulatory and industry conditions;
- limiting the ability to borrow additional funds; and
- requiring the Company to dedicate a substantial portion of cash flow from operations to debt payments, thereby, reducing funds available for working capital, capital expenditures, acquisitions and other purposes.

Furthermore, failure to make periodic payments related to outstanding indebtedness could impact rating agencies and regulators assessment of the Company's capital position, adequacy and flexibility and therefore, the financial strength ratings of rating agencies, and regulators' assessment of the solvency of the Company and its subsidiaries.

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

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

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

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

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

The Company markets and distributes its insurance products through a group of approximately 570 professional general agencies (net of 60 professional general agencies which write business in more than one of the Company's segments) that have specific quoting and binding authority and that in turn sell the Company's insurance products to insureds through retail insurance brokers. The Company also markets and distributes its reinsurance products through third-party brokers, insurance companies and reinsurance companies. A loss of all or substantially all of the business produced by any one of these general agencies, brokers, insurance companies or reinsurance companies could have an adverse effect on the Company's results of operations.

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

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

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

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

- competition;
- capital capacity;
- rising levels of actual costs that are not foreseen by companies at the time they price their products;
- volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks;

- changes in loss reserves resulting from the general claims and legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop; and
- fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested assets and may affect the ultimate payout of losses.

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

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

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

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

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

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

Assumed premiums on reinsurance treaties generally flow from the ceding companies to the Company on a quarterly basis. In some instances, the reinsurance treaties allow for funds to be withheld for longer periods as specified in the treaties. Consequently, the Company assumes a degree of credit risk on the aggregate amount of these balances that have been collected by the reinsured but have yet to reach the Company.

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

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

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

Global Indemnity is a holding company and, as such, has no substantial operations of its own. The Company's assets primarily consist of cash and ownership of the shares of its direct and indirect subsidiaries. Dividends and other permitted distributions from insurance subsidiaries, which include payment for equity awards granted by Global

Indemnity to employees of such subsidiaries, are expected to be Global Indemnity's sole source of funds to meet ongoing cash requirements, including debt service payments and other expenses.

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

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

In addition, the Company's U.S. insurance subsidiaries, which are indirect subsidiaries of Global Indemnity Reinsurance, are subject to significant regulatory restrictions limiting their ability to declare and pay dividends, which must first pass through Global Indemnity Reinsurance before being paid to Global Indemnity. See "Regulation – U.S. Regulation" in Item 1 of Part I of this report. Also, see Note 18 of the notes to consolidated financial statements in Item 8 of Part II of this report for the maximum amount of dividends that could be paid by the Company's U.S. insurance subsidiaries in 2020.

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

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

- standards of solvency, including risk-based capital measurements;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the types of terms that the Company can include or exclude in the insurance policies it offers;
- restrictions on the way rates are developed and the premiums the Company may charge;
- standards for the manner in which general agencies may be appointed or terminated;
- credit for reinsurance;
- certain required methods of accounting;
- reserves for unearned premiums, losses and other purposes; and
- potential assessments for the provision of funds necessary for the settlement of covered claims under certain insurance policies provided by impaired, insolvent or failed insurance companies.

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

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

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

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

U.N. Co-Investment Fund III (Cayman), L.P. and Fox Paine Capital Fund II International L.P. (collectively, the "Fox Paine Funds"), which are investment funds managed by Fox Paine & Company, LLC, beneficially own approximately 80.3% of the Company's total voting power. Fox Mercury Investments, L.P. and certain of its affiliates (collectively, the "FM Entities") separately beneficially own approximately 2.1% of the Company's total voting power. The percentage of the Company's total voting power that the Fox Paine Funds may exercise is greater than the percentage of the Company's total shares that the Fox Paine Funds beneficially own because the Fox Paine Funds beneficially own all of the Company's B ordinary shares, which have ten votes per share as opposed to A ordinary shares, which have one vote per share. The A ordinary shares and the B ordinary shares generally vote together as a single class on matters presented to the Company's shareholders. Based on the ownership structure of the Fox Paine Funds and affiliates that own these shares, which entities are entitled to vote the shares, these affiliated entities are not subject to the voting restriction contained in the Company's articles of association. As a result, the Fox Paine Funds have and will continue to have control over the outcome of certain matters requiring shareholder approval, including the power to, among other things:

- elect all of the Company's directors;
- amend the Company's articles of association (as long as their voting power is greater than 66%);
- ratify the appointment of the Company's auditors;
- increase the Company's share capital; and
- resolve to pay dividends or distributions;

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

In addition, the Company has agreed to pay Fox Paine & Company, LLC an annual management fee of \$1.9 million, adjusted annually to reflect change in the consumer price index published by the US Department of Labor Bureau of Labor Statistics "CPI-U", in exchange for management services. The Company has also agreed to pay a termination fee of cash in an amount to be agreed upon, plus reimbursement of expenses, upon the termination of Fox Paine & Company, LLC's management services in connection with the consummation of a change of control transaction that does not involve Fox Paine & Company, LLC and its affiliates. The Company has also agreed to pay Fox Paine & Company, LLC a transaction advisory fee of cash in an amount to be agreed upon, plus reimbursement of expenses

upon the consummation of a change of control transaction that does not involve Fox Paine & Company, LLC and its affiliates in exchange for advisory services to be provided by Fox Paine & Company, LLC in connection therewith. The Fox Paine Funds, FM Entities and Fox Paine & Company, LLC (collectively, “Fox Paine Entities”) may in the future make significant investments in other insurance or reinsurance companies. Some of these companies may compete with the Company or its subsidiaries. The Fox Paine Entities are not obligated to advise the Company of any investment or business opportunities of which they are aware, and they are not prohibited or restricted from competing with the Company or its subsidiaries.

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

While the Fox Paine Funds have the right under the terms of the memorandum and articles of association to appoint a certain number of directors of the Board of Directors, dependent on the Fox Paine Entities’ percentage beneficial ownership of voting shares in the Company for so long as the Fox Paine Entities beneficially own shares representing an aggregate 25% or more of the voting power in the Company, it also controls the election of all directors to the Board of Directors due to its controlling share ownership. The Company’s Board of Directors currently consists of eight directors, all of whom were identified and proposed for consideration for the Board of Directors by the Fox Paine Funds.

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

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

Fox Paine & Company, LLC provides certain management services to the Company. To the extent that Fox Paine & Company, LLC is unable or unwilling to provide similar services in the future, and the Company is unable to perform those services itself or is unable to secure replacement services, the Company’s business could be adversely affected.

U.S., global economic, and financial industry downturns could harm the Company’s business, its liquidity and financial condition, and its stock price.

In past years, global market and economic conditions were severely disrupted. New disruptions may potentially affect (among other aspects of the Company’s business) the demand for and claims made under the Company’s products, the ability of customers, counterparties and others to establish or maintain their relationships with the Company, its ability to access and efficiently use internal and external capital resources, the availability of reinsurance protection, the risks the Company assumes under reinsurance programs, and the Company’s investment performance. Volatility in the U.S. and other securities markets may adversely affect the Company’s stock price.

If the Company is unable to maintain effective internal control over financial reporting, the Company’s business may be adversely affected, investors may lose confidence in the accuracy and completeness of the Company’s financial reports and the market price of the Company’s common stock could be adversely affected.

Global Indemnity is required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. The Sarbanes-Oxley Act requires that the Company evaluate and determine the effectiveness of its internal control over financial reporting, provide a management report on internal control over financial reporting and requires that the Company’s internal control over financial reporting be attested to by its independent registered public accounting firm.

Global Indemnity may discover material weaknesses in the future which may lead to its financial statements being materially misstated. As a result, the market price of the Company’s common stock could be adversely affected, and the Company could become subject to investigations by the stock exchange on which its securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources. The cost of remediating a potential material weakness could materially adversely affect the Company’s business and financial condition.

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

The Company’s functional currency is the U.S. dollar. The Reinsurance Operations conducts business with some customers in foreign currencies and several of the Company’s U.S. and non-U.S. subsidiaries maintain cash accounts in

foreign currencies. At period-end, the Company re-measures non-U.S. currency financial assets to their current U.S. dollar equivalent. The resulting gain or loss on foreign denominated cash accounts is reflected in income during the period. Financial liabilities, if any, are generally adjusted within the reserving process. However, for known losses on claims to be paid in foreign currencies, the Company re-measures the liabilities to their current U.S. dollar equivalent each period end with the resulting gain or loss reflected in income during the period. Foreign exchange risk is reviewed as part of the Company's risk management process. The Company may experience losses resulting from fluctuations in the values of non-U.S. currencies relative to the strength of the U.S. dollar, which could adversely impact the Company's results of operations and financial condition.

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

The Company is organized under the laws of the Cayman Islands and some of its assets are located outside the United States. A judgment for the payment of money rendered by a court in the United States based on civil liability would not be automatically enforceable in the Cayman Islands. There is no treaty between the Cayman Islands, or the United Kingdom (of which the Cayman Islands is an Overseas Territory) and the United States providing for the reciprocal enforcement of foreign judgments. Similarly, judgments might not be enforceable in countries other than the United States where the Company has assets.

The laws in the Cayman Islands differ from the laws in effect in the United States and might afford less protection to shareholders.

The Company's shareholders could have more difficulty protecting their interests than would shareholders of a corporation incorporated in a jurisdiction of the United States. It may be difficult for a shareholder to effect service of process within the U.S. or to enforce judgments obtained against the Company in U.S. courts. The Company has irrevocably agreed that it may be served with process with respect to actions based on offers and sales of securities made in the U.S. by having Global Indemnity Group, LLC be the Company's U.S. agent appointed for that purpose. A Cayman court may impose civil liability on the Company or its directors or officers in a suit brought in the Cayman courts against the Company or such persons with respect to a violation of U.S. federal securities laws, provided that the facts surrounding such violation would constitute or give rise to a cause of action under Cayman law.

Risks Related to Taxation

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

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

Recent changes in U.S. tax law may increase taxes of the Company's U.S. Subsidiaries.

On December 22, 2017, the United States enacted a budget reconciliation act amending the Internal Revenue Code of 1986, the TCJA. The TCJA contains provisions that can materially affect the tax treatment of the Company's U.S. subsidiaries. Among other things, the TCJA reduces the U.S. corporate income tax rate to 21 percent, imposes a 10 percent base erosion minimum tax ("BEAT") on income of a U.S. corporation determined without regard to certain otherwise deductible payments made to certain foreign affiliates (including interest payments as well as gross premium or other consideration paid or accrued to a related foreign reinsurance company for reinsurance), and limits the deductibility of interest expense and executive compensation.

It is possible that the TCJA may reduce the benefits of lower effective tax rates enjoyed as a non-U.S. company, add expense and have an adverse effect on the Company's results of operations.

Interest paid by the Company's U.S. subsidiaries to their foreign affiliates is subject to multiple tax-related risks including risks that the interest may become subject to a minimum U.S. federal income tax under BEAT, subject to a 30% U.S. withholding tax, subject to foreign income tax, and be non-deductible in whole or in part for U.S. federal income tax purposes.

The TCJA has created new rules that limit the deductibility of interest for U.S. federal income tax purposes, which may cause some or all of the deduction for interest paid by the Company's U.S. subsidiaries to be denied for U.S. federal income tax purposes. To the extent interest paid to a foreign affiliate is deductible by the Company's U.S. Subsidiaries, such U.S. subsidiaries may become subject to a minimum U.S. federal income tax charge under BEAT. Should interest paid by the Company's U.S. subsidiaries to their foreign affiliates become ineligible under an applicable income tax treaty between the United States and the recipient's jurisdiction of tax residence, such interest could become subject to a 30% U.S. withholding tax. Finally, interest paid by the Company's U.S. subsidiaries to their foreign affiliates may become subject to income tax in the recipient's jurisdiction of tax residence, without regard to whether there is any corresponding tax deduction in the United States, potentially subjecting such interest payments to double taxation.

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

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

U.S. persons who hold shares in the Company may be subject to U.S. income taxation at ordinary income rates on certain income of the Company and the Company's non-U.S. subsidiaries.

If a foreign corporation is a controlled foreign corporation ("CFC"), each "United States shareholder" of such corporation who owns shares in the corporation directly, or indirectly through non-U.S. entities, on the last day in such year on which such corporation is a CFC must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed. A "United States shareholder" for this purpose is a U.S. person that owns, or is treated as owning, at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation or 10 percent or more of the total value of shares of all classes of stock of such foreign corporation. In addition, each United States shareholder of any controlled foreign corporation is required to include in gross income such shareholder's global intangible low-taxed income for such taxable year, which is generally equal to the excess of its pro rata share of each CFC's non-subpart F income for the taxable year over a deemed return on the tangible assets of such CFC. Moreover, any gain realized on a sale of common shares by a United States shareholder may also be taxed as a dividend to the extent of the Company's and its non-U.S. subsidiaries' earnings and profits attributed to such shares during the period that the shareholder held the shares and while the Company was a CFC (with certain adjustments).

Generally, a foreign corporation is considered a CFC if United States shareholders own (directly, indirectly through foreign entities or constructively pursuant to the application of certain constructive ownership rules) more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or the total value of all stock of such corporation. For purposes of taking into account insurance income, however, a CFC also generally includes a foreign corporation of which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned (directly, indirectly through foreign entities or constructively pursuant to the application of certain constructive ownership rules) by United States shareholders, on any day during the taxable year of such corporation.

"Subpart F income" generally includes passive investment income and certain insurance income earned by CFCs. The Company anticipates that, while the income earned from its U.S. insurance and investment operations through Global Indemnity's U.S. subsidiaries would not be subpart F income, substantially all of the income earned by Global Indemnity's non-U.S. subsidiaries and by Global Indemnity itself (if any) from their non-U.S. insurance and investment activities would be subpart F income to the extent it or its non-U.S. subsidiaries were to be treated as CFCs for any taxable year.

Related Person Insurance Income: If the related person insurance income ("RPII") of any of the Company's non-U.S. insurance subsidiaries were to equal or exceed 20% of that subsidiary's gross insurance income in any taxable year, and U.S. persons were treated as owning 25% or more of the subsidiary's stock, by vote or value, a U.S. person who

directly or indirectly owns any common shares on the last day of such taxable year on which the 25% threshold is met would be required to include in income for U.S. federal income tax purposes that person's ratable share of that subsidiary's RPII for the taxable year. The amount to be included in income is determined as if the RPII were distributed proportionately to U.S. shareholders on that date, regardless of whether that income is distributed. The amount of RPII to be included in income is limited by such shareholder's share of the subsidiary's current-year earnings and profits, and possibly reduced by the shareholder's share of prior year deficits in earnings and profits. The amount of RPII earned by a subsidiary will depend on several factors, including the identity of persons directly or indirectly insured or reinsured by that subsidiary. Although the Company does not believe that the 20% threshold will be met for its non-U.S. insurance subsidiaries, some of the factors that might affect that determination in any period may be beyond the Company's control. Consequently, the Company cannot assure that it will not exceed the RPII threshold in any taxable year.

If a U.S. person disposes of shares in a non-U.S. insurance corporation that had RPII (even if the 20% threshold was not met) and the 25% threshold is met at any time during the five-year period ending on the date of disposition, and the U.S. person owned any shares at such time, any gain from the disposition will generally be treated as a dividend to the extent of the holder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the holder owned the shares (possibly whether or not those earnings and profits are attributable to RPII). In addition, the shareholder will be required to comply with specified reporting requirements, regardless of the amount of shares owned. The Company believes that those rules should not apply to a disposition of common shares because the Company is not itself directly engaged in the insurance business. The Company cannot assure, however, that the IRS will not successfully assert that those rules apply to a disposition of its shares.

U.S. persons who hold shares in the Company could be subject to adverse tax consequences if the Company is considered a passive foreign investment company for U.S. federal income tax purposes.

If the Company is considered a passive foreign investment company ("PFIC") for U.S. federal income tax purposes, a U.S. person who owns shares in the Company could be subject to adverse tax consequences, including a greater tax liability than might otherwise apply and an interest charge on certain taxes that are deferred as a result of the Company's non-U.S. status. The Company does not believe that it was a PFIC for U.S. federal income tax purposes for the taxable year ending on December 31, 2019 because the Company believes that it should be considered to be engaged in the active conduct of a global insurance and reinsurance business through its insurance subsidiaries. The Company cannot provide assurance, however, that the Company will not be deemed to be a PFIC by the IRS.

Further, TCJA limited the exception applicable to foreign corporations engaged in the active conduct of an insurance business by requiring that, for the exception from passive income for income derived in the active conduct of an insurance business to apply to such foreign corporation, the applicable insurance liabilities of such foreign corporation must exceed 25 percent of its total assets (or 10 percent in certain limited cases if certain other applicable facts and circumstances are satisfied). Although guidance regarding the active conduct of an insurance business rules has recently been proposed by the IRS, a number of uncertainties remain, including uncertainties in the calculation of applicable insurance liabilities. Further, there can be no assurance that the proposed guidance will be finalized in their current form or that additional, adverse guidance will not be adopted by the IRS. Accordingly, due to ambiguities in the application of the relevant provisions of the TCJA and the PFIC provisions in general, as well as uncertainties about the PFIC guidance recently proposed by the IRS, there can be no assurance with respect to the Company's status as a PFIC for the current or any future taxable years of the Company.

The Organization for Economic Cooperation and Development ("OECD") and the European Union ("EU") are considering measures that might encourage countries to change their tax laws which could have a negative impact on the Company.

The OECD has published an action plan to address base erosion and profit shifting ("BEPS") impacting its member countries and other jurisdictions. It is possible that jurisdictions in which the Company does business could react to the BEPS initiative or their own concerns by enacting tax legislation that could adversely affect the Company or its shareholders. In addition, the EU issued its Anti-Tax Avoidance Directive in 2016 and 2017 requiring the adoption by EU Member States of rules relating to, among other things, interest limitation rules, anti-hybrid rules, CFC rules and exit taxes. Some of these came in to force on January 1, 2019 and others have yet to come in to force in various Member States. Likewise, the OECD Multilateral Convention is in the process of implementing tax treaty related measures to prevent BEPS, better known as the 'multilateral instrument' (MLI) which has been signed by over 80 jurisdictions and will effectively modify bilateral tax treaties between countries having ratified the MLI. It introduces a general anti-abuse provision with the principal purpose test being is a minimum standard and the possibility to apply other specific measures when both countries have opted for them. The implementation of these measures could have a negative impact on the Company.

A number of multilateral organizations, including the EU and the OECD have, in recent years, expressed concern about some countries not participating in adequate tax information exchange arrangements and have threatened those that do not agree to cooperate with punitive sanctions by member countries. It is as yet unclear what all of these sanctions might be, which countries might adopt them, and when or if they might be imposed. The Company cannot assure, however, that the Tax Information Exchange Agreements (TIEAs) that have been or will be entered into by the countries where the Company and its subsidiaries are located will be sufficient to preclude all of the sanctions described above, which, if ultimately adopted, could adversely affect the Company or its shareholders.

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

The Company and its subsidiaries which have been incorporated under the laws of the Cayman Islands as exempted companies and, as such, obtained an undertaking from the Governor in Council of the Cayman Islands substantially that, for a period of 20 years from the date of such undertaking, which is February 9, 2016, no law that is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to the Company and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on the Company's ordinary shares. This undertaking would not, however, prevent the imposition of taxes on any person ordinarily resident in the Cayman Islands or any company in respect of its ownership of real property or leasehold interests in the Cayman Islands. Given the limited duration of the undertaking, the Company cannot be certain that it will not be subject to Cayman Islands tax after the expiration of the 20-year period.

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

At December 31, 2019, office space leased in Bala Cynwyd, Pennsylvania, holds the Commercial Specialty segment's principal executive offices and headquarters. Additional office space leased in California and Georgia serve as field offices for Commercial Specialty. Some of the office space in California also serves as office space for Commercial Specialty's claims operations. In the first quarter of 2020, the office space in California and Georgia was closed, with all employees at those offices working remotely. Office space in Hamilton, Bermuda used by Reinsurance Operations is shared with one of Global Indemnity Reinsurance's service providers per an agreement between the two. Office space leased in Arizona is used by the Company's Specialty Property segment. Office space leased in Nebraska is used by the Company's Farm, Ranch, & Stable segment. Office space leased in Cavan, Ireland is used to support the operating needs of the Insurance and Reinsurance Operations. The leases for the properties listed are held by various Company subsidiaries. The Company believes the properties listed are suitable and adequate to meet its needs.

Item 3. LEGAL PROCEEDINGS

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

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

Item 4. MINE SAFETY DISCLOSURES

None.

PART II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for the Company’s A Ordinary Shares

The Company’s A ordinary shares, par value \$0.0001 per share, began trading on the NASDAQ Global Select Market, formerly the NASDAQ National Market, under the symbol “UNGL” on December 16, 2003. On March 14, 2005, the Company changed its symbol to “INDM.” On July 6, 2010, the Company changed its symbol to “GBLI” as part of a redomestication transaction whereby all shares of “INDM” were replaced with shares of “GBLI” on a one-for-two basis. On November 7, 2016, in connection with a redomestication from Ireland to Cayman Islands, all of Global Indemnity plc’s ordinary shares were cancelled and replaced with one ordinary share of Global Indemnity Limited on a one for one basis. The ordinary shares of Global Indemnity Limited continue to trade under the symbol “GBLI”.

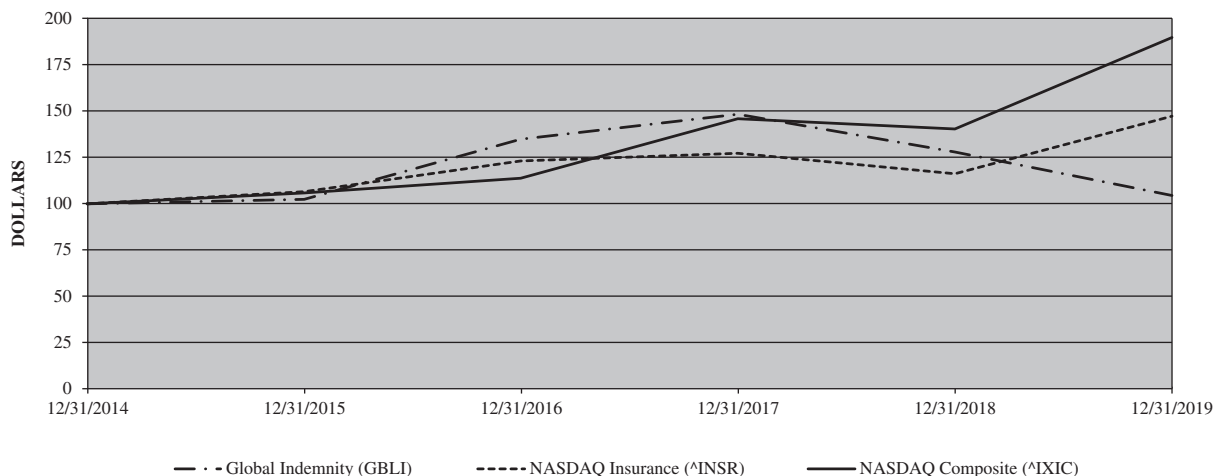
There is no established public trading market for the Company’s B ordinary shares, par value \$0.0001 per share.

As of December 31, 2019, there were 4 holders of record of the Company’s B ordinary shares, all of whom are affiliated investment funds of Fox Paine & Company, LLC or an affiliate of an investment fund. As of December 31, 2019, the Company’s A ordinary shares were held by approximately 218 shareholders of record.

See Note 15 to the consolidated financial statements in Item 8 of Part II of this report for information regarding securities authorized under the Company’s equity compensation plans.

Performance of the Company’s A Ordinary Shares

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



	<u>12/31/14</u>	<u>12/31/15</u>	<u>12/31/16</u>	<u>12/31/17</u>	<u>12/31/18</u>	<u>12/31/19</u>
Global Indemnity Limited	\$100.0	\$102.3	\$134.7	\$148.1	\$127.7	\$104.4
NASDAQ Insurance Index	100.0	106.5	123.1	127.0	116.2	147.2
NASDAQ Composite Index	100.0	105.7	113.7	145.8	140.1	189.5

Recent Sales of Unregistered Securities

None.

Company Purchases of Ordinary Shares

The Company's Share Incentive Plan allows employees to surrender A ordinary shares as payment for the tax liability incurred upon the vesting of restricted stock that was issued under the Share Incentive Plan. During 2019, the Company purchased an aggregate 27,028 of surrendered A ordinary shares from employees for \$0.9 million. All shares purchased from employees are held as treasury stock and recorded at cost until formally retired.

See Note 12 to the consolidated financial statements in Item 8 of Part II of this report for additional information on the retirement of the Company's A ordinary shares as well as a tabular disclosure of the Company's share repurchases by month.

Dividend Policy

On December 27, 2017, the Company adopted a dividend program with an anticipated dividend rate of \$0.25 per share per quarter (\$1.00 per share per year). Continued payment of dividends is subject to future determinations by the Board of Directors based on the Company's results, financial conditions, amounts required to grow the Company's business, and other factors deemed relevant by the Board.

During 2019, the Board of Directors approved a dividend payment of \$0.25 per ordinary share to all shareholders of record on the close of business on March 22, 2019, June 21, 2019, September 26, 2019, and December 24, 2019. Dividends paid were \$14.2 million during the year ended December 31, 2019.

During 2018, the Board of Directors approved a dividend payment of \$0.25 per ordinary share to all shareholders of record on the close of business on March 21, 2018, June 22, 2018, September 27, 2018, and December 24, 2018. Dividends paid were \$14.0 million during the year ended December 31, 2018.

The Company did not declare or pay cash dividends on any class of its ordinary shares in 2017.

The Company is a holding company and has no direct operations. The ability of Global Indemnity Limited to pay dividends is subject to Cayman Islands regulations and depends, in part, on the ability of its subsidiaries to pay dividends. Global Indemnity Reinsurance and the U.S. insurance subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. See "Management's Discussion and Analysis of Financial Condition – Liquidity and Capital Resources – Sources and Uses of Funds" in Item 7 of Part II of this report for dividend limitation and Note 18 of the notes to the consolidated financial statement in Item 8 of Part II of this report for the dividends declared and paid by the U.S. insurance subsidiaries and Global Indemnity Reinsurance in 2019 and the maximum amount of distributions that they could pay as dividends in 2020.

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

For 2020, the Company believes that Global Indemnity Reinsurance should have sufficient liquidity and solvency to pay dividends. In the future, the Company anticipates using dividends from Global Indemnity Reinsurance to fund obligations of Global Indemnity. Global Indemnity Reinsurance is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital or 25% or more of its total statutory capital and surplus 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 2019 statutory financial statements that will be filed in 2020, Global Indemnity Reinsurance could pay a dividend of up to \$198.8 million in 2020 without requesting BMA approval. Global Indemnity Reinsurance is dependent on receiving distributions from its subsidiaries in order to pay the full dividend in cash. In 2019, Global Indemnity Reinsurance did not declare or pay a dividend to its parent, Global Indemnity.

Barbados resident companies are subject to a 15% withholding tax on dividends to a nonresident company or individual, with a 25% rate for dividends paid out of tax-exempt profits. Dividends paid by Barbados resident companies classified as International Business Companies ("IBCs") to nonresidents are exempt from withholding tax. GBLI (Barbados) Limited is an IBC which was dissolved in November, 2019.

In 2019, profit distributions (not in respect to liquidations) by the Luxembourg Companies were generally subject to Luxembourg dividend withholding tax at a rate of 15%, unless a domestic law exemption or a lower tax treaty rate applies. Dividends paid by any of the Luxembourg Companies to their Luxembourg resident parent company are exempt from Luxembourg dividend withholding tax, provided that at the time of the dividend distribution, the resident parent company has held (or commits itself to continue to hold) 10% or more of the nominal paid up capital of the distributing entity or, in the event of a lower percentage participation, a participation having an acquisition price of EUR 1.2 million or more for a period of at least twelve months. The Barbados Luxembourg Tax Treaty allows Luxembourg resident companies to pay dividends free of withholding tax to Barbados resident companies so long as the Barbados resident company is the beneficial owner of at least 10% of the capital of the Luxembourg resident company and has held such capital for an uninterrupted period of at least twelve months prior to the dividend distribution. The Luxembourg Companies were dissolved in December, 2019.

For a discussion of factors affecting the Company's ability to pay dividends, see "Business – Regulation" in Item 1 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Sources and Uses of Funds" in Item 7 of Part II, and Note 18 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated historical financial data for the Company and should be read together with the consolidated financial statements and accompanying notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this report. Cash dividends totaling \$1.00 per share were declared and paid on common stock in 2019 and 2018. No cash dividends were declared or paid on common stock during the years ended December 31, 2017, 2016, and 2015.

	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
(Dollars in thousands, except shares and per share data)					
Consolidated Statements of Operations Data:					
Gross written premiums	\$ 636,861	\$ 547,897	\$ 516,334	\$ 565,845	\$ 590,233
Net written premiums	562,089	472,547	450,180	470,940	501,244
Net earned premiums	525,262	467,775	438,034	468,465	504,143
Net realized investment gains (losses)	35,342	(16,907)	1,576	21,721	(3,374)
Total revenues	604,472	498,938	485,515	534,514	538,778
Net income (loss)	70,015	(56,696)	(9,551)	49,868	41,469
Per share data:					
Net income (loss) available to common shareholders (1)	\$ 70,015	\$ (56,696)	\$ (9,551)	\$ 49,868	\$ 41,469
Basic	\$ 4.93	\$ (4.02)	\$ (0.55)	\$ 2.89	\$ 1.71
Diluted	\$ 4.88	\$ (4.02)	\$ (0.55)	\$ 2.84	\$ 1.69
Weighted-average number of shares outstanding					
Basic	14,191,756	14,088,883	17,308,663	17,246,717	24,253,657
Diluted	14,334,706	14,088,883	17,308,663	17,547,061	24,505,851
Cash dividends declared per share	\$ 1.00	\$ 1.00	\$ —	\$ —	\$ —

(1) For the years ended December 31, 2018 and 2017, “diluted” loss per share is the same as “basic” loss per share since there was a net loss for the period.

	2019	2018	2017	2016	2015
Consolidated Insurance Operating Ratios based on the Company’s GAAP Results: (1)					
Loss ratio (2) (3)	52.5	71.5	61.5	56.4	54.6
Expense ratio	39.7	40.8	41.9	42.0	39.9
Combined ratio (2) (3)	92.2	112.3	103.4	98.4	94.5
Net / gross written premiums	88.3	86.2	87.2	83.2	84.9
Financial Position as of Last Day of Period:					
Total investments and cash and cash equivalents	\$ 1,607,813	\$ 1,510,152	\$ 1,533,900	\$ 1,501,819	\$ 1,516,093
Reinsurance receivables, net of allowance	83,938	114,418	105,060	143,774	115,594
Total assets	2,075,885	1,960,266	2,001,669	1,972,946	1,957,294
7.75% Subordinated notes payable	96,864	96,742	96,619	96,497	96,388
7.875% Subordinated notes payable	126,147	126,005	125,864	—	—
Margin borrowing facility	73,629	65,818	72,230	66,646	75,646
Unpaid losses and loss adjustment expenses	630,181	680,031	634,664	651,042	680,047
Total shareholders’ equity	726,809	629,059	718,394	797,951	749,926
Book value per share	50.82	44.21	50.57	45.42	42.98

(1) The Company’s insurance operating ratios are 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 earned premiums. The expense ratio is the ratio of acquisition costs and other underwriting expenses to net earned premiums. The combined ratio is the sum of the loss and expense ratios. The ratios presented here represent the consolidated results of the Company’s Commercial Specialty segment, Specialty Property segment, Farm, Ranch, & Stable segment, and Reinsurance Operations.

(2) A summary of prior accident year adjustments is summarized as follows:

- 2019 loss and combined ratios reflect a \$32.8 million reduction of net losses and loss adjustment expenses
- 2018 loss and combined ratios reflect a \$28.8 million reduction of net losses and loss adjustment expenses
- 2017 loss and combined ratios reflect a \$53.9 million reduction of net losses and loss adjustment expenses
- 2016 loss and combined ratios reflect a \$57.3 million reduction of net losses and loss adjustment expenses
- 2015 loss and combined ratios reflect a \$34.7 million reduction of net losses and loss adjustment expenses

See “Results of Operations” in Item 7 of Part II of this report for details of these items and their impact on the loss and combined ratios.

- (3) The Company's loss and combined ratios for 2019, 2018, 2017, 2016, and 2015 include \$30.4 million, \$80.6 million, \$61.1 million, \$72.1 million, and \$45.0 million, respectively, of catastrophic losses on a current accident year basis from the Insurance Operations. See "Results of Operations" in Item 7 of Part II of this report for a discussion of the impact of these losses on the loss and combined ratios.

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

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

Recent Developments

During the 1st quarter of 2019, the Company re-evaluated its Personal Lines segment and determined that Personal Lines should be bifurcated into two reportable segments: Specialty Property and Farm, Ranch, & Stable. In addition, the Company has changed the name of its Commercial Lines segment to Commercial Specialty to better align with its key product offerings. Please see Note 19 of the notes to the consolidated financial statements in Item 8 of Part II of this report for additional information regarding these segment changes.

During 2019, the Board of Directors approved a dividend payment of \$0.25 per ordinary share to all shareholders of record on the close of business on March 22, 2019, June 21, 2019, September 26, 2019, and December 24, 2019. Dividends paid were \$14.2 million during the year ended December 31, 2019.

Global Indemnity Reinsurance signed a new casualty treaty which contributed \$26.9 million of gross written premiums during the year ended December 31, 2019.

Effective December 8, 2019, John H. Howes retired from the Board of Directors of the Company and Michele Colucci was appointed to the Board of Directors of the Company.

A.M. Best has seven Rating Categories in the A.M. Best Financial Strength Rating Scale. The categories ranging from best to worst are Superior, Excellent, Good, Fair, Marginal, Weak and Poor. Within each rating category, there are rating notches of plus or minus to show additional gradation of the ratings. On January 21, 2020, A.M. Best assigned the companies in the Insurance Operations and Reinsurance Operations a financial strength rating of "A" (Excellent).

Overview

The Company operates and manages its business through four business segments: Commercial Specialty, Specialty Property, Farm, Ranch, & Stable, and Reinsurance Operations.

The Company's Commercial Specialty segment sells its property and casualty insurance products through a group of approximately 180 professional general agencies that have limited quoting and binding authority, as well as a number of wholesale insurance brokers who in turn sell the Company's insurance products to insureds through retail insurance brokers. Commercial Specialty operates predominantly in the excess and surplus lines marketplace. The Company manages its Commercial Specialty segment via product classifications. These product classifications are: 1) Penn-America, which includes property and general liability products for small commercial businesses sold through a select network of wholesale general agents with specific binding authority; 2) United National, which includes property, general liability, and professional lines products sold through program administrators with specific binding authority; 3) Diamond State, which includes property, casualty, and professional lines products sold through wholesale brokers and program administrators with specific binding authority; and 4) Vacant Express, which primarily insures dwellings which are currently vacant, undergoing renovation, or are under construction and is sold through aggregators, brokers, and retail agents.

The Company's Specialty Property segment, via American Reliable, offers specialty personal lines property and casualty insurance products through a group of approximately 240 agents, primarily comprised of wholesale general agents, with specific binding authority in the admitted marketplace.

The Company's Farm, Ranch, & Stable segment, via American Reliable, provides specialized property and casualty coverage including Commercial Farm Auto and Excess/Umbrella Coverage for the agriculture industry as well as specialized insurance products for the equine mortality and equine major medical industry on an admitted basis. These

insurance products are sold through a group of approximately 210 agents, primarily comprised of wholesalers and retail agents, with a selected number having specific binding authority.

The Company's Reinsurance Operations, consisting solely of the operations of Global Indemnity Reinsurance, currently provides reinsurance solutions through brokers and on a direct basis. Global Indemnity Reinsurance is a Bermuda based treaty reinsurer for specialty property and casualty insurance and reinsurance companies. Global Indemnity Reinsurance conducts business in Bermuda and is focused on using its capital capacity to write niche and specialty-focused treaties and business which meet the Company's risk tolerance and return thresholds.

The Company derives its revenues primarily from premiums paid on insurance policies that it writes and from income generated by its investment portfolio, net of fees paid for investment management services. The amount of insurance premiums that the Company receives is a function of the amount and type of policies it writes, as well as prevailing market prices.

The Company's expenses include losses and loss adjustment expenses, acquisition costs and other underwriting expenses, corporate and other operating expenses, interest, investment expenses, and income taxes. Losses and loss adjustment expenses are estimated by management and reflect the Company's best estimate of ultimate losses and costs arising during the reporting period and revisions of prior period estimates. The Company records its best estimate of losses and loss adjustment expenses considering both internal and external actuarial analyses of the estimated losses the Company expects to incur on the insurance policies it writes. The ultimate losses and loss adjustment expenses will depend on the actual costs to resolve claims. Acquisition costs consist principally of commissions and premium taxes that are typically a percentage of the premiums on the insurance policies the Company writes, net of ceding commissions earned from reinsurers. Other underwriting expenses consist primarily of personnel expenses and general operating expenses related to underwriting activities. Corporate and other operating expenses are comprised primarily of outside legal fees, other professional and accounting fees, directors' fees, management fees & advisory fees, and salaries and benefits for company personnel whose services relate to the support of corporate activities. Interest expense is primarily comprised of amounts due on outstanding debt.

Critical Accounting Estimates and Policies

The Company's consolidated financial statements are prepared in conformity with GAAP, which require it to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. See Note 2 of the notes to consolidated financial statements contained in Item 8 of Part II of this report. Actual results could differ from those estimates and assumptions.

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

Liability for Unpaid Losses and Loss Adjustment Expenses

Although variability is inherent in estimates, the Company believes that the liability for unpaid losses and loss adjustment expenses reflects Management's best estimate for future amounts needed to pay losses and related loss adjustment expenses and the impact of its reinsurance coverage with respect to insured events.

In developing losses and loss adjustment expense ("loss" or "losses") reserve estimates for the U.S. Insurance Operations, the Company's 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 long-tail or short-tail. For long-tail business, it will generally be several years between the time the business is written and the time when all claims are settled. The Company's long-tail exposures include general liability, professional liability, products liability, commercial automobile liability, and excess and umbrella. Short-tail exposures include property, commercial automobile physical damage, and equine mortality. To manage its insurance operations, the Company differentiates by product classifications, which are Penn-America, United National, Diamond State, American Reliable, Collectibles, and Vacant Express. For further discussion about the Company's product classifications, see "General – Business Segments – Insurance Operations" in Item 1 of Part I of this report. Each of the Company's product classifications contain both long-tail and short-tail exposures. Every reserve category is analyzed by the Company's actuaries each quarter. Management is responsible for the final determination of loss reserve selections.

Loss reserve estimates for the Company's Reinsurance Operations are developed by independent, external actuaries; at least annually; however, management is responsible for the final determination of loss reserve selections. The data for this analysis is organized by treaty and treaty year. As with the Company's reserves for its Insurance Operations, reserves for its Reinsurance Operations are characterized as long-tail or short-tail. Long-tail exposures include workers compensation, professional liability, and excess and umbrella liability. Short-tail exposures are primarily catastrophe exposed property and marine accounts.

In addition to the Company's internal reserve analysis, independent external actuaries perform a full, detailed review of the Insurance and Reinsurance Operations' reserves annually. The Company reviews both the internal and external actuarial analyses in determining its reserve position.

The actuarial methods used to project ultimate losses for both long-tail and short-tail reserve categories 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 requires evaluation of changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors. Because this method assumes that losses are paid at a consistent rate, changes in any of these factors can impact the results. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.

For many reserve categories, paid loss data for recent periods may be too immature or erratic for reliable loss projections. 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 accident year. This method will react very slowly if actual ultimate loss ratios are different from expectations due to changes not accounted for by the Expected Loss Ratio calculation.

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

The Average Loss method multiplies a projected number of ultimate incurred claims by an estimated ultimate average loss for each accident year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss, this method can provide more reliable results for reserve categories where loss development patterns are inconsistent or too variable to be relied on exclusively. In addition, this method can more directly account for changes in coverage that impact the number and size of claims. However, this method can be difficult to apply to situations where very large claims or a substantial number of unusual claims result in volatile average claim sizes. Projecting the ultimate number of claims requires analysis of several factors including the rate at which policyholders report claims to the Company, the impact of judicial decisions, the impact of underwriting changes and other factors. Estimating the ultimate average loss requires analysis of the impact of large losses and claim cost trends based on changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors.

For many reserve categories, especially those that can be considered long-tail, a particular accident year may not have a sufficient volume of paid losses to produce a statistically reliable estimate of ultimate losses. In such a case, the Company's actuaries typically assign more weight to the Incurred Development method than to the Paid Development method. As claims continue to settle and the volume of paid losses increases, the actuaries may assign additional weight to the Paid Development method. For most of the Company's reserve categories, even the case incurred losses for accident years that are early in the claim settlement process will not be of sufficient volume to produce a reliable estimate of ultimate losses. In these cases, the Company will not assign any weight to the Paid and Incurred Development methods and will use the Bornhuetter-Ferguson and Expected Loss Ratio methods. For short-tail exposures, the Paid and Incurred Development methods can often be relied on sooner primarily because the Company's history includes a sufficient number of accident years to cover the entire period over which paid and incurred losses are expected to change. However, the Company may also assign weights to the Expected Loss Ratio, Bornhuetter-Ferguson and Average Loss methods for short-tail exposures when developing estimates of ultimate losses.

Generally, reserves for long-tail lines give more weight to the Expected Loss Ratio method in the more recent immature years. As the accident years mature, weight shifts to the Bornhuetter-Ferguson methods and eventually 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 shift from the Expected Loss Ratio method to the Bornhuetter-Ferguson methods to the Loss Development method may be more protracted than for most long-tailed lines. Reserves for short-tail lines tend to make the shift across methods more quickly than the long-tail lines.

For other more complex reserve categories where the above methods may not produce reliable indications, the Company uses additional methods tailored to the characteristics of the specific situation. Such reserve categories include losses from construction defect and A&E claims.

For construction defect losses, the Company's actuaries organize losses by the year in which they were reported to develop an IBNR provision for development on known cases. To estimate losses from claims that have occurred but have not yet been reported to the Company (pure IBNR), various extrapolation techniques are applied to the pattern of claims that have been reported to estimate the number of claims yet to be reported. This process requires analysis of several factors including the rate at which policyholders report claims to the Company, the impact of judicial decisions, the impact of underwriting changes and other factors. An average claim size is determined from past experience and applied to the number of unreported claims to estimate reserves for these claims.

Establishing reserves for A&E and other mass tort claims involves considerably more judgment than other types of claims due to, among other things, inconsistent court decisions, 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. The Company continues to closely monitor its asbestos exposure and make adjustments where they are warranted.

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

Management's best estimate at December 31, 2019 was recorded as the loss reserve. Management's best estimate is as of a particular point in time and is based upon known facts, the Company's actuarial analyses, current law, and the Company's judgment. This resulted in carried gross and net reserves of \$630.2 million and \$553.9 million, respectively, as of December 31, 2019. A breakout of the Company's gross and net reserves as of December 31, 2019 is as follows:

(Dollars in thousands)	Gross Reserves		
	Case	IBNR (1)	Total
Commercial Specialty	\$107,409	\$282,739	\$390,148
Specialty Property	17,301	33,033	50,334
Farm, Ranch, & Stable	11,962	33,639	45,601
Reinsurance Operations	49,453	94,645	144,098
Total	<u>\$186,125</u>	<u>\$444,056</u>	<u>\$630,181</u>

(Dollars in thousands)	Net Reserves (2)		
	Case	IBNR (1)	Total
Commercial Specialty	\$ 87,542	\$243,402	\$330,944
Specialty Property	12,004	28,241	40,245
Farm, Ranch, & Stable	11,110	27,511	38,621
Reinsurance Operations	49,453	94,645	144,098
Total	<u>\$160,109</u>	<u>\$393,799</u>	<u>\$553,908</u>

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

The Company continually reviews these estimates and, based on new developments and information, includes adjustments of the estimated ultimate liability in the operating results for the periods in which the adjustments are made. The establishment of losses and loss adjustment expense reserves makes no provision for the possible broadening of coverage by legislative action or judicial interpretation, or the emergence of new types of losses not sufficiently represented in the Company's historical experience or that cannot yet be quantified or estimated. The Company regularly analyzes its reserves and reviews reserving methodologies so that future adjustments to prior accident 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 losses and loss adjustment expense reserves are recorded in the period that the change in these estimates is made. See Note 9 to the consolidated financial statements in Item 8 of Part II of this report for details concerning the changes in the estimate for incurred losses and loss adjustment expenses related to prior accident years.

The detailed reserve analyses that the Company's internal and external actuaries complete use a variety of generally accepted actuarial methods and techniques to produce a number of estimates of ultimate loss. The Company determines its best estimate of ultimate loss by reviewing the various estimates provided by its actuaries and other relevant information. 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 to the Company (pure IBNR).

In light of the many uncertainties associated with establishing the estimates and making the assumptions necessary to establish reserve levels, the Company reviews its reserve estimates on a regular basis and makes adjustments in the period that the need for such adjustments is determined.

The 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 category has an implicit frequency and severity for each accident year as a result of the various assumptions made.

Previous reserve analyses have resulted in the Company's identification of information and trends that have caused it to increase or decrease frequency and severity assumptions in prior periods and could lead to the identification of a need for additional material changes in losses and loss adjustment expense reserves, which could materially affect results of operations, equity, business and insurer financial strength and debt ratings. Factors affecting loss frequency include, among other things, the effectiveness of loss controls and safety programs and changes in economic activity or weather patterns. Factors affecting loss severity include, among other things, changes in policy limits and deductibles, rate of inflation and judicial interpretations. Another factor affecting estimates of loss frequency and severity is the loss reporting lag, which is the period of time between the occurrence of a loss and the date the loss is reported to the Company. The length of the loss reporting lag affects the Company's ability to accurately predict loss frequency (loss frequencies are more predictable for short-tail lines) as well as the amount of reserves needed for IBNR.

If the actual levels of loss frequency and severity are higher or lower than expected, the ultimate losses will be different than management's best estimate. For most of its reserve categories, the Company believes that frequency can be predicted with greater accuracy than severity. Therefore, the Company believes management's best estimate is more likely influenced by changes in severity than frequency. The following table, which the Company believes reflects a reasonable range of variability around its best estimate based on historical loss experience and management's judgment, reflects the impact of changes (which could be favorable or unfavorable) in frequency and severity on the Company's current accident year net loss estimate of \$308.2 million for claims occurring during the year ended December 31, 2019:

(Dollars in thousands)		Severity Change				
		-10%	-5%	0%	5%	10%
Frequency Change	-5%	\$(44,689)	\$(30,050)	\$(15,410)	\$ (771)	\$13,869
	-3%	(39,141)	(24,194)	(9,246)	5,702	20,649
	-2%	(36,368)	(21,266)	(6,164)	8,938	24,040
	-1%	(33,594)	(18,338)	(3,082)	12,174	27,430
	0%	(30,820)	(15,410)	—	15,410	30,820
	1%	(28,046)	(12,482)	3,082	18,646	34,210
	2%	(25,272)	(9,554)	6,164	21,882	37,600
	3%	(22,499)	(6,626)	9,246	25,118	40,991
	5%	(16,951)	(771)	15,410	31,591	47,771

The Company's net reserves for losses and loss adjustment expenses of \$553.9 million as of December 31, 2019 relate to multiple accident years. Therefore, the impact of changes in frequency and severity for more than one accident year could be higher or lower than the amounts reflected above.

Recoverability of Reinsurance Receivables

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

See Note 7 of the notes to consolidated financial statements in Item 8 of Part II of this report for further information surrounding the Company's reinsurance receivable balances and collectability as of December 31, 2019 and 2018. For a listing of the ten reinsurers for which the Company has the largest reinsurance asset amounts as of December 31, 2019, see "Reinsurance of Underwriting Risk" in Item 1 of Part I of this report.

Investments

The carrying amount of the Company's investments approximates their fair value. The Company regularly performs various analytical valuation procedures with respect to investments, including reviewing each fixed maturity security in an unrealized loss position to determine the amount of unrealized loss related to credit loss and the amount related to all other factors, such as changes in interest rates. The credit loss represents the portion of the amortized book value in excess of the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The credit loss component of the other than temporary impairment is recorded through earnings, whereas the amount relating to factors other than credit losses are recorded in other comprehensive income, net of taxes. During its review, the Company considers credit rating, market price, and issuer specific financial information, among other factors, to assess the likelihood of collection of all principal and interest as contractually due. Securities for which the Company determines that a credit loss is likely are subjected to further analysis to estimate the credit loss to be recognized in earnings, if any. See Note 2 of the notes to consolidated financial statements in Item 8 of Part II of this report for the specific methodologies and significant assumptions used by asset class. Upon identification of such securities and periodically thereafter, a detailed review is performed to determine whether the decline is considered other than temporary. This review includes an analysis of several factors, including but not limited to, the credit ratings and cash flows of the securities, and the magnitude and length of time that the fair value of such securities is below cost.

For an analysis of the Company's securities with gross unrealized losses as of December 31, 2019 and 2018, and for other than temporary impairment losses that the Company recorded for the years ended December 31, 2019, 2018, and 2017, please see Note 3 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

Fair Value Measurements

The Company categorizes its invested assets and derivative instruments that are accounted for at fair value in the consolidated statements into a fair value hierarchy. The fair value hierarchy is directly related to the amount of subjectivity associated with the inputs utilized to determine the fair value of these assets. The reported value of financial instruments not carried at fair value, principally cash and cash equivalents and margin borrowing facility approximate fair value. See Note 6 of the notes to the consolidated financial statements in Item 8 of Part II of this report for further information about the fair value hierarchy and the Company's assets that are accounted for at fair value.

Goodwill and Intangible Assets

The Company tests for impairment of goodwill at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of goodwill for impairment using both qualitative and quantitative factors. Impairment of goodwill is recognized only if the carrying amount of the reporting unit, including goodwill, exceeds the fair value of the reporting unit. The amount of the impairment loss would be equal to the excess carrying value of the goodwill over the implied fair value of the reporting unit goodwill. Based on the qualitative assessment performed, there was no impairment of goodwill as of December 31, 2019.

Impairment of intangible assets with indefinite useful lives is tested at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of intangible assets for impairment using both qualitative and quantitative factors. Impairment of indefinite lived intangible assets is recognized only if the carrying amount of the intangible assets exceeds the fair value of said assets. The amount of the impairment loss would be equal to the excess carrying value of the assets over the fair value of said assets. Based on the qualitative assessment performed, there were no impairments of indefinite lived intangible assets as of December 31, 2019.

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. As of December 31, 2019, there were no triggering events that occurred during the year that would result in an impairment of definite lived intangible assets.

See Note 6 of the notes to the consolidated financial statements in Item 8 of Part II of this report for more details concerning the Company's goodwill and intangible assets.

Deferred Acquisition Costs

The costs of acquiring new and renewal insurance and reinsurance contracts include commissions, premium taxes and certain other costs that are directly related to the successful acquisition of new and renewal insurance and reinsurance contracts. The excess of the Company's costs of acquiring new and renewal insurance and reinsurance contracts over the related ceding commissions earned from reinsurers is capitalized as deferred acquisition costs and amortized over the period in which the related premiums are earned.

In accordance with accounting guidance for insurance enterprises, the method followed in computing such amounts limits them to amounts recoverable from premium to be earned, related investment income, losses and loss adjustment expenses, and certain other costs expected to be incurred as the premium is earned. A premium deficiency is recognized if the sum of expected losses and loss adjustment expenses and unamortized acquisition costs exceeds related unearned premium. This evaluation is done at a distribution and product line level in Insurance Operations and at a treaty level in Reinsurance Operations. Any future expected loss on the related unearned premium is recorded first by impairing the unamortized acquisition costs on the related unearned premium followed by an increase to losses and loss adjustment expense reserves on additional expected loss in excess of unamortized acquisition costs. The Company calculates deferred acquisition costs for Insurance Operations separately by distribution lines and for its Reinsurance Operations separately for each treaty.

Taxation

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

At each balance sheet date, management assesses the need to establish a valuation allowance that reduces deferred tax assets when it is more likely than not that all, or some portion, of the deferred tax assets will not be realized. A valuation allowance would be based on all available information including the Company's assessment of uncertain tax positions and projections of future taxable income from each tax-paying component in each jurisdiction, principally derived from business plans and available tax planning strategies. There are no valuation allowances as of December 31, 2019 and 2018. The deferred tax asset balance is analyzed regularly by management. This assessment requires significant judgment and considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of carryforward periods, and tax planning strategies and/or actions. Based on these analyses, the Company has determined that its deferred tax asset is recoverable. Projections of future taxable income incorporate several assumptions of future business and operations that are apt to differ from actual experience. If, in the future, the Company's assumptions and estimates that resulted in the forecast of future taxable income for each tax-paying component prove to be incorrect, a valuation allowance may be required. This could have a material adverse effect on the Company's financial condition, results of operations, and liquidity.

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

Leases

The Company determines if an arrangement is a lease at inception. Leases with a term of 12 months or less are not recorded on the consolidated balance sheets. Lease right-of-use assets ("ROU") are included in other assets on the consolidated balance sheets and lease liabilities are included in other liabilities on the consolidated balance sheets.

Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The Company's leases do not provide an implicit rate; therefore, the Company uses its incremental borrowing rate at the commencement date in determining the present value of future payments. The ROU asset is calculated using the initial lease liability amount, plus any lease payments made at or before the commencement date, minus any lease incentives received, plus any initial direct costs incurred. Lease expenses for minimum lease payments are recognized on a straight-line basis over the lease term.

The Company's lease agreements may contain both lease and non-lease components which are accounted separately. The Company elected the practical expedient on not separating lease components from non-lease components for its equipment leases.

Business Segments

The Company manages its business through four business segments: Commercial Specialty, Specialty Property, Farm, Ranch, & Stable, and Reinsurance Operations. The Commercial Specialty, Specialty Property, and Farm, Ranch, & Stable segments comprise the Company's U.S. Insurance Operations, which currently includes the operations of United National Insurance Company, Diamond State Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company, American Reliable Insurance Company, American Insurance Adjustment Agency, Inc., Collectibles Insurance Services, LLC, Global Indemnity Insurance Agency, LLC, and J.H. Ferguson & Associates, LLC. Reinsurance Operations includes the operations of Global Indemnity Reinsurance Company, Ltd.

The Company evaluates the performance of these four segments based on gross and net written premiums, revenues in the form of net earned premiums, and expenses in the form of (1) net losses and loss adjustment expenses, (2) acquisition costs, and (3) other underwriting expenses.

During the first quarter of 2019, the Company re-evaluated its Personal Lines segment and determined that Personal Lines should be bifurcated into two reportable segments: Specialty Property and Farm, Ranch, & Stable. This is the result of changing how Specialty Property and Farm, Ranch, & Stable are managed and reported. Specialty Property is managed out of the Company's Scottsdale, Arizona office; whereas, Farm, Ranch, & Stable is managed out of the Company's Omaha, Nebraska office. In the past, Farm, Ranch, & Stable reported to the Scottsdale, Arizona office and now it reports directly to the Company's main headquarters in Bala Cynwyd, Pennsylvania. Results for Specialty Property and Farm, Ranch, & Stable are separately measured, resources are separately allocated to each of these lines, and employees in each line are now being rewarded based on each line's separate results. Accordingly, the Company now reports Specialty Property and Farm, Ranch, & Stable as two separate reportable segments. In addition, the Company has changed the name of its Commercial Lines segment to Commercial Specialty to better align with its key product offerings. The segment results for the years ended December 31, 2018 and 2017 have been revised to reflect these changes.

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

Results of Operations

The following table summarizes the Company's results for the years ended December 31, 2019, 2018, and 2017:

(Dollars in thousands)	Years Ended December 31,		%	Years Ended December 31,		%
	2019	2018		Change	2018	
Gross written premiums	\$636,861	\$547,897	16.2%	\$547,897	\$516,334	6.1%
Net written premiums	\$562,089	\$472,547	18.9%	\$472,547	\$450,180	5.0%
Net earned premiums	\$525,262	\$467,775	12.3%	\$467,775	\$438,034	6.8%
Other income	1,816	1,728	5.1%	1,728	6,582	(73.7%)
Total revenues	527,078	469,503	12.3%	469,503	444,616	5.6%
Losses and expenses:						
Net losses and loss adjustment expenses	275,402	334,625	(17.7%)	334,625	269,212	24.3%
Acquisition costs and other underwriting expenses	208,403	190,778	9.2%	190,778	183,733	3.8%
Underwriting income (loss)	43,273	(55,900)	(177.4%)	(55,900)	(8,329)	NM
Net investment income	42,052	46,342	(9.3%)	46,342	39,323	17.8%
Net realized investment gains (losses)	35,342	(16,907)	NM	(16,907)	1,576	NM
Corporate and other operating expenses	(18,888)	(29,766)	(36.5%)	(29,766)	(25,714)	15.8%
Interest expense	(20,022)	(19,694)	1.7%	(19,694)	(16,906)	16.5%
Income (loss) before income taxes	81,757	(75,925)	NM	(75,925)	(10,050)	NM
Income tax (expense) benefit	(11,742)	19,229	(161.1%)	19,229	499	NM
Net income (loss)	<u>\$ 70,015</u>	<u>\$ (56,696)</u>	NM	<u>\$ (56,696)</u>	<u>\$ (9,551)</u>	NM
Underwriting Ratios:						
Loss ratio (1)	52.5%	71.5%		71.5%	61.5%	
Expense ratio (2)	39.7%	40.8%		40.8%	41.9%	
Combined ratio (3)	<u>92.2%</u>	<u>112.3%</u>		<u>112.3%</u>	<u>103.4%</u>	

NM—not meaningful

- (1) The loss ratio is a 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 earned premiums.
- (2) The expense ratio is a GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net earned premiums.
- (3) The combined ratio is a GAAP financial measure and is the sum of the Company's loss and expense ratios.

Premiums

The following table summarizes the change in premium volume by business segment:

(Dollars in thousands)	Years Ended December 31,			Years Ended December 31,		
	2019	2018	% Change	2018	2017	% Change
Gross written premiums (1)						
Commercial Specialty (4)	\$297,332	\$249,948	19.0%	\$249,948	\$212,670	17.5%
Specialty Property (3) (4)	163,503	170,168	(3.9%)	170,168	173,780	(2.1%)
Farm, Ranch, & Stable (4)	87,745	79,738	10.0%	79,738	75,997	4.9%
Reinsurance (5)	88,281	48,043	83.8%	48,043	53,887	(10.8%)
Total gross written premiums	<u>\$636,861</u>	<u>\$547,897</u>	<u>16.2%</u>	<u>\$547,897</u>	<u>\$516,334</u>	<u>6.1%</u>
Ceded premiums written						
Commercial Specialty (4)	\$ 38,613	\$ 23,121	67.0%	\$ 23,121	\$ 26,222	(11.8%)
Specialty Property (4)	22,833	42,698	(46.5%)	42,698	29,509	44.7%
Farm, Ranch, & Stable (4)	13,329	9,521	40.0%	9,521	10,469	(9.1%)
Reinsurance (5)	(3)	10	(130.0%)	10	(46)	(121.7%)
Total ceded premiums written	<u>\$ 74,772</u>	<u>\$ 75,350</u>	<u>(0.8%)</u>	<u>\$ 75,350</u>	<u>\$ 66,154</u>	<u>13.9%</u>
Net written premiums (2)						
Commercial Specialty (4)	\$258,719	\$226,827	14.1%	\$226,827	\$186,448	21.7%
Specialty Property (4)	140,670	127,470	10.4%	127,470	144,271	(11.6%)
Farm, Ranch, & Stable (4)	74,416	70,217	6.0%	70,217	65,528	7.2%
Reinsurance (5)	88,284	48,033	83.8%	48,033	53,933	(10.9%)
Total net written premiums	<u>\$562,089</u>	<u>\$472,547</u>	<u>18.9%</u>	<u>\$472,547</u>	<u>\$450,180</u>	<u>5.0%</u>
Net earned premiums						
Commercial Specialty (4)	\$237,758	\$218,357	8.9%	\$218,357	\$178,798	22.1%
Specialty Property (4)	140,232	128,768	8.9%	128,768	149,786	(14.0%)
Farm, Ranch, & Stable (4)	71,312	69,248	3.0%	69,248	66,197	4.6%
Reinsurance (5)	75,960	51,402	47.8%	51,402	43,253	18.8%
Total net earned premiums	<u>\$525,262</u>	<u>\$467,775</u>	<u>12.3%</u>	<u>\$467,775</u>	<u>\$438,034</u>	<u>6.8%</u>

- (1) Gross written premiums represent the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions.
- (2) Net written premiums equal gross written premiums less ceded premiums written.
- (3) Includes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement of (\$0.3) million, (\$2.1) million, and \$1.3 million during the years ended December 31, 2019, 2018, and 2017, respectively.
- (4) Includes business ceded to the Company's Reinsurance Operations under a quota share agreement. This quota share agreement was cancelled effective January 1, 2018.
- (5) External business only, excluding business assumed from affiliates.

Gross written premiums increased by 16.2% for year ended December 31, 2019 as compared to 2018. Gross written premiums include business written by American Reliable that is ceded to insurance entities owned by Assurant under a 100% quota share reinsurance agreement in the amount of (\$0.3) million and (\$2.1) million for the years ended December 31, 2019 and 2018, respectively. Excluding the business that is ceded 100% to insurance entities owned by Assurant, gross written premiums increased by 15.9% for the year ended December 31, 2019 as compared to 2018. The increase is mainly due to several new programs and increases in excess & surplus lines submissions within Commercial Specialty, rate increases within Specialty Property and Farm, Ranch, & Stable, new agents appointments within Farm, Ranch, & Stable, and growth in the Reinsurance Operation's property catastrophe book primarily driven by rate increases as well as a new casualty treaty. This new casualty treaty contributed \$26.9 million in gross written premiums during the year ended December 31, 2019. This growth in premiums was partially offset by a continued reduction of catastrophe exposed business within both Commercial Specialty and Specialty Property.

Gross written premiums increased by 6.1% for year ended December 31, 2018 as compared to 2017. Gross written premiums include business written by American Reliable that is ceded to insurance entities owned by Assurant under a 100% quota share reinsurance agreement in the amount of (\$2.1) million and (\$1.3) million for the years ended December 31, 2018 and 2017, respectively. Excluding the business that is ceded 100% to insurance entities owned by Assurant, gross written premiums increased by 6.2% for the year ended December 31, 2018 as compared to 2017. The increase is mainly due to the premium growth within the Company's Commercial Specialty segment and the Company's Farm, Ranch, & Stable segment partially offset by a reduction in premiums written within the Company's Specialty Property segment and Reinsurance Operations. The growth experienced in Commercial Specialty is primarily being driven by rate increases mainly due to catastrophes experienced in the prior year, new programs, and increased interactions with agents. The increase in gross written premiums within the Company's Farm, Ranch, & Stable segment is primarily due to growth in agriculture writings. The reduction in gross written premiums within the Company's Specialty Property segment is primarily due to reduced writings in an effort to limit catastrophe exposure. The reduction in gross written premiums within the Company's Reinsurance Operations is primarily due to the non-renewal of a treaty partially offset by growth in the property catastrophe treaties and professional liability portfolio.

Net Retention

The ratio of net written premiums to gross written premiums is referred to as the Company's net premium retention. The Company's net premium retention is summarized by segments as follows:

(Dollars in thousands)	Years Ended December 31,			Years Ended December 31,		
	2019	2018	Change	2018	2017	Change
Commercial Specialty	87.0%	90.7%	(3.7%)	90.7%	87.7%	3.0%
Specialty Property (1)	85.9%	74.0%	11.9%	74.0%	82.4%	(8.4%)
Farm, Ranch, & Stable	84.8%	88.1%	(3.3%)	88.1%	86.2%	1.9%
Reinsurance	100.0%	100.0%	0.0%	100.0%	100.1%	(0.1%)
Total (1)	<u>88.2%</u>	<u>85.9%</u>	2.3%	<u>85.9%</u>	<u>87.0%</u>	(1.1%)

(1) Excludes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement of (\$0.3) million, (\$2.1) million, and (\$1.3) million during the years ended December 31, 2019, 2018, and 2017 respectively.

The net premium retention for the year ended December 31, 2019 increased by 2.3 points as compared to 2018. This increase in retention is primarily driven by growth of casualty premiums and reinsurance premiums. It is also being driven by the downsizing of catastrophe exposed business within Specialty Property.

The net premium retention for the year ended December 31, 2018 decreased by 1.1 points as compared to 2017. The decline in retention was primarily due to the Property Catastrophe Quota Share Treaty that became effective on April 15, 2017 partially offset by growth in gross written premiums within the Company's Commercial Specialty segment and Farm, Ranch, & Stable segment as noted above.

Net Earned Premiums

Net earned premiums within the Commercial Specialty segment increased by 8.9% for the year ended December 31, 2019 as compared to the same period in 2018. The increase in net earned premiums was primarily due to a growth in premiums written as a result of several new programs. Property net earned premiums were \$110.7 million and \$115.2 million for the years ended December 31, 2019 and 2018, respectively. Casualty net earned premiums were \$127.0 million and \$103.1 million for the years ended December 31, 2019 and 2018, respectively.

Net earned premiums within the Commercial Specialty segment increased by 22.1% for the year ended December 31, 2018 as compared to the same period in 2017. The increase in net earned premiums was primarily due to an increase in gross premiums written. Property net earned premiums were \$115.2 million and \$90.0 million for the years ended December 31, 2018 and 2017, respectively. Casualty net earned premiums were \$103.1 million and \$88.8 million for the years ended December 31, 2018 and 2017, respectively.

Net earned premiums within the Specialty Property segment increased by 8.9% for the year ended December 31, 2019 as compared to the same period in 2018 primarily due to an increase in net written premiums. Property net earned premiums were \$129.5 million and \$117.7 million for the years ended December 31, 2019 and 2018, respectively. Casualty net earned premiums were \$10.8 million and \$11.1 million for the years ended December 31, 2019 and 2018, respectively.

Net earned premiums within the Specialty Property segment decreased by 14.0% for the year ended December 31, 2018 as compared to the same period in 2017 primarily due to a decline in gross written premiums in previous periods as well as additional premiums being ceded due to the Property Catastrophe Quota Share Treaty that became effective on April 15, 2017. Property net earned premiums were \$117.7 million and \$137.7 million for the years ended December 31, 2018 and 2017, respectively. Casualty net earned premiums were \$11.1 million and \$12.1 million for the years ended December 31, 2018 and 2017, respectively.

Net earned premiums within the Farm, Ranch, & Stable segment increased by 3.0% for the year ended December 31, 2019 as compared to the same period in 2018 primarily due to a growth of the business as a result of adding new agents. Property net earned premiums were \$50.9 million and \$49.6 million for the years ended December 31, 2019 and 2018, respectively. Casualty net earned premiums were \$20.4 million and \$19.6 million for the years ended December 31, 2019 and 2018, respectively.

Net earned premiums within the Farm, Ranch, & Stable segment increased by 4.6% for the year ended December 31, 2018 as compared to the same period in 2017 primarily due to a growth in gross written premiums. Property net earned premiums were \$49.6 million and \$45.8 million for the years ended December 31, 2018 and 2017, respectively. Casualty net earned premiums were \$19.6 million and \$20.4 million for the years ended December 31, 2018 and 2017, respectively.

Net earned premiums within the Reinsurance Operations segment increased by 47.8% for the year ended December 31, 2019 as compared to the same period in 2018 primarily due to growth in gross written premiums within the property catastrophe line of business as well as the new casualty treaty entered into during 2019. Property net earned premiums were \$56.8 million and \$45.2 million for the years ended December 31, 2019 and 2018, respectively. Casualty net earned premiums were \$19.2 million and \$6.2 million for the years ended December 31, 2019 and 2018, respectively.

Net earned premiums within the Reinsurance Operations segment increased by 18.8% for the year ended December 31, 2018 as compared to the same period in 2017. This increase was primarily due to growth in gross written premiums within the property and professional lines of business as well as earnings from a treaty that was non-renewed. Property net earned premiums were \$45.2 million and \$38.4 million for the years ended December 31, 2018 and 2017, respectively. Casualty net earned premiums were \$6.2 million and \$4.8 million for the years ended December 31, 2018 and 2017, respectively.

Underwriting Results

Commercial Specialty

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

(Dollars in thousands)	Years Ended December 31,		%	Years Ended December 31,		%
	2019 (2)	2018 (2)		2018 (2)	2017 (2)	
Gross written premiums	\$297,332	\$249,948	19.0%	\$249,948	\$212,670	17.5%
Net written premiums	\$258,719	\$226,827	14.1%	\$226,827	\$186,448	21.7%
Net earned premiums	\$237,758	\$218,357	8.9%	\$218,357	\$178,798	22.1%
Other income	—	—	—	—	78	(100.0%)
Total revenues	237,758	218,357	8.9%	218,357	178,876	22.1%
Losses and expenses:						
Net losses and loss adjustment expenses	108,911	114,476	(4.9%)	114,476	62,834	82.2%
Acquisition costs and other underwriting expenses (1)	96,475	87,371	10.4%	87,371	75,990	15.0%
Underwriting income (loss)	\$ 32,372	\$ 16,510	96.1%	\$ 16,510	\$ 40,052	(58.8%)

	Years Ended December 31,			Years Ended December 31,		
	2019 (2)	2018 (2)	Point Change	2018 (2)	2017 (2)	Point Change
Underwriting Ratios:						
Loss ratio:						
Current accident year	53.5%	55.7%	(2.2)	55.7%	57.2%	(1.5)
Prior accident year	(7.7%)	(3.3%)	(4.4)	(3.3%)	(22.0%)	18.7
Calendar year loss ratio	45.8%	52.4%	(6.6)	52.4%	35.2%	17.2
Expense ratio	40.6%	40.0%	0.6	40.0%	42.5%	(2.5)
Combined ratio	86.4%	92.4%	(6.0)	92.4%	77.7%	14.7

- (1) Includes excise tax related to cessions from the Company's Commercial Specialty segment to its Reinsurance Operations of \$0.4 million and \$0.7 million for the years ended December 31, 2018 and 2017, respectively. Due to the termination of the quota share agreement in 2018, there was no excise tax related to cessions from the Company's Commercial Specialty segment to its Reinsurance Operations for the year ended December 31, 2019.
- (2) Includes business ceded to the Company's Reinsurance Operations under a quota share agreement. This quota share agreement was cancelled effective January 1, 2018.

Reconciliation of non-GAAP financial measures and ratios

The table below reconciles the non-GAAP measures or ratios, which excludes the impact of prior accident year adjustments, to its most directly comparable GAAP measure or ratio. The Company believes the non-GAAP measures or ratios are useful to investors when evaluating the Company's underwriting performance as trends in the Company's Commercial Specialty segment may be obscured by prior accident year adjustments. These non-GAAP measures or ratios should not be considered as a substitute for its most directly comparable GAAP measure or ratio and does not reflect the overall underwriting profitability of the Company.

	Years Ended December 31,					
	2019		2018		2017	
	Losses \$	Loss Ratio	Losses \$	Loss Ratio	Losses \$	Loss Ratio
Property						
Non catastrophe property losses and ratio excluding the effect of prior accident year (1)						
effect of prior accident year (1)	\$ 46,026	41.6%	\$ 49,846	43.3%	\$ 35,879	39.8%
Effect of prior accident year	(4,310)	(3.9%)	(1,251)	(1.1%)	(4,904)	(5.4%)
Non catastrophe property losses and ratio (2)	\$ 41,716	37.7%	\$ 48,595	42.2%	\$ 30,975	34.4%
Catastrophe losses and ratio excluding the effect of prior accident year (1)						
effect of prior accident year	\$ 9,996	9.0%	\$ 12,179	10.6%	\$ 10,081	11.2%
Effect of prior accident year	3,387	3.1%	(626)	(0.5%)	(1,351)	(1.5%)
Catastrophe losses and ratio (2)	\$ 13,383	12.1%	\$ 11,553	10.1%	\$ 8,730	9.7%
Total property losses and ratio excluding the effect of prior accident year (1)						
effect of prior accident year	\$ 56,022	50.6%	\$ 62,025	53.9%	\$ 45,960	51.0%
Effect of prior accident year	(923)	(0.8%)	(1,877)	(1.6%)	(6,255)	(6.9%)
Total property losses and ratio (2)	\$ 55,099	49.8%	\$ 60,148	52.3%	\$ 39,705	44.1%
Casualty						
Total Casualty losses and ratio excluding the effect of prior accident year (1)						
effect of prior accident year	\$ 71,255	56.1%	\$ 59,701	57.9%	\$ 56,229	63.4%
Effect of prior accident year	(17,443)	(13.7%)	(5,373)	(5.2%)	(33,100)	(37.3%)
Total Casualty losses and ratio (2)	\$ 53,812	42.4%	\$ 54,328	52.7%	\$ 23,129	26.1%
Total						
Total net losses and loss adjustment expense and total loss ratio excluding the effect of prior accident year (1)						
Effect of prior accident year	\$127,277	53.5%	\$121,726	55.7%	\$102,189	57.2%
Effect of prior accident year	(18,366)	(7.7%)	(7,250)	(3.3%)	(39,355)	(22.0%)
Total net losses and loss adjustment expense and total loss ratio (2)	\$108,911	45.8%	\$114,476	52.4%	\$ 62,834	35.2%

(1) Non-GAAP measure / ratio

(2) Most directly comparable GAAP measure / ratio

Premiums

See “Result of Operations” above for a discussion on consolidated premiums.

Other Income

Other income was \$0.1 million for the year ended December 31, 2017. There was no other income during the years ended December 31, 2019 and 2018. For the year ended December 31, 2017, other income is primarily comprised of fee income.

Loss Ratio

The current accident year losses and loss ratio is summarized as follows:

(Dollars in thousands)	Years Ended December 31,			Years Ended December 31,		
	2019	2018	% Change	2018	2017	% Change
Property losses						
Non-catastrophe	\$ 46,026	\$ 49,846	(7.7%)	\$ 49,846	\$ 35,879	38.9%
Catastrophe	9,996	12,179	(17.9%)	12,179	10,081	20.8%
Property losses	56,022	62,025	(9.7%)	62,025	45,960	35.0%
Casualty losses	71,255	59,701	19.4%	59,701	56,229	6.2%
Total accident year losses	<u>\$127,277</u>	<u>\$121,726</u>	<u>4.6%</u>	<u>\$121,726</u>	<u>\$102,189</u>	<u>19.1%</u>

	Years Ended December 31,			Years Ended December 31,		
	2019	2018	Point Change	2018	2017	Point Change
Current accident year loss ratio:						
Property						
Non-catastrophe	41.6%	43.3%	(1.7)	43.3%	39.8%	3.5
Catastrophe	9.0%	10.6%	(1.6)	10.6%	11.2%	(0.6)
Property loss ratio	50.6%	53.9%	(3.3)	53.9%	51.0%	2.9
Casualty loss ratio	56.1%	57.9%	(1.8)	57.9%	63.4%	(5.5)
Total accident year loss ratio	<u>53.5%</u>	<u>55.7%</u>	<u>(2.2)</u>	<u>55.7%</u>	<u>57.2%</u>	<u>(1.5)</u>

The current accident year property non-catastrophe loss ratio for 2019 improved by 1.7 points compared to 2018. The loss ratio improvement reflects a lower claims severity compared to last year as each accident quarter except for the third accident quarter had a lower claims severity compared to the same accident quarters last year. The twelve-month claims incurred frequency was unchanged from last year. The current accident year property non-catastrophe loss ratio for 2018 increased by 3.5 points compared to 2017. The increase in the loss ratio reflects a higher claims severity for each of the accident quarters of 2018 compared to the same accident quarters last year.

The current accident year property catastrophe loss ratio for 2019 improved by 1.6 points compared to 2018 reflecting a lower claims severity compared to last year. The twelve-month claims incurred frequency was unchanged from last year. The current accident year property catastrophe loss ratio for 2018 improved by 0.6 points compared to 2017. The loss ratio improvement reflects lower claims frequency compared to last year particularly in the third accident quarter.

The current accident year casualty loss ratio for 2019 improved by 1.8 points compared to 2018 reflecting lower claims frequency compared to last year. The claims frequency was lower for each accident quarter compared to the same accident quarters last year. The current accident year casualty loss ratio for 2018 improved by 5.5 points compared to 2017 driven primarily by a lower claims severity for each of the accident quarters of 2018 compared to the same accident quarters last year.

The calendar year loss ratio for the years ended December 31, 2019, 2018, and 2017 includes a decrease of \$18.4 million, or 7.7% percentage points, a decrease of \$7.3 million or 3.3% percentage points, and a decrease of \$39.4 million or 22.0% percentage points, respectively, related to reserve development on prior accident years. Please see Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report for further discussion on prior accident year development.

Expense Ratios

The expense ratio increased 0.6 points from 40.0% for 2018 to 40.6% for 2019 primarily due to an increase in compensation cost related to good results for 2019.

The expense ratio improved 2.5 points from 42.5% for 2017 to 40.0% for 2018. The improvement in the expense ratio is primarily due to an increase in the net earned premiums as discussed above offset by an increase in contingent commissions.

Specialty Property

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

(Dollars in thousands)	Years Ended December 31,		% Change	Years Ended December 31,		% Change
	2019 (3)	2018 (3)		2018 (3)	2017 (3)	
Gross written premiums (1)	\$163,503	\$170,168	(3.9%)	\$170,168	\$173,780	(2.1%)
Net written premiums	\$140,670	\$127,470	10.4%	\$127,470	\$144,271	(11.6%)
Net earned premiums	\$140,232	\$128,768	8.9%	\$128,768	\$149,786	(14.0%)
Other income	1,820	1,782	2.1%	1,782	6,013	(70.4%)
Total revenues	142,052	130,550	8.8%	130,550	155,799	(16.2%)
Losses and expenses:						
Net losses and loss adjustment expenses	75,426	122,709	(38.5%)	122,709	112,055	9.5%
Acquisition costs and other underwriting expenses (2)	58,768	55,760	5.4%	55,760	63,477	(12.2%)
Underwriting income (loss)	\$ 7,858	\$ (47,919)	116.4%	\$ (47,919)	\$ (19,733)	(142.8%)

Underwriting Ratios:	Years Ended December 31,		Point Change	Years Ended December 31,		Point Change
	2019 (3)	2018 (3)		2018 (3)	2017 (3)	
Loss ratio:						
Current accident year	61.5%	101.4%	(39.9)	101.4%	75.9%	25.5
Prior accident year	(7.7%)	(6.1%)	(1.6)	(6.1%)	(1.1%)	(5.0)
Calendar year loss ratio	53.8%	95.3%	(41.5)	95.3%	74.8%	20.5
Expense ratio	41.9%	43.3%	(1.4)	43.3%	42.4%	0.9
Combined ratio	95.7%	138.6%	(42.9)	138.6%	117.2%	21.4

- (1) Includes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement of (\$0.3) million, (\$2.1) million, and (\$1.3) million during the years ended December 31, 2019, 2018, and 2017, respectively.
- (2) Includes excise tax related to cessions from the Company's Specialty Property segment to its Reinsurance Operations of \$0.3 million, and \$0.6 million for the years ended December 31, 2018 and 2017, respectively. Due to the termination of the quota share agreement in 2018, there was no excise tax related to cessions from the Company's Specialty Property segment to its Reinsurance Operations for the year ended December 31, 2019.
- (3) Includes business ceded to the Company's Reinsurance Operations under a quota share agreement. This quota share agreement was cancelled effective January 1, 2018.

Reconciliation of non-GAAP financial measures and ratios

The table below reconciles the non-GAAP measures or ratios, which excludes the impact of prior accident year adjustments, to its most directly comparable GAAP measure or ratio. The Company believes the non-GAAP measures or ratios are useful to investors when evaluating the Company's underwriting performance as trends in the Company's Specialty Property segment may be obscured by prior accident year adjustments. These non-GAAP measures or ratios should not be considered as a substitute for its most directly comparable GAAP measure or ratio and does not reflect the overall underwriting profitability of the Company.

	Years Ended December 31,					
	2019		2018		2017	
	Losses \$	Loss Ratio	Losses \$	Loss Ratio	Losses \$	Loss Ratio
Property						
Non catastrophe property losses and ratio excluding the effect of prior accident year (1)	\$ 67,944	52.5%	\$ 68,492	58.2%	\$ 74,814	54.3%
Effect of prior accident year	121	0.1%	(4,153)	(3.5%)	(2,498)	(1.8%)
Non catastrophe property losses and ratio (2)	<u>\$ 68,065</u>	<u>52.6%</u>	<u>\$ 64,339</u>	<u>54.7%</u>	<u>\$ 72,316</u>	<u>52.5%</u>
Catastrophe losses and ratio excluding the effect of prior accident year (1)	\$ 12,375	9.6%	\$ 54,905	46.7%	\$ 29,445	21.4%
Effect of prior accident year	(10,308)	(8.0%)	(1,575)	(1.3%)	(1,516)	(1.1%)
Catastrophe losses and ratio (2)	<u>\$ 2,067</u>	<u>1.6%</u>	<u>\$ 53,330</u>	<u>45.4%</u>	<u>\$ 27,929</u>	<u>20.3%</u>
Total property losses and ratio excluding the effect of prior accident year (1)	\$ 80,319	62.1%	\$123,397	104.9%	\$104,259	75.7%
Effect of prior accident year	(10,187)	(7.9%)	(5,728)	(4.8%)	(4,014)	(2.9%)
Total property losses and ratio (2)	<u>\$ 70,132</u>	<u>54.2%</u>	<u>\$117,669</u>	<u>100.1%</u>	<u>\$100,245</u>	<u>72.8%</u>
Casualty						
Total Casualty losses and ratio excluding the effect of prior accident year (1)	\$ 5,957	55.3%	\$ 7,198	64.8%	\$ 9,387	77.6%
Effect of prior accident year	(663)	(6.2%)	(2,158)	(19.4%)	2,423	20.0%
Total Casualty losses and ratio (2)	<u>\$ 5,294</u>	<u>49.1%</u>	<u>\$ 5,040</u>	<u>45.4%</u>	<u>\$ 11,810</u>	<u>97.6%</u>
Total						
Total net losses and loss adjustment expense and total loss ratio excluding the effect of prior accident year (1)	\$ 86,276	61.5%	\$130,595	101.4%	\$113,646	75.9%
Effect of prior accident year	(10,850)	(7.7%)	(7,886)	(6.1%)	(1,591)	(1.1%)
Total net losses and loss adjustment expense and total loss ratio (2)	<u>\$ 75,426</u>	<u>53.8%</u>	<u>\$122,709</u>	<u>95.3%</u>	<u>\$112,055</u>	<u>74.8%</u>

- (1) Non-GAAP measure / ratio
(2) Most directly comparable GAAP measure / ratio

Premiums

See "Result of Operations" above for a discussion on consolidated premiums for 2019.

Other Income

Other income was \$1.8 million, \$1.8 million and \$6.0 million for the years ended December 31, 2019, 2018, and 2017, respectively. In 2019 and 2018, other income is primarily comprised of fee income. In 2017, other income is comprised of fee income, commission income and accrued interest on the anticipated indemnification of unpaid losses and loss adjustment expense reserves. The reduction in other income in 2018 as compared to 2017 was primarily due to the Company settling its final reserve calculation with American Bankers Group, Inc. with an effective date of December 31, 2017 resulting in no interest on the loss indemnification being accrued in 2018.

Loss Ratio

The current accident year losses and loss ratio is summarized as follows:

(Dollars in thousands)	Years Ended December 31,		% Change	Years Ended December 31,		% Change
	2019	2018		2018	2017	
Property losses						
Non-catastrophe	\$67,944	\$ 68,492	(0.8%)	\$ 68,492	\$ 74,814	(8.5%)
Catastrophe	12,375	54,905	(77.5%)	54,905	29,445	86.5%
Property losses	80,319	123,397	(34.9%)	123,397	104,259	18.4%
Casualty losses	5,957	7,198	(17.2%)	7,198	9,387	(23.3%)
Total accident year losses	\$86,276	\$130,595	(33.9%)	\$130,595	\$113,646	14.9%

	Years Ended December 31,		Point Change	Years Ended December 31,		Point Change
	2019	2018		2018	2017	
Current accident year loss ratio:						
Property						
Non-catastrophe	52.5%	58.2%	(5.7)	58.2%	54.3%	3.9
Catastrophe	9.6%	46.7%	(37.1)	46.7%	21.4%	25.3
Property loss ratio	62.1%	104.9%	(42.8)	104.9%	75.7%	29.2
Casualty loss ratio	55.3%	64.8%	(9.5)	64.8%	77.6%	(12.8)
Total accident year loss ratio	61.5%	101.4%	(39.9)	101.4%	75.9%	25.5

The current accident year property non-catastrophe loss ratio for 2019 improved by 5.7 points compared to 2018. The decrease in the loss ratio reflects a lower claims frequency through twelve months compared to last year. The current accident year property non-catastrophe loss ratio for 2018 increased by 3.9 point compared to 2017 mainly due to a higher claims severity compared to last year.

The current accident year property catastrophe loss ratio for 2019 improved by 37.1 points compared to 2018 reflecting a lower claims frequency and severity for each accident quarter through twelve months compared to last year. The current accident year property catastrophe loss ratio for 2018 increased by 25.3 point compared to 2017. The increase recognizes a slightly higher claims frequency and much higher claims severity compared to 2017. The 2018 accident year loss ratio reflects the impact from multiple large catastrophes, including the Carr & Camp California wildfires and Hurricane Michael. There were also many smaller catastrophes impacting the 2018 accident year. The Company has taken action to reduce property exposure in California to improve results in this segment.

The current accident year casualty loss ratio for 2019 improved by 9.5 points compared to 2018. The improvement reflects a lower claims frequency and severity through twelve months compared to last year. The current accident year casualty loss ratio for 2018 improved by 12.8 points compared to 2017 driven by a lower claims frequency and severity.

The calendar year loss ratio for the years ended December 31, 2019, 2018, and 2017 includes a decrease of \$10.9 million, or 7.7 percentage points, a decrease of \$7.9 million, or 6.1 percentage points, and an decrease of \$1.6 million, or 1.1 percentage points, respectively, related to reserve development on prior accident years. Please see Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report for further discussion on prior accident year development.

Expense Ratios

The expense ratio improved 1.4 points from 43.3% for 2018 to 41.9% for 2019 primarily due to an increase in net earned premiums as discussed above partially offset by an increase in commission expense.

The expense ratio increased 0.9 points from 42.4% for 2017 to 43.3% for 2018 mainly due to a reduction in net earned premiums as discussed above partially offset by a reduction in commission expense due to mix of business.

Farm, Ranch, & Stable

The components of income from the Company's Farm, Ranch, & Stable segment and corresponding underwriting ratios are as follows:

(Dollars in thousands)	Years Ended December 31,		%	Years Ended December 31,		%
	2019 (2)	2018 (2)		2018 (2)	2017 (2)	
Gross written premiums	\$87,745	\$79,738	10.0%	\$79,738	\$ 75,997	4.9%
Net written premiums	\$74,416	\$70,217	6.0%	\$70,217	\$ 65,528	7.2%
Net earned premiums	\$71,312	\$69,248	3.0%	\$69,248	\$ 66,197	4.6%
Other income	132	156	(15.4%)	156	275	(43.3%)
Total revenues	71,444	69,404	2.9%	69,404	66,472	4.4%
Losses and expenses:						
Net losses and loss adjustment expenses	42,700	41,180	3.7%	41,180	53,743	(23.4%)
Acquisition costs and other underwriting expenses (1)	29,551	29,801	(0.8%)	29,801	29,636	0.6%
Underwriting income (loss)	\$ (807)	\$ (1,577)	48.8%	\$ (1,577)	\$ (16,907)	90.7%

Underwriting Ratios:	Years Ended December 31,		Point Change	Years Ended December 31,		Point Change
	2019 (2)	2018 (2)		2018 (2)	2017 (2)	
Loss ratio:						
Current accident year	67.6%	66.3%	1.3	66.3%	88.8%	(22.5)
Prior accident year	(7.8%)	(6.9%)	(0.9)	(6.9%)	(7.6%)	0.7
Calendar year loss ratio	59.8%	59.4%	0.4	59.4%	81.2%	(21.8)
Expense ratio	41.4%	43.0%	(1.6)	43.0%	44.8%	(1.8)
Combined ratio	101.2%	102.4%	(1.2)	102.4%	126.0%	(23.6)

- (1) Includes excise tax related to cessions from the Company's Farm, Ranch, & Stable segment to its Reinsurance Operations of \$0.1 million and \$0.3 million for the years ended December 31, 2018 and 2017, respectively. Due to the termination of the quota share agreement in 2018, there was no excise tax related to cessions from the Company's Farm, Ranch, & Stable segment to its Reinsurance Operations for the year ended December 31, 2019.
- (2) Includes business ceded to the Company's Reinsurance Operations under a quota share agreement. This quota share agreement was cancelled effective January 1, 2018.

Reconciliation of non-GAAP financial measures and ratios

The table below reconciles the non-GAAP measures or ratios, which excludes the impact of prior accident year adjustments, to its most directly comparable GAAP measure or ratio. The Company believes the non-GAAP measures or ratios are useful to investors when evaluating the Company's underwriting performance as trends in the Company's Farm, Ranch, & Stable segment may be obscured by prior accident year adjustments. These non-GAAP measures or ratios should not be considered as a substitute for its most directly comparable GAAP measure or ratio and does not reflect the overall underwriting profitability of the Company.

	Years Ended December 31,					
	2019		2018		2017	
	Losses \$	Loss Ratio	Losses \$	Loss Ratio	Losses \$	Loss Ratio
Property						
Non catastrophe property losses and ratio excluding the effect of prior accident year (1)	\$29,892	58.7%	\$21,996	44.3%	\$23,862	52.1%
Effect of prior accident year	(2,031)	(4.0%)	(2,072)	(4.2%)	(1,435)	(3.1%)
Non catastrophe property losses and ratio (2)	<u>\$27,861</u>	<u>54.7%</u>	<u>\$19,924</u>	<u>40.1%</u>	<u>\$22,427</u>	<u>49.0%</u>
Catastrophe losses and ratio excluding the effect of prior accident year (1)	\$ 8,074	15.9%	\$13,519	27.2%	\$21,570	47.1%
Effect of prior accident year	(1,855)	(3.6%)	791	1.6%	(672)	(1.5%)
Catastrophe losses and ratio (2)	<u>\$ 6,219</u>	<u>12.3%</u>	<u>\$14,310</u>	<u>28.8%</u>	<u>\$20,898</u>	<u>45.6%</u>
Total property losses and ratio excluding the effect of prior accident year (1)	\$37,966	74.6%	\$35,515	71.5%	\$45,432	99.2%
Effect of prior accident year	(3,886)	(7.6%)	(1,281)	(2.6%)	(2,107)	(4.6%)
Total property losses and ratio (2)	<u>\$34,080</u>	<u>67.0%</u>	<u>\$34,234</u>	<u>68.9%</u>	<u>\$43,325</u>	<u>94.6%</u>
Casualty						
Total Casualty losses and ratio excluding the effect of prior accident year (1)	\$10,264	50.3%	\$10,414	53.1%	\$13,324	65.2%
Effect of prior accident year	(1,644)	(8.1%)	(3,468)	(17.7%)	(2,906)	(14.2%)
Total Casualty losses and ratio (2)	<u>\$ 8,620</u>	<u>42.2%</u>	<u>\$ 6,946</u>	<u>35.4%</u>	<u>\$10,418</u>	<u>51.0%</u>
Total						
Total net losses and loss adjustment expense and total loss ratio excluding the effect of prior accident year (1)	\$48,230	67.6%	\$45,929	66.3%	\$58,756	88.8%
Effect of prior accident year	(5,530)	(7.8%)	(4,749)	(6.9%)	(5,013)	(7.6%)
Total net losses and loss adjustment expense and total loss ratio (2)	<u>\$42,700</u>	<u>59.8%</u>	<u>\$41,180</u>	<u>59.4%</u>	<u>\$53,743</u>	<u>81.2%</u>

(1) Non-GAAP measure / ratio

(2) Most directly comparable GAAP measure / ratio

Premiums

See "Result of Operations" above for a discussion on consolidated premiums for 2019.

Other Income

Other income was \$0.1 million, \$0.2 million and \$0.3 million for the years ended December 31, 2019, 2018, and 2017, respectively. Other income is primarily comprised of fee income.

Loss Ratio

The current accident year losses and loss ratio is summarized as follows:

(Dollars in thousands)	Years Ended December 31,		% Change	Years Ended December 31,		% Change
	2019	2018		2018	2017	
Property losses						
Non-catastrophe	\$29,892	\$21,996	35.9%	\$21,996	\$23,862	(7.8%)
Catastrophe	8,074	13,519	(40.3%)	13,519	21,570	(37.3%)
Property losses	37,966	35,515	6.9%	35,515	45,432	(21.8%)
Casualty losses	10,264	10,414	(1.4%)	10,414	13,324	(21.8%)
Total accident year losses	<u>\$48,230</u>	<u>\$45,929</u>	<u>5.0%</u>	<u>\$45,929</u>	<u>\$58,756</u>	<u>(21.8%)</u>

	Years Ended December 31,		Point Change	Years Ended December 31,		Point Change
	2019	2018		2018	2017	
Current accident year loss ratio:						
Property						
Non-catastrophe	58.7%	44.3%	14.4	44.3%	52.1%	(7.8)
Catastrophe	15.9%	27.2%	(11.3)	27.2%	47.1%	(19.9)
Property loss ratio	74.6%	71.5%	3.1	71.5%	99.2%	(27.7)
Casualty loss ratio	50.3%	53.1%	(2.8)	53.1%	65.2%	(12.1)
Total accident year loss ratio	<u>67.6%</u>	<u>66.3%</u>	<u>1.3</u>	<u>66.3%</u>	<u>88.8%</u>	<u>(22.5)</u>

The current accident year property non-catastrophe loss ratio for 2019 increased by 14.4 points compared to 2018 reflecting a higher claims frequency and severity through twelve months compared to last year. The current accident year property non-catastrophe loss ratio for 2018 improved by 7.8 point compared to 2017 due to a lower claims severity compared to last year.

The current accident year property catastrophe loss ratio for 2019 improved by 11.3 points compared to 2018 reflecting a lower claims frequency and severity through twelve months compared to last year. The current accident year property catastrophe loss ratio for 2018 improved by 19.9 point compared to 2017. The decrease recognizes a lower claims frequency and also reflects that the 2017 accident year was impacted by hurricanes Harvey & Maria, California wildfires, and convective storms.

The current accident year casualty loss ratio for 2019 improved by 2.8 points compared to 2018. The decrease in the loss ratio reflects a lower claims severity through twelve months compared to last year. The current accident year casualty loss ratio for 2018 improved by 12.1 points compared to 2017 driven primarily by a lower claims severity.

The calendar year loss ratio for the years ended December 31, 2019, 2018, and 2017 includes a decrease of \$5.5 million, or 7.8 percentage points, a decrease of \$4.7 million, or 6.9 percentage points, and an decrease of \$5.0 million, or 7.6 percentage points, respectively, related to reserve development on prior accident years. Please see Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report for further discussion on prior accident year development.

Expense Ratios

The expense ratio improved 1.6 points from 43.0% for 2018 to 41.4% for 2019 primarily due to an increase in net earned premiums as discussed above as well as a decrease in commission expense.

The expense ratio improved 1.8 points from 44.8% for 2017 to 43.0% for 2018 primarily due to an increase in net earned premiums as discussed above.

Reinsurance Operations

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

(Dollars in thousands)	Years Ended December 31,			Years Ended December 31,		
	2019 (1)	2018 (1)	% Change	2018 (1)	2017 (1)	% Change
Gross written premiums	\$88,281	\$ 48,043	83.8%	\$ 48,043	\$ 53,887	(10.8%)
Net written premiums	\$88,284	\$ 48,033	83.8%	\$ 48,033	\$ 53,933	(10.9%)
Net earned premiums	\$75,960	\$ 51,402	47.8%	\$ 51,402	\$ 43,253	18.8%
Other income (loss)	(136)	(210)	35.2%	(210)	216	(197.2%)
Total revenues	75,824	51,192	48.1%	51,192	43,469	17.8%
Losses and expenses:						
Net losses and loss adjustment expenses	48,365	56,260	(14.0%)	56,260	40,580	38.6%
Acquisition costs and other underwriting expenses	23,609	17,846	32.3%	17,846	14,630	22.0%
Underwriting income (loss)	\$ 3,850	\$(22,914)	(116.8%)	\$(22,914)	\$(11,741)	95.2%

Underwriting Ratios:	Years Ended December 31,			Years Ended December 31,		
	2019 (1)	2018 (1)	Point Change	2018 (1)	2017 (1)	Point Change
Loss ratio:						
Current accident year (2)	61.1%	126.8%	(65.7)	126.8%	112.2%	14.6
Prior accident year	2.6%	(17.3%)	19.9	(17.3%)	(18.4%)	1.1
Calendar year loss ratio (3)	63.7%	109.5%	(45.8)	109.5%	93.8%	15.7
Expense ratio	31.1%	34.7%	(3.6)	34.7%	33.8%	0.9
Combined ratio	94.8%	144.2%	(49.4)	144.2%	127.6%	16.6

(1) External business only, excluding business assumed from affiliates

(2) Non-GAAP ratio

(3) Most directly comparable GAAP ratio

Reconciliation of non-GAAP financial ratios

The table above includes a reconciliation of the current accident year loss ratio, which is a non-GAAP ratio, to its calendar year loss ratio, which is its most directly comparable GAAP ratio. The Company believes this non-GAAP ratio is useful to investors when evaluating the Company's underwriting performance as trends in the Company's Reinsurance Operations may be obscured by prior accident year adjustments. This non-GAAP ratio should not be considered as a substitute for its most directly comparable GAAP ratio and does not reflect the overall underwriting profitability of the Company.

Premiums

See "Result of Operations" above for a discussion on consolidated premiums.

Other Income (Loss)

Reinsurance Operations recognized other loss of \$0.1 million in 2019, other loss of \$0.2 million in 2018, and other income of \$0.2 million in 2017. Other income (loss) is comprised of foreign exchange gains and losses.

Loss Ratio

The current accident year loss ratio for 2019 improved by 65.7 points compared to 2018 reflecting an improvement in the loss ratios for both the property and casualty treaties through twelve months compared to last year. The current accident year loss ratio for 2018 increased by 14.6 points compared to 2017. The increase is driven by higher losses in the property catastrophe contracts. The 2018 accident year loss ratio reflects the impact from multiple large catastrophes, including Typhoons Jebi & Trami, Hurricanes Florence & Michael, and the California wildfires.

The calendar year loss ratio for the years ended December 31, 2019, 2018, and 2017 includes an increase of \$1.9 million, or 2.6 percentage points, a decrease of \$8.9 million or 17.3 percentage points, and a decrease of \$7.9 million or 18.4 percentage points, respectively, related to reserve development on prior accident years. Please see Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report for further discussion on prior accident year development.

Expense Ratio

The expense ratio improved 3.6 points from 34.7% for 2018 to 31.1% for 2019. The improvement in the expense ratio is primarily due to an increase in the net earned premiums as discussed above as well as a reduction in contingent commissions due to prior accident year development.

The expense ratio increased 0.9 points from 33.8% for 2017 to 34.7% for 2018. This was primarily due to the expense ratio for 2017 being lower than it otherwise would have been due to receiving a federal excise tax refund related to prior years during the year ended December 31, 2017.

Unallocated Corporate Items

The Company's fixed income portfolio, excluding cash, continues to maintain high quality with an A+ average rating and a duration of 4.2 years.

Net Investment Income

(Dollars in thousands)	Years Ended December 31,			Years Ended December 31,		
	2019	2018	% Change	2018	2017	% Change
Gross investment income (1)	\$45,267	\$49,178	(8.0%)	\$49,178	\$42,250	16.4%
Investment expenses	(3,215)	(2,836)	13.4%	(2,836)	(2,927)	(3.1%)
Net investment income	<u>\$42,052</u>	<u>\$46,342</u>	<u>(9.3%)</u>	<u>\$46,342</u>	<u>\$39,323</u>	<u>17.8%</u>

(1) Excludes realized gains and losses

Gross investment income for 2019 decreased by 8.0% and net investment income for 2019 decreased by 9.3% compared to 2018. The decrease was primarily due to decreased returns from alternative investments offset by an increase in dividend income related to equity securities. Gross investment income for 2018 increased by 16.4% and net investment income for 2018 increased by 17.8% compared to 2017. The increase was primarily due to the increase in yield within the fixed maturities portfolio due to extending duration in 2017, and increased returns from alternative investments.

At December 31, 2019, the Company held agency mortgage-backed securities with a market value of \$181.5 million. Excluding the agency mortgage-backed securities, the average duration of the Company's fixed maturities portfolio was 4.4 years as of December 31, 2019, compared with 3.1 years as of December 31, 2018. Including cash and short-term investments, the average duration of the Company's fixed maturities portfolio, excluding agency mortgage-backed securities, was 4.2 years as of December 31, 2019, compared to 2.9 years as of December 31, 2018. Changes in interest rates can cause principal payments on certain investments to extend or shorten which can impact duration. At December 31, 2019, the Company's embedded book yield on its fixed maturities, not including cash, was 3.0% compared with 3.1% at December 31, 2018. The embedded book yield on the \$63.8 million of municipal bonds in the Company's portfolio, which includes \$63.4 million of taxable municipal bonds, was 3.2% at December 31, 2019, compared to an embedded book yield of 3.2% on the Company's municipal bond portfolio of \$95.6 million at December 31, 2018.

At December 31, 2018, the Company held agency mortgage-backed securities with a market value of \$21.0 million. Excluding the agency mortgage-backed securities, the average duration of the Company's fixed maturities portfolio was 3.1 years as of December 31, 2018, compared with 3.2 years as of December 31, 2017. Including cash and short-term investments, the average duration of the Company's fixed maturities portfolio, excluding agency mortgage-backed securities, was 2.9 years as of December 31, 2018 compared with 3.0 years as of December 31, 2017. Changes in interest rates can cause principal payments on certain investments to extend or shorten which can impact duration. At December 31, 2018, the Company's embedded book yield on its fixed maturities, not including cash, was 3.1% compared with 2.7% at December 31, 2017. The embedded book yield on the \$95.6 million of municipal bonds in the Company's portfolio, which includes \$94.9 million of taxable municipal bonds, was 3.2% at December 31, 2018, compared to an embedded book yield of 3.0% on the Company's municipal bond portfolio of \$95.1 million at December 31, 2017.

Net Realized Investment Gains (Losses)

The components of net realized investment gains (losses) for the years ended December 31, 2019, 2018, and 2017 were as follows:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Equity Securities	\$33,993	\$(16,101)	\$ 3,547
Fixed maturities	7,956	(2,467)	710
Derivatives	(4,710)	2,117	(75)
Other than temporary impairment losses	(1,897)	(456)	(2,606)
Net realized investment gains (losses)	<u>\$35,342</u>	<u>\$(16,907)</u>	<u>\$ 1,576</u>

See Note 3 of the notes to the consolidated financial statements in Item 8 of Part II of this report for an analysis of total investment return on a pre-tax basis for the years ended December 31, 2019, 2018, and 2017.

Corporate and Other Operating Expenses

Corporate and other operating expenses consist of outside legal fees, other professional fees, directors' fees, management fees & advisory 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 \$18.9 million, \$29.8 million, and \$25.7 million during the years ended December 31, 2019, 2018, and 2017, respectively. The reduction in 2019 as compared to 2018 is primarily due to incurring an advisory fee related to the Reorganization transaction of \$12.5 million during 2018. The increase in 2018 as compared to 2017 is primarily due to an increase in professional fees.

Interest Expense

Interest expense was \$20.0 million, \$19.7 million, and \$16.9 million during the years ended December 31, 2019, 2018, and 2017, respectively. The increase in 2019 as compared to 2018 is primarily due to increased borrowings on the Margin Borrowing Facility. The increase in 2018 as compared to 2017 is primarily due to the Company's \$130 million debt offering in March, 2017.

See Note 10 of the notes to the consolidated financial statements in Item 8 of Part II of this report for details on the Company's debt.

Income Tax Benefit/ Expense

The income tax expense was \$11.7 million for the year ended December 31, 2019 compared with income tax benefit of \$19.2 million for the year ended December 31, 2018. The increase in the income tax expense is primarily due to an increase in pretax income in the U.S. The income tax benefit was \$19.2 million for the year ended December 31, 2018 compared with income tax benefit of \$0.5 million for the year ended December 31, 2017. The increase in the income tax benefit is primarily due to a \$17.5 million tax expense recorded in 2017 as a result of the TCJA enacted in 2017 resulting in lowering the tax rate from 35% to 21% which caused the Company to write down its deferred tax asset offset by an increase in losses incurred by the Company's non-U.S. operations in 2018 compared to 2017.

See Note 8 of the notes to the consolidated financial statements in Item 8 of Part II of this report for a comparison of income tax between periods.

Net Income (Loss)

The factors described above resulted in net income of \$70.0 million, a net loss of \$56.7 million, and a net income of \$9.6 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Liquidity and Capital Resources

Sources and Uses of Funds

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

Global Indemnity's short term and long term liquidity needs include but are not limited to the payment of corporate expenses, debt service payments, dividend payments to shareholders, and share repurchases. In order to meet their short term and long term needs, the Company's principal sources of cash includes dividends from subsidiaries, other permitted disbursements from its direct and indirect subsidiaries, reimbursement for equity awards granted to employees and intercompany borrowings. The principal sources of funds at these direct and indirect subsidiaries include underwriting operations, investment income, proceeds from sales and redemptions of investments, capital contributions, intercompany borrowings, and dividends from subsidiaries. Funds are used principally by these operating subsidiaries to pay claims and operating expenses, to make debt payments, fund margin requirements on interest rate swap agreements, to purchase investments, and to make dividend payments. In addition, the Company periodically reviews opportunities related to business acquisitions and as a result, liquidity may be needed in the future.

The future liquidity of Global Indemnity is dependent on the ability of its subsidiaries to pay dividends. Global Indemnity's U.S. insurance companies are restricted by statute as to the amount of dividends that they may pay without the prior approval of regulatory authorities. The dividend limitations imposed by state laws are based on the statutory financial results of each insurance company within the Insurance Operations that are determined by using statutory accounting practices that differ in various respects from accounting principles used in financial statements prepared in conformity with GAAP. See "Regulation—Statutory Accounting Principles." Key differences relate to, among other items, deferred acquisition costs, limitations on deferred income taxes, reserve calculation assumptions and surplus notes.

Under Indiana law, Diamond State Insurance Company may not pay any dividend or make any distribution of cash or other property, the fair market value of which, together with that of any other dividends or distributions made within the 12 consecutive months ending on the date on which the proposed dividend or distribution is scheduled to be made, exceeds the greater of (1) 10% of its surplus as of the 31st day of December of the last preceding year, or (2) its net income for the 12 month period ending on the 31st day of December of the last preceding year, unless the commissioner approves the proposed payment or fails to disapprove such payment within 30 days after receiving notice of such payment. An additional limitation is that Indiana does not permit a domestic insurer to declare or pay a dividend except out of unassigned surplus unless otherwise approved by the commissioner before the dividend is paid.

Under Pennsylvania law, United National Insurance Company, Penn-America Insurance Company, and Penn-Star Insurance Company may not pay any dividend or make any distribution that, together with other dividends or distributions made within the preceding 12 consecutive months, exceeds the greater of (1) 10% of its surplus as shown on its last annual statement on file with the commissioner or (2) its net income for the period covered by such statement, not including pro rata distributions of any class of its own securities, unless the commissioner has received notice from the insurer of the declaration of the dividend and the commissioner approves the proposed payment or fails to disapprove such payment within 30 days after receiving notice of such payment. An additional limitation is that Pennsylvania does not permit a domestic insurer to declare or pay a dividend except out of unassigned funds (surplus) unless otherwise approved by the commissioner before the dividend is paid. Furthermore, no dividend or other distribution may be declared or paid by a Pennsylvania insurance company that would reduce its total capital and surplus to an amount that is less than the amount required by the Insurance Department for the kind or kinds of business that it is authorized to transact. Pennsylvania law allows loans to affiliates up to 10% of statutory surplus without prior regulatory approval.

Under Virginia law, Penn-Patriot Insurance Company may not pay any dividend or make any distribution of cash or other property, the fair market value of which, together with that of any other dividends or distributions made within the preceding 12 consecutive months exceeds the lesser of either (1) 10% of its surplus as of the 31st day of December of the last preceding year, or (2) its net income, not including net realized capital gains, for the 12 month period ending on the 31st day of December of the last preceding year, not including pro rata distributions of any class of its securities, unless the commissioner approves the proposed payment or fails to disapprove such payment within 30 days after receiving notice of such payment. In determining whether the dividend must be approved, undistributed net income from the second and third preceding years, not including net realized capital gains, may be carried forward.

Under Arizona law, American Reliable Insurance Company may not pay any dividend or make any distribution of cash or other property, the fair market value of which, together with that of any other dividends or distributions made within the preceding 12 months exceeds the lesser of either (1) 10% of its surplus as of the 31st day of December of the last preceding year, or (2) its net income for the 12 month period ending on the 31st day of December of the last preceding year, not including pro rata distributions of any class of its securities, unless the commissioner approves the proposed payment or fails to disapprove such payment within 30 days after receiving notice of such payment.

In 2019, the U.S. insurance companies did not declare or pay a dividend. See Note 18 of the notes to consolidated financial statements in Item 8 of Part II of this report for the maximum amount of distributions that U.S. insurance companies could pay as dividends in 2020.

Global Indemnity Reinsurance is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital or 25% or more of its total statutory capital and surplus 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 2019 statutory financial statements that will be filed in 2020, the Company believes Global Indemnity Reinsurance could pay a dividend of up to \$198.8 million without requesting BMA approval. For 2020, the Company believes that Global Indemnity Reinsurance, including distributions it could receive from its subsidiaries, should have sufficient liquidity and solvency to pay dividends. In 2019, Global Indemnity Reinsurance did not declare or pay a dividend to its parent, Global Indemnity.

Surplus Levels

Global Indemnity's U.S. insurance companies are required by law to maintain a certain minimum level of policyholders' surplus on a statutory basis. Policyholders' surplus is calculated by subtracting total liabilities from total assets. The NAIC has risk-based capital standards that are designed to identify property and casualty insurers that may be inadequately capitalized based on the inherent risks of each insurer's assets and liabilities and mix of net written premiums. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action. Based on the standards currently adopted, the policyholders' surplus of each of the U.S. insurance companies is in excess of the prescribed minimum company action level risk-based capital requirements.

Sources of operating funds consist primarily of net written premiums and investment income. Funds are used primarily to pay claims and operating expenses and to purchase investments. As a result of the new dividend policy, funds may also be used in the future to pay dividends to shareholders of Global Indemnity Limited.

The Company's reconciliation of net income (loss) to net cash provided by (used for) operations is generally influenced by the following:

- the fact that the Company collect premiums, net of commission, in advance of losses paid;
- the timing of the Company's settlements with its reinsurers; and
- the timing of the Company's loss payments.

Net cash provided by (used for) operating activities in 2019, 2018, and 2017 was \$32.4 million, \$42.1 million and (\$18.9) million, respectively.

In 2019, the decrease in operating cash flows of approximately \$9.7 million from the prior year was primarily a net result of the following items:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Net premiums collected	\$ 531,637	\$ 476,885	\$ 54,752
Net losses paid	(298,788)	(298,616)	(172)
Underwriting and corporate expenses	(229,645)	(218,429)	(11,216)
Net investment income	48,964	57,430	(8,466)
Net federal income taxes paid	(81)	(859)	778
Recovery of loss indemnification (1)	—	45,045	(45,045)
Interest paid	(19,711)	(19,387)	(324)
Net cash provided by operating activities	<u>\$ 32,376</u>	<u>\$ 42,069</u>	<u>\$ (9,693)</u>

- (1) Excludes a \$3.5 million payment related to a purchase price adjustment for American Reliable in 2018. This payment is included in the net cash used in investing activities on the Company's Consolidated Statement of Cash Flows in 2018. The recovery on loss indemnification, net of the purchase price adjustment, is \$41.5 million in 2018. For additional information on the loss indemnification, please see Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

In 2018, the increase in operating cash flows of approximately \$61.0 million from the prior year was primarily a net result of the following items:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Net premiums collected	\$ 476,885	\$ 422,075	\$ 54,810
Net losses paid	(298,616)	(266,238)	(32,378)
Underwriting and corporate expenses	(218,429)	(202,055)	(16,374)
Net investment income	57,430	41,927	15,503
Net federal income taxes paid	(859)	(114)	(745)
Recovery of loss indemnification (1)	45,045	—	45,045
Interest paid	(19,387)	(14,504)	(4,883)
Net cash provided by (used for) operating activities	<u>\$ 42,069</u>	<u>\$ (18,909)</u>	<u>\$ 60,978</u>

- (1) Excludes a \$3.5 million payment related to a purchase price adjustment for American Reliable in 2018. This payment is included in the net cash used in investing activities on the Company's Consolidated Statement of Cash Flows in 2018. The recovery on loss indemnification, net of the purchase price adjustment, is \$41.5 million in 2018. For additional information on the loss indemnification, please see Note 9 of the notes to the consolidated financial statements in Item 8 of Part II of this report.

See the consolidated statements of cash flows in the financial statements in Item 8 of Part II of this report for details concerning the Company's investing and financing activities.

Liquidity

Currently, the Company believes each company in its Insurance Operations and Reinsurance Operations maintains sufficient liquidity to pay claims through cash generated by operations and liquid investments. The holding companies also maintain sufficient liquidity to meet their obligations. The Company monitors its investment portfolios to assure liability and investment durations are closely matched.

Prospectively, as fixed income investments mature and new cash is obtained, the cash available to invest will be invested in accordance with the Company's investment policy. The Company's investment policy allows the Company to invest in taxable and tax-exempt fixed income investments as well as publicly traded and private equity investments. With respect to bonds, the Company's credit exposure limit for each issuer varies with the issuer's credit quality. The allocation between taxable and tax-exempt bonds is determined based on market conditions and tax considerations. The fixed income portfolio currently has a duration of 4.2 years.

The Company has access to various capital sources including dividends from insurance subsidiaries, invested assets in its non-U.S. subsidiaries, and access to the debt and equity capital markets. The Company believes it has sufficient liquidity to meet its capital needs. See Note 18 of the notes to the consolidated financial statements in Item 8 of Part II of this report for a discussion of the Company's dividend capacity. However, the Company's future capital requirements depend on many factors, including the amount of premium it writes, the amount of loss reserves by lines of business, and catastrophe exposure. To the extent that the Company needs to raise additional funds, any equity or debt financing for this purpose, if available at all, may be on terms that are not favorable to the Company. If the Company cannot obtain adequate capital, its business, results of operations and financial condition could be adversely affected.

Global Indemnity has adopted a dividend program. Although subject to the absolute discretion of the Board of Directors and factors, conditions, and prospects as such may exist from time to time when the Board of Directors considers the advisability of declaring a quarterly dividend, the Company currently anticipates a dividend rate of \$0.25 per share per quarter (\$1.00 per share per year). As of December 31, 2019, there are currently 14,300,422 shares issued and outstanding.

During 2019, the Board of Directors approved a dividend payment of \$0.25 per ordinary share to all shareholders of record on the close of business on March 22, 2019, June 21, 2019, September 26, 2019, and December 24, 2019. Dividends paid were \$14.2 million during the year ended December 31, 2019.

During 2018, the Board of Directors approved a dividend payment of \$0.25 per ordinary share to all shareholders of record on the close of business on March 21, 2018, June 22, 2018, September 27, 2018, and December 24, 2018. Dividends paid were \$14.0 million during the year ended December 31, 2018.

As of December 31, 2019, the Company also had future funding commitments of \$31.7 million related to investments. The timing of commitments related to investments is uncertain.

On March 8, 2018, the Company settled its final reserve calculation which resulted in the recovery of \$41.5 million in accordance with the Stock Purchase Agreement between Global Indemnity Group, LLC and American Bankers Insurance Group, Inc. for the purchase of American Reliable.

Quota Share Arrangements and Intercompany Pooling Arrangement

For 2017, the Company's U.S. insurance companies participated in quota share reinsurance agreements with Global Indemnity Reinsurance whereby 40% of the net retained business of the U.S. insurance companies was ceded to Global Indemnity Reinsurance. These agreements exclude named storms. As a result of the enactment of the TCJA, effective January 1, 2018, premiums being ceded under the quota share arrangement could potentially be subject to a 10% BEAT tax. As a result, Global Indemnity Reinsurance and the Company's U.S. insurance companies terminated the quota share arrangement effective January 1, 2018.

Global Indemnity Reinsurance is an unauthorized reinsurer. As a result, any losses and unearned premiums that were ceded to Global Indemnity Reinsurance by the U.S. insurance companies prior to the termination of the quota share arrangement must be collateralized. To satisfy this requirement, Global Indemnity Reinsurance has set up custodial trust accounts on behalf of the U.S. insurance companies.

Global Indemnity Reinsurance also has established trust accounts to collateralize exposure it has to certain third party ceding companies. The Company invests the funds in securities that have durations that closely match the expected duration of the liabilities assumed. The Company believes that Global Indemnity Reinsurance will have sufficient liquidity to pay claims prospectively.

Global Indemnity's U.S. insurance companies participate in an intercompany pooling arrangement whereby premiums, losses, and expenses are shared pro rata amongst the U.S. insurance companies.

Capital Resources

Several intercompany financing arrangements were restructured in 2019.

During 2019, \$402.3 million of notes owed by the U.S. group to an Irish affiliate were replaced with notes bearing similar terms. The new notes are owed by the U.S. group to an affiliate in the United Kingdom. Global Indemnity Holdings (U.K.) Limited issued these three notes payable in the amount of \$150.0 million due 2028, \$150.0 million due 2033, and \$102.3 million due 2038 and bear interest at a rate of 3.22%. Through a series of transactions, these notes are now held by Global Indemnity Financial (U.K.) Limited.

As of December 31, 2018, Global Indemnity Group, LLC owed \$402.3 million on non-interest bearing notes to Global Indemnity Group Limited. In 2019, these notes were repaid through a series of transactions when the intercompany financing arrangements were restructured.

As of December 31, 2018, GBLI (Barbados) Limited held an interest free loan of \$1.0 million from Global Indemnity Limited. Due to the liquidation of GBLI (Barbados) Limited in 2019, this interest free loan is now held by Global Indemnity Reinsurance.

As of December 31, 2019 and 2018, Global Indemnity Reinsurance held a note receivable due from Global Indemnity Limited in the amount of \$33.0 million. This note is non-interest bearing.

As of December 31, 2018, GBLI (Barbados) Limited had a non-interest bearing loan of \$181.5 million due from Global Indemnity Limited. Due to the liquidation of GBLI (Barbados) Limited in 2019, this loan receivable is now held by Global Indemnity Reinsurance. As of December 31, 2019, Global Indemnity Reinsurance was due \$181.5 million from Global Indemnity Limited.

In November, 2012, American Insurance Service, Inc. ("AIS") issued a \$35.0 million loan to Global Indemnity Reinsurance, bearing interest at the six month London Interbank Offered Rate ("LIBOR") plus 3.5%. Effective October 31, 2013, AIS assigned all of its rights, obligations, duties, and liabilities under the notes to Global Indemnity Group, LLC. As of December 31, 2019, there was \$5.0 million principal outstanding on the note payable plus accrued interest.

As of December 31, 2019, Global Indemnity Limited owed \$75.0 million plus accrued interest to Global Indemnity Group, LLC under a loan agreement which bears interest at a rate of 1.11%.

On April 25, 2018, the Company and Global Indemnity Group, LLC, an indirect wholly owned subsidiary of the Company, entered into an agreement pursuant to which Global Indemnity Group, LLC agreed to become a subordinated co-obligor with respect to the 7.75% subordinated notes due 2045 and the 7.875% subordinated notes due 2047. Global Indemnity Group, LLC has agreed to pay all amounts due and payable in respect of the subordinated note obligations, including, without limitation, the payment of principal of and interest on each series of notes. In consideration for becoming a subordinated co-obligor on the subordinated notes, Global Indemnity Group, LLC received a promissory note from the Company with a principal amount of \$230 million at an interest rate of 7.825% per annum due on April 15, 2047. Global Indemnity Group, LLC assigned the \$230 million promissory note from the Company to U.A.I. (Luxembourg) Investment S.à.r.l. as payment on \$230 million of the outstanding debt owed to U.A.I. (Luxembourg) Investment S.à.r.l. by Global Indemnity Group, LLC as discussed above. In connection with the July, 2018 dividend payment, this loan was assigned from U.A.I. (Luxembourg) Investment S.à.r.l. to GBLI (Barbados) Limited and the loan was converted to non-interest bearing. Due to the liquidation of GBLI (Barbados) Limited in 2019, this note receivable is now held by Global Indemnity Reinsurance. As of December 31, 2019, Global Indemnity Limited had \$230.0 million outstanding on the loan with Global Indemnity Reinsurance plus accrued interest.

All of the intercompany transactions discussed above eliminate in consolidation and have no impact on the consolidating financial statements.

As of December 31, 2019, the Company had available a margin borrowing facility. The borrowing rate for this facility was tied to the Fed Funds Effective rate and was approximately 1.9% and 2.7% at December 31, 2019 and 2018, respectively. This facility is due on demand. The borrowings are subject to maintenance margin, which is a minimum account balance that must be maintained. A decline in market conditions could require an additional deposit of collateral. As of December 31, 2019, approximately \$88.2 million in securities were deposited as collateral to support borrowings. The amount borrowed against the margin account may fluctuate as routine investment transactions, such as dividends received, investment income received, maturities and pay-downs, impact cash balances. The margin facility contains customary events of default, including, without limitation, insolvency, failure to make required payments, failure to comply with any representations or warranties, failure to adequately assure future performance, and failure of a guarantor to perform under its guarantee. The amount outstanding on the Company's margin borrowing facility was \$73.6 million and \$65.8 million as of December 31, 2019 and 2018, respectively.

The Company entered into two \$100 million derivative instruments related to interest rate swaps. Due to fluctuations in interest rates, the Company paid \$10.2 million and received \$4.5 million in connection with these derivative instruments for the years ended December 31, 2019 and 2018, respectively.

Contractual Obligations

The Company has commitments in the form of operating leases, commitments to fund limited liability investments, subordinated notes, and unpaid losses and loss expense obligations. As of December 31, 2019, contractual obligations related to Global Indemnity's commitments, including any principal and interest payments, were as follows:

(Dollars in thousands)	Total	Payment Due by Period			
		Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating leases (1)	\$ 26,959	\$ 1,931	\$ 5,438	\$ 5,448	\$ 14,142
Commitments to fund limited liability investments (2)	31,720	31,720	—	—	—
Subordinated notes due 2045 (3)	299,563	7,750	15,500	15,500	260,813
Subordinated notes due 2047 (4)	411,531	10,238	20,475	20,475	360,343
Unpaid losses and loss adjustment expenses obligations (5)	630,181	273,499	207,960	83,813	64,909
Total	\$1,399,954	\$325,138	\$249,373	\$125,236	\$700,207

- (1) The Company leases office space and equipment as part of its normal operations. The amounts shown above represent future commitments under such operating leases.
- (2) Represents future funding commitment of the Company's participation in three separate limited partnership investments. See Note 14 of the notes to the consolidated financial statements in Item 8 of Part II of this report for additional information on these commitments.
- (3) Represents the Subordinated Notes due in 2045 in the aggregate principal amount of \$100.0 million through an underwritten public offering. The notes bear interest at an annual rate equal to 7.75% payable quarterly. See Note 10 of the notes to the consolidated financial statements in Item 8 of Part II of this report for additional information on the 2045 Subordinated Notes.
- (4) Represents the Subordinated Notes due in 2047 in the aggregate principal amount of \$130.0 million through an underwritten public offering. The notes bear interest at an annual rate equal to 7.875% payable quarterly. See Note 10 of the notes to the consolidated financial statements in Item 8 of Part II of this report for additional information on the 2047 Subordinated Notes.
- (5) These amounts represent the gross future amounts needed to pay losses and related loss adjustment expenses and do not reflect amounts that are expected to be recovered from the Company's reinsurers. See discussion in "Liability for Unpaid Losses and Loss Adjustment Expenses" for more details.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements.

Inflation

Property and casualty insurance premiums are established before the Company knows the amount of losses and loss adjustment expenses or the extent to which inflation may affect such amounts. The Company attempts to anticipate the potential impact of inflation in establishing its reserves.

Future increases in inflation could result in future increases in interest rates, which in turn are likely to result in a decline in the market value of the investment portfolio and resulting in unrealized losses and reductions in shareholders' equity.

Cautionary Note Regarding Forward-Looking Statements

Some of the statements under "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report may include forward-looking statements within the meaning of Section 21E of the Security Exchange Act of 1934, as amended, that reflect the Company's current views with respect to future events and financial performance. 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 comparable terminology, and include discussions of strategy, financial projections and estimates and their underlying assumptions, statements regarding plans, objectives, expectations or consequences of identified transactions or natural disasters, and statements about the future performance, operations, products and services of the companies.

The Company's business and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. See "Risk Factors" in Item 1A of Part I of this report for risks, uncertainties and other factors that could cause actual results and experience to differ from those projected.

The forward-looking statements contained in this report are primarily based on the Company's current expectations and projections about future events and trends that it believes may affect the Company's business, financial condition, results of operations, prospects, business strategy and financial needs. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, assumptions and other factors described in the section captioned "Risk Factors" and elsewhere in this report. These risks are not exhaustive. Other sections of this report include additional factors that could adversely impact the Company's business and financial performance. Moreover, the Company operates in a very competitive environment. New risks and uncertainties emerge from time to time and it is not possible for the Company to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this report. The Company cannot provide assurance that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that "the Company believes" and similar statements reflect the Company's beliefs and opinions on the relevant subject. These statements are based upon information available to the Company as of the date of this report, and while the Company believes such information forms a reasonable basis for such statements, such information may be limited or incomplete, and these statements should not be read to indicate that the Company have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

This report and the documents that are referenced in this report and have filed as exhibits to this report should be read with the understanding that actual future results, levels of activity, performance and achievements may be materially different from what the Company expects. The Company qualifies all of its forward-looking statements by these cautionary statements.

The Company's forward-looking statements speak only as of the date of this report or as of the date they were made. The Company undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in interest rates, equity prices, credit risk, illiquidity, foreign exchange rates and commodity prices. The Company's consolidated balance sheets includes the estimated fair values of assets that are subject to market risk. The Company's primary market risks are interest rate risk and credit risks associated with investments in fixed maturities, equity price risk associated with investments in equity securities, and foreign exchange risk associated with premium received that is denominated in foreign currencies. Each of these risks is discussed in more detail below. The Company has no commodity risk.

Interest Rate Risk

The Company's primary market risk exposure is to changes in interest rates. The Company's fixed income investments are exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, the market value of the Company's fixed income investments fall, and the converse is also true. The Company seeks to manage interest rate risk through an active portfolio management strategy that involves the selection, by the Company's managers, of investments with appropriate characteristics, such as duration, yield, currency, and liquidity that are tailored to the anticipated cash outflow characteristics of the Company's liabilities. The Company's strategy for managing interest rate risk also includes maintaining a high quality bond portfolio with a relatively short duration to reduce the effect of interest rate changes on book value. A significant portion of the Company's investment portfolio matures each year, allowing for reinvestment at current market rates.

As of December 31, 2019, assuming identical shifts in interest rates for securities of all maturities, the table below illustrates the sensitivity of market value in Global Indemnity's bonds to selected hypothetical changes in basis point increases and decreases:

(Dollars in thousands)		Change in Market Value	
Basis Point Change	Market Value	\$	%
(200)	\$1,363,374	\$ 110,215	8.8%
(100)	1,308,870	55,711	4.4%
No change	1,253,159	—	—
100	1,197,443	(55,716)	(4.4%)
200	1,141,715	(111,444)	(8.9%)

The Company's interest rate swaps are also exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these financial instruments. As interest rates decline, the market value of the Company's interest rate swaps fall, and the converse is also true. Since the Company has designated the interest rate swaps as non-hedge instruments, the changes in the fair value is recognized as net realized investment gains / losses in the consolidated statements of operations. Therefore, changes in interest rates will have a direct impact to the Company's results of operations. In addition, on a daily basis, a margin requirement is calculated. If interest rates decline, the Company is required to pay a margin call equal to the change in the fair market value of the interest rate swap. When interest rates rise, the counterparty is required to pay to the Company a margin call equal to the change in fair market value of the interest rate swap.

As of December 31, 2019, the table below illustrates the sensitivity of market value of the Company's interest rate swaps as well as the impact on the consolidated statements of operation to selected hypothetical changes in basis point increases and decreases:

(Dollars in thousands)		Change in Market Value and Impact to Consolidated Statements of Operations
Basis Point Change	Market Value	
(200)	\$(26,657)	\$(16,382)
(100)	(18,274)	(7,999)
No change	(10,275)	—
100	(2,642)	7,633
200	4,643	14,918

Credit Risk

The Company's investment policy requires that its investments in debt instruments are of high credit quality issuers and limit the amount of credit exposure to any one issuer based upon the rating of the security.

As of December 31, 2019, the Company had approximately \$41.3 million worth of investment exposure to subprime and Alt-A investments. As of December 31, 2019, approximately \$31.1 million of those investments have been rated BBB- to AAA by Standard & Poor's and \$10.2 million were rated below investment grade. As of December 31, 2018, the Company had approximately \$19.6 million worth of investment exposure to subprime and Alt-A investments. As of December 31, 2018, approximately \$19.3 million of those investments have been rated BBB+ to AAA by Standard & Poor's and \$0.3 million were rated below investment grade. There were no impairments recognized on these investments during the years ended December 31, 2019 or 2018.

In addition, the Company has credit risk exposure to its general agencies and reinsurers. The Company seeks to mitigate and control its risks to producers by typically requiring its general agencies to render payments within no more than 45 days after the month in which a policy is effective and including provisions within the Company's general agency contracts that allow it to terminate a general agency's authority in the event of non-payment.

With respect to its credit exposure to reinsurers, the Company seeks to mitigate and control its risk by ceding business to only those reinsurers having adequate financial strength and sufficient capital to fund their obligation. In addition, the Company seeks to mitigate credit risk to reinsurers through the use of trusts and letters of credit for collateral.

Equity Price Risk

In 2019, the strategy for the Company's equity portfolio followed a globally diversified approach. The investment style was diversified across region, market capitalization, and factor in order to capitalize on market mispricing globally. At December 31, 2019, the Company's investment related to this strategy totaled \$208.5 million and consisted of \$135.3 million of common stocks, \$11.7 million of preferred stock, and \$61.5 million of mutual funds that invest in common stocks.

The carrying values of investments subject to equity price risk are based on quoted market prices as of the balance sheet dates. Market prices are subject to fluctuation and thus the amount realized in the subsequent sale of an investment may differ from the reported market value. Fluctuation in the market price of an equity security results from perceived changes in the underlying economic makeup of a stock, the price of alternative investments and overall market conditions.

The Company attempts to mitigate its unsystemic risk, which is the risk that is associated with holding a particular security, by holding a large number of securities in that market. At year end, no security represented more than 2.9% of the market value of the equity portfolio, excluding mutual funds. The Company continues to have systemic risk, which is the risk inherent in the general market due to broad macroeconomic factors that affect all companies in the market.

As of December 31, 2019, the table below summarizes the Company's equity price risk and reflects the effect of a hypothetical 10% and 20% increase or decrease in market prices. The selected hypothetical changes do not indicate what could be the potential best or worst scenarios.

<u>Hypothetical Price Change</u>	<u>(Dollars in thousands) Estimated Fair Value after Hypothetical Change in Prices</u>	<u>Hypothetical Percentage Increase (Decrease) in Shareholders' Equity(1)</u>
(20%)	\$166,765	(4.5%)
(10%)	187,610	(2.3%)
No change	208,456	—
10%	229,302	2.3%
20%	250,147	4.5%

(1) Net of 21% tax

Foreign Currency Exchange Risk

The Company has foreign currency exchange risk associated with a portion of the business written at Global Indemnity Reinsurance, as well as a small portion of expenses related to corporate overhead in its Ireland office. The Company also maintains cash accounts in foreign currencies in order to pay expenses in foreign countries. At period-end, the Company re-measures those non-U.S. currency financial assets to their current U.S. dollar equivalent. Financial liabilities, if any, are generally adjusted within the reserving process. However, for known losses on claims to be paid in foreign currencies, the Company re-measures the liabilities to their current U.S. dollar equivalent each period end.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

GLOBAL INDEMNITY LIMITED

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the
Board of Directors of Global Indemnity Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Global Indemnity Limited (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 6, 2020, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2015.
Philadelphia, PA
March 6, 2020

GLOBAL INDEMNITY LIMITED

Consolidated Balance Sheets
(In thousands, except share amounts)

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: \$1,231,568 and \$1,257,830)	\$1,253,159	\$1,235,155
Equity securities, at fair value	263,104	124,747
Other invested assets	47,279	50,753
	<hr/>	<hr/>
Total investments	1,563,542	1,410,655
Cash and cash equivalents	44,271	99,497
Premiums receivable, net	118,035	87,679
Reinsurance receivables, net	83,938	114,418
Funds held by ceding insurers	48,580	49,206
Federal income taxes receivable	10,989	10,866
Deferred federal income taxes	31,077	48,589
Deferred acquisition costs	70,677	61,676
Intangible assets	21,491	22,020
Goodwill	6,521	6,521
Prepaid reinsurance premiums	16,716	20,594
Receivable for securities sold	—	15
Other assets	60,048	28,530
	<hr/>	<hr/>
Total assets	\$2,075,885	\$1,960,266
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 630,181	\$ 680,031
Unearned premiums	314,861	281,912
Ceded balances payable	20,404	14,994
Payable for securities purchased	850	—
Contingent commissions	11,928	10,636
Debt	296,640	288,565
Other liabilities	74,212	55,069
	<hr/>	<hr/>
Total liabilities	1,349,076	1,331,207
	<hr/>	<hr/>
Commitments and contingencies (Note 14)	—	—
Shareholders' equity:		
Ordinary shares, \$0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 10,282,277 and 10,171,954, respectively; A ordinary shares outstanding: 10,167,056 and 10,095,312, respectively; B ordinary shares issued and outstanding: 4,133,366 and 4,133,366, respectively	2	2
Additional paid-in capital	442,403	438,182
Accumulated other comprehensive income (loss), net of taxes	17,609	(21,231)
Retained earnings	270,768	215,132
A ordinary shares in treasury, at cost: 115,221 and 76,642 shares, respectively	(3,973)	(3,026)
	<hr/>	<hr/>
Total shareholders' equity	726,809	629,059
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$2,075,885	\$1,960,266
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY LIMITED

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

	Years Ended December 31,		
	2019	2018	2017
Revenues:			
Gross written premiums	\$ 636,861	\$ 547,897	\$ 516,334
Net written premiums	<u>\$ 562,089</u>	<u>\$ 472,547</u>	<u>\$ 450,180</u>
Net earned premiums	\$ 525,262	\$ 467,775	\$ 438,034
Net investment income	42,052	46,342	39,323
Net realized investment gains (losses):			
Other than temporary impairment losses on investments	(1,897)	(456)	(2,606)
Other net realized investment gains (losses)	<u>37,239</u>	<u>(16,451)</u>	<u>4,182</u>
Total net realized investment gains (losses)	35,342	(16,907)	1,576
Other income	<u>1,816</u>	<u>1,728</u>	<u>6,582</u>
Total revenues	<u>604,472</u>	<u>498,938</u>	<u>485,515</u>
Losses and Expenses:			
Net losses and loss adjustment expenses	275,402	334,625	269,212
Acquisition costs and other underwriting expenses	208,403	190,778	183,733
Corporate and other operating expenses	18,888	29,766	25,714
Interest expense	<u>20,022</u>	<u>19,694</u>	<u>16,906</u>
Income (loss) before income taxes	81,757	(75,925)	(10,050)
Income tax expense (benefit)	<u>11,742</u>	<u>(19,229)</u>	<u>(499)</u>
Net income (loss)	<u>\$ 70,015</u>	<u>\$ (56,696)</u>	<u>\$ (9,551)</u>
Per share data:			
Net income (loss) (1)			
Basic	<u>\$ 4.93</u>	<u>\$ (4.02)</u>	<u>\$ (0.55)</u>
Diluted	<u>\$ 4.88</u>	<u>\$ (4.02)</u>	<u>\$ (0.55)</u>
Weighted-average number of shares outstanding			
Basic	<u>14,191,756</u>	<u>14,088,883</u>	<u>17,308,663</u>
Diluted	<u>14,334,706</u>	<u>14,088,883</u>	<u>17,308,663</u>
Cash dividends declared per share	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ —</u>

(1) For the years ended December 31, 2018 and 2017, “weighted average shares outstanding—basic” was used to calculate “diluted earnings per share” due to a net loss for the period.

See accompanying notes to consolidated financial statements.

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

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income (loss)	\$ 70,015	\$ (56,696)	\$(9,551)
Other comprehensive income (loss), net of tax:			
Unrealized holding gains (losses)	43,980	(20,748)	9,677
Portion of other than temporary impairment losses recognized in other comprehensive income (loss)	(5)	(3)	(3)
Reclassification adjustment for gains included in net income	(5,437)	2,450	(848)
Unrealized foreign currency translation gains	302	(1,885)	775
Other comprehensive income (loss), net of tax	<u>38,840</u>	<u>(20,186)</u>	<u>9,601</u>
Comprehensive income (loss), net of tax	<u>\$108,855</u>	<u>\$ (76,882)</u>	<u>\$ 50</u>

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY LIMITED

Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except share amounts)

	Years Ended December 31,		
	2019	2018	2017
Number of A ordinary shares issued:			
Number at beginning of period	10,171,954	10,102,927	13,436,548
Ordinary shares issued under share incentive plans	43,404	37,381	2,204
Ordinary shares issued to directors	66,919	31,646	27,121
Ordinary shares redeemed	—	—	(3,397,031)
Adjustment for shares redeemed indirectly owned by subsidiary	—	—	34,085
Number at end of period	<u>10,282,277</u>	<u>10,171,954</u>	<u>10,102,927</u>
Number of B ordinary shares issued:			
Number at beginning and end of period	<u>4,133,366</u>	<u>4,133,366</u>	<u>4,133,366</u>
Par value of A ordinary shares:			
Balance at beginning and end of period	\$ 1	\$ 1	\$ 1
Par value of B ordinary shares:			
Balance at beginning and end of period	\$ 1	\$ 1	\$ 1
Additional paid-in capital:			
Balance at beginning of period	\$ 438,182	\$ 434,730	\$ 430,283
Adjustment for shares redeemed indirectly owned by subsidiary	—	—	706
Share compensation plans	4,221	3,452	3,741
Balance at end of period	<u>\$ 442,403</u>	<u>\$ 438,182</u>	<u>\$ 434,730</u>
Accumulated other comprehensive income (loss), net of deferred income tax:			
Balance at beginning of period	\$ (21,231)	\$ 8,983	\$ (618)
Other comprehensive income (loss):			
Change in unrealized holding gains (losses)	38,543	(18,298)	8,829
Change in other than temporary impairment losses recognized in other comprehensive income (loss)	(5)	(3)	(3)
Unrealized foreign currency translation gains	302	(1,885)	775
Other comprehensive income (loss)	38,840	(20,186)	9,601
Cumulative effect adjustment resulting from adoption of new accounting guidance	—	(10,028)	—
Balance at end of period	<u>\$ 17,609</u>	<u>\$ (21,231)</u>	<u>\$ 8,983</u>
Retained earnings:			
Balance at beginning of period	\$ 215,132	\$ 275,838	\$ 368,284
Cumulative effect adjustment resulting from adoption of new accounting guidance	(5)	10,198	—
Ordinary shares redeemed	—	—	(83,015)
Adjustment for gain on shares redeemed indirectly owned by subsidiary	—	—	120
Net income (loss)	70,015	(56,696)	(9,551)
Dividends to shareholders	(14,374)	(14,208)	—
Balance at end of period	<u>\$ 270,768</u>	<u>\$ 215,132</u>	<u>\$ 275,838</u>
Number of treasury shares:			
Number at beginning of period	76,642	29,551	—
A ordinary shares purchased	27,028	45,233	29,551
Retirement of treasury shares	11,551	1,858	—
Number at end of period	<u>115,221</u>	<u>76,642</u>	<u>29,551</u>
Treasury shares, at cost:			
Balance at beginning of period	\$ (3,026)	\$ (1,159)	\$ —
A ordinary shares purchased, at cost	(947)	(1,813)	(1,159)
Retirement of shares	—	(54)	—
Balance at end of period	<u>\$ (3,973)</u>	<u>\$ (3,026)</u>	<u>\$ (1,159)</u>
Total shareholders' equity	<u>\$ 726,809</u>	<u>\$ 629,059</u>	<u>\$ 718,394</u>

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income (loss)	\$ 70,015	\$ (56,696)	\$ (9,551)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Amortization and depreciation	7,103	7,019	6,505
Amortization of debt issuance costs	264	264	232
Restricted stock and stock option expense	4,221	3,452	3,741
Deferred federal income taxes	11,783	(19,554)	(1,018)
Amortization of bond premium and discount, net	4,887	5,925	7,899
Net realized investment (gains) losses	(35,342)	16,907	(1,576)
Changes in:			
Premiums receivable, net	(30,356)	(3,293)	7,708
Reinsurance receivables, net	30,480	(9,358)	38,714
Funds held by ceding insurers	928	(5,791)	(31,635)
Unpaid losses and loss adjustment expenses	(49,850)	45,367	(16,378)
Unearned premiums	32,949	(3,485)	(1,587)
Ceded balances payable	5,410	4,143	(3,824)
Other assets and liabilities, net	(16,162)	46,823	(27,061)
Contingent commissions	1,292	2,652	(1,470)
Federal income tax receivable/payable	(123)	(534)	406
Deferred acquisition costs, net	(9,001)	(29)	(3,746)
Prepaid reinsurance premiums	3,878	8,257	13,732
Net cash provided by (used for) operating activities	<u>32,376</u>	<u>42,069</u>	<u>(18,909)</u>
Cash flows from investing activities:			
Proceeds from sale of fixed maturities	977,321	293,348	918,439
Proceeds from sale of equity securities	260,891	35,639	32,218
Proceeds from maturity of fixed maturities	180,546	55,182	145,475
Proceeds from other invested assets	16,757	43,377	12,299
Amounts received (paid) in connection with derivatives	(7,654)	4,392	1,464
Purchases of fixed maturities	(1,129,567)	(370,536)	(1,078,199)
Purchases of equity securities	(365,255)	(36,258)	(36,647)
Purchases of other invested assets	(13,283)	(16,309)	(24,000)
Acquisition of business	—	(3,515)	—
Net cash provided by (used for) investing activities	<u>(80,244)</u>	<u>5,320</u>	<u>(28,951)</u>
Cash flows from financing activities:			
Net borrowings (repayments) under margin borrowing facility	7,811	(6,412)	5,584
Redemption of ordinary shares	—	—	(83,015)
Proceeds from issuance of subordinated notes	—	—	130,000
Debt issuance cost	—	—	(4,246)
Dividends paid to shareholders	(14,222)	(14,027)	—
Purchases of A ordinary shares	(947)	(1,867)	(1,159)
Net cash provided by (used for) financing activities	<u>(7,358)</u>	<u>(22,306)</u>	<u>47,164</u>
Net change in cash and cash equivalents	(55,226)	25,083	(696)
Cash and cash equivalents at beginning of period	<u>99,497</u>	<u>74,414</u>	<u>75,110</u>
Cash and cash equivalents at end of period	<u>\$ 44,271</u>	<u>\$ 99,497</u>	<u>\$ 74,414</u>

See accompanying notes to consolidated financial statements.

1. Principles of Consolidation and Basis of Presentation

Global Indemnity Limited (“Global Indemnity” or “the Company”) was incorporated on February 9, 2016 and is domiciled in the Cayman Islands. On November 7, 2016, Global Indemnity replaced Global Indemnity plc as the ultimate parent company as a result of a redomestication transaction. The Company’s A ordinary shares are publicly traded on the NASDAQ Global Select Market under the ticker symbol GBLI.

During the first quarter of 2019, the Company re-evaluated its Personal Lines segment and determined that Personal Lines should be bifurcated into two reportable segments: Specialty Property and Farm, Ranch, & Stable. This is the result of changing how Specialty Property and Farm, Ranch, & Stable are managed and reported. Specialty Property is managed out of the Company’s Scottsdale, Arizona office; whereas, Farm, Ranch, & Stable is managed out of the Company’s Omaha, Nebraska office. In the past, Farm, Ranch, & Stable reported to the Scottsdale, Arizona office and now it reports directly to the Company’s main headquarters in Bala Cynwyd, Pennsylvania. Results for Specialty Property and Farm, Ranch, & Stable are separately measured, resources are separately allocated to each of these lines, and employees in each line are now being rewarded based on each line’s separate results. Accordingly, the Company now reports Specialty Property and Farm, Ranch, & Stable as two separate reportable segments. In addition, the Company has changed the name of its Commercial Lines segment to Commercial Specialty to better align with its key product offerings. The segment results for the years ended December 31, 2018 and 2017 have been revised to reflect these changes. See Note 19 for additional information regarding segments.

The Company manages its business through four business segments: Commercial Specialty, Specialty Property, Farm, Ranch, & Stable, and Reinsurance Operations. The Company’s Commercial Specialty segment offers specialty property and casualty insurance products in the excess and surplus lines marketplace. The Company manages Commercial Specialty by differentiating them into four product classifications: 1) Penn-America, which markets property and general liability products to small commercial businesses through a select network of wholesale general agents with specific binding authority; 2) United National, which markets insurance products for targeted insured segments, including specialty products, such as property, general liability, and professional lines through program administrators with specific binding authority; 3) Diamond State, which markets property, casualty, and professional lines products, which are developed by the Company’s underwriting department by individuals with expertise in those lines of business, through wholesale brokers and also markets through program administrators having specific binding authority; and 4) Vacant Express, which primarily insures dwellings which are currently vacant, undergoing renovation, or are under construction and is marketed through aggregators, brokers, and retail agents. These product classifications comprise the Company’s Commercial Specialty business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage. The Company’s Specialty Property segment offers specialty personal lines property and casualty insurance products through general and specialty agents with specific binding authority on an admitted basis. The Company’s Farm, Ranch, & Stable segment provides specialized property and casualty coverage including Commercial Farm Auto and Excess/Umbrella Coverage for the agriculture industry as well as specialized insurance products for the equine mortality and equine major medical industry on an admitted basis. These insurance products are sold through wholesalers and retail agents, with a selected number having specific binding authority. Collectively, the Company’s U.S. insurance subsidiaries are licensed in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The Company’s Reinsurance Operations consist solely of the operations of its Bermuda-based wholly-owned subsidiary, Global Indemnity Reinsurance. Global Indemnity Reinsurance is a treaty reinsurer of specialty property and casualty insurance and reinsurance companies. The Company’s Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.

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

On January 1, 2018, the Company adopted new accounting guidance which requires equity investments, except for those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with the changes in fair value recognized in net income. Upon adoption, the Company recorded a cumulative effect adjustment, net of tax, of \$10.0 million which reduced accumulated other comprehensive income and increased retained earnings. During the year ended December 31, 2018, net realized investment gains (losses) included a loss of \$22.0 million related to the change in the fair value of equity investments in accordance with this new accounting guidance. In addition, under the new guidance, equity investments, are no longer classified into different categories as either trading or available for sale. Prior to the adoption of this new guidance, equity securities were previously classified as available for sale.

On January 1, 2018, the Company adopted new accounting guidance regarding the classification of certain cash receipts and cash payments within the statement of cash flows. Upon adoption, the Company made a policy election to use the cumulative earnings approach for presenting distributions received from equity method investees. Under this approach, distributions up to the amount of cumulative equity in earnings recognized will be treated as returns on investment and presented in operating activities and those in excess of that amount will be treated as returns of investment and presented in the investing section. Prior to adoption, all distributions received from equity method investees were presented in the investing section of the consolidated statements of cash flows. The provisions of this accounting guidance were adopted on a retrospective basis. As a result, the consolidated statement of cash flows for the year ended December 31, 2017 that was included in the Form 10-K for the year ended December 31, 2017 was restated. For the year ended December 31, 2017, net cash flows from operating activities was increased by \$4.7 million and net cash flows from investing activities was reduced by \$4.7 million.

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.

2. Summary of Significant Accounting Policies

Investments

The Company's investments in fixed maturities, which are classified as available for sale, and equity securities 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 fixed maturities and equity securities 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. The difference between amortized cost and fair value of the Company's fixed maturity portfolio, 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. Equity securities are measured at fair value with the changes in fair value recognized in net income.

For investments in limited partnerships where the ownership interest is less than 3%, the Company carries these investments at fair value, and the change in the difference between cost and the fair value of the partnership interests, 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 Company uses the equity method to account for investments in limited partnerships where its ownership interest exceeds 3%. The equity method of accounting for an investment in a limited partnership requires that its cost basis be updated to account for the income or loss earned on the investment. The income or loss associated with the limited partnerships is reflected in the consolidated statements of operations, and the adjusted cost basis approximates fair value.

The Company's investments in other invested assets were valued at \$47.3 million and \$50.8 million as of December 31, 2019 and 2018, respectively. These amounts relate to investments in limited partnerships. The Company does not have access to daily valuations, therefore; the estimated fair value of the limited partnerships are based on net asset value as a practical expedient for the limited partnerships.

Net realized gains and losses on investments are determined based on the first-in, first-out method.

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

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

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

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

Prior to the implementation of new accounting guidance on January 1, 2018, management carefully reviewed all equity securities with unrealized losses to determine if a security should be impaired and further focuses on securities that had either:

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

On January 1, 2018, the Company adopted new accounting guidance which requires equity investments, except for those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with the changes in fair value recognized in net income.

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.

For an analysis of other than temporary losses that were recorded for the years ended December 31, 2019, 2018, and 2017, please see Note 3 below.

Variable Interest Entities

A Variable Interest Entity ("VIE") refers to an investment in which an investor holds a controlling interest that is not based on the majority of voting rights. Under the VIE model, the party that has the power to exercise significant management influence and maintain a controlling financial interest in the entity's economics is said to be the primary beneficiary, and is required to consolidate the entity within their results. Other entities that participate in a VIE, for which their financial interests fluctuate with changes in the fair value of the investment entity's net assets but do not have significant management influence and the ability to direct the VIE's significant economic activities are said to have a variable interest in the VIE but do not consolidate the VIE in their financial results.

The Company has variable interests in three VIEs for which it is not the primary beneficiary. These investments are accounted for under the equity method of accounting as their ownership interest exceeds 3% of their respective investments.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all liquid instruments with an original maturity of three months or less to be cash equivalents. The Company has a cash management program that provides for the investment of excess cash balances primarily in short-term money market instruments. Generally, bank balances exceed federally insured limits. The carrying amount of cash and cash equivalents approximates fair value.

At December 31, 2019 and 2018, the Company had approximately \$35.8 million and \$77.4 million, respectively, of cash and cash equivalents that was invested in a diversified portfolio of high quality short-term debt securities.

Valuation of Premium Receivable

The Company evaluates the collectability of premium receivable based on a combination of factors. In instances in which the Company is aware of a specific circumstance where a party may be unable to meet its financial obligations to the Company, a specific allowance for bad debts against amounts due is recorded to reduce the net receivable to the amount reasonably believed by management to be collectible. For all remaining balances, allowances are recognized for bad debts based on the length of time the receivables are past due. The allowance for bad debts was \$2.8 million and \$2.3 million as of December 31, 2019 and 2018, respectively.

Goodwill and Intangible Assets

The Company tests for impairment of goodwill at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of goodwill for impairment using both qualitative and quantitative factors. Impairment of goodwill is recognized only if the carrying amount of the reporting unit, including goodwill, exceeds the fair value of the reporting unit. The amount of the impairment loss would be equal to the excess carrying value of the goodwill over the implied fair value of the reporting unit goodwill. Based on the qualitative assessment performed, there was no impairment of goodwill as of December 31, 2019.

Impairment of intangible assets with an indefinite useful life is tested at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of indefinite lived intangible assets for impairment using both qualitative and quantitative factors. Impairment of indefinite lived intangible assets is recognized only if the carrying amount of the intangible assets exceeds the fair value of said assets. The amount of the impairment loss would be equal to the excess carrying value of the assets over the fair value of said assets. Based on the qualitative assessment performed, there were no impairments of indefinite lived intangible assets as of December 31, 2019.

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. As of December 31, 2019, there were no triggering events that occurred during the year that would result in an impairment of definite lived intangible assets.

See Note 6 for additional information on goodwill and intangible assets.

Reinsurance

In the normal course of business, the Company seeks to reduce the loss that may arise from events that cause unfavorable underwriting results by reinsuring certain levels of risk from various areas of exposure with reinsurers. Amounts receivable from reinsurers are estimated in a manner consistent with the reinsured policy and the reinsurance contract.

The Company regularly reviews the collectability of reinsurance receivables. An allowance for uncollectible reinsurance receivable is recognized based on the financial strength of the reinsurers and the length of time any balances are past due. Any changes in the allowance resulting from this review are included in net losses and loss adjustment expenses on the consolidated statements of operations during the period in which the determination is made. The allowance for uncollectible reinsurance was \$9.0 million and \$8.0 million as of December 31, 2019 and 2018, respectively.

The applicable accounting guidance requires that the reinsurer must assume significant insurance risk under the reinsured portions of the underlying insurance contracts and that there must be a reasonably possible chance that the reinsurer may realize a significant loss from the transaction. The Company has evaluated its reinsurance contracts and concluded that each contract qualifies for reinsurance accounting treatment pursuant to this guidance.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. The deferred tax asset balance is analyzed regularly by management. This assessment requires significant judgment and considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of carryforward periods, and tax planning strategies and/or actions. Management believes that it is more likely than not that the results of future operations can generate sufficient taxable income to realize the remaining deferred income tax assets, and accordingly, the Company has not established any valuation allowances.

Deferred Acquisition Costs

The costs of acquiring new and renewal insurance and reinsurance contracts include commissions, premium taxes and certain other costs that are directly related to the successful acquisition of new and renewal insurance and reinsurance contracts. The excess of the Company's costs of acquiring new and renewal insurance and reinsurance contracts over the related ceding commissions earned from reinsurers is capitalized as deferred acquisition costs and amortized over the period in which the related premiums are earned.

The amortization of deferred acquisition costs for the years ended December 31, 2019, 2018, and 2017 was \$132.3 million, \$118.0 million, and \$109.0 million, respectively.

Premium Deficiency

A premium deficiency is recognized if the sum of expected loss and loss adjustment expenses and unamortized acquisition costs exceeds related unearned premium after consideration of investment income. This evaluation is done at a distribution and product line level in Insurance Operations and at a treaty level in Reinsurance Operations. Any future expected loss on the related unearned premium is recorded first by impairing the unamortized acquisition costs on the related unearned premium followed by an increase to loss and loss adjustment expense reserves on additional expected loss in excess of unamortized acquisition costs. No premium deficiency reserve existed as of December 31, 2019 or 2018.

Derivative Instruments

The Company uses derivative instruments to manage its exposure to cash flow variability from interest rate risk and limit exposure to severe equity market changes. The derivative instruments are carried on the balance sheet at fair value and included in other assets and other liabilities. Changes in the fair value of the derivative instruments and the periodic net interest settlements under the derivatives instruments are recognized as net realized investment gains (losses) on the consolidated statements of operations.

Margin Borrowing Facility

The carrying amounts reported in the balance sheet represent the outstanding borrowings. The outstanding borrowings are due on demand; therefore, the cash receipts and cash payments related to the margin borrowing facility are shown net in the consolidated statements of cash flows.

Subordinated Notes

The carrying amounts reported in the balance sheet represent the outstanding balances, net of deferred issuance cost. See Note 10 for details.

Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses represents the Company's best estimate of future amounts needed to pay losses and related settlement expenses with respect to events insured by the Company. This liability is based upon the accumulation of individual case estimates for losses reported prior to the close of the accounting period with respect to direct business, estimates received from ceding companies with respect to assumed reinsurance, and estimates of unreported losses.

The process of establishing the liability for unpaid losses and loss adjustment is complex, requiring the use of informed actuarially based estimates and management's judgment. 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 that loss to the Company. To establish this liability, the Company regularly reviews and updates the methods of making such estimates and establishing the resulting liabilities. Any resulting adjustments are recorded in consolidated statements of operations during the period in which the determination is made.

Retirement of Treasury Stock

Upon the formal retirement of treasury stock, the Company offsets the par value of the treasury stock that is being retired against Ordinary Shares and reflects any excess of cost over par value as a deduction from Additional Paid-in Capital.

Share Redemptions

When shares are redeemed, the Company offsets the par value of the redeemed shares against Ordinary Shares and reflects any excess of cost over par value as a deduction from Retained Earnings.

Premiums

Premiums are recognized as revenue ratably over the term of the respective policies and treaties. Unearned premiums are computed on a pro rata basis to the day of expiration.

Mandatory reinstatement premiums assessed on reinsurance policies are earned in the period of the loss event that gave rise to the reinstatement premiums.

Contingent Commissions

Certain professional general agencies of the Insurance Operations are paid special incentives, referred to as contingent commissions, when results of business produced by these agencies are more favorable than predetermined thresholds. Similarly, in some circumstances, companies that cede business to the Reinsurance Operations are paid profit commissions based on the profitability of the ceded portfolio. These commissions are charged to other underwriting expenses when incurred.

Share-Based Compensation

The Company accounts for stock options and other equity based compensation using the modified prospective application of the fair value-based method permitted by the appropriate accounting guidance. See Note 15 for details.

Earnings per Share

Basic earnings per share have been calculated by dividing net income available to common shareholders by the weighted-average ordinary shares outstanding. In periods of net income, diluted earnings per share have been calculated by dividing net income available to common shareholders by the sum of the weighted-average ordinary shares outstanding and the weighted-average common share equivalents outstanding, which include options and other equity awards. In periods of net loss, diluted earnings per share is the same as basic earnings per share. See Note 17 for details.

Foreign Currency

At times, the Company maintains investments and cash accounts in foreign currencies related to the operations of its business. At period-end, the Company re-measures non-U.S. currency financial assets to their current U.S. dollar equivalent. The resulting gain or loss for foreign denominated fixed maturity investments, if any, is reflected in accumulated other comprehensive income in shareholders' equity; whereas, the gain or loss on foreign denominated cash accounts and equity securities is reflected in income during the period. Financial liabilities, if any, are generally adjusted within the reserving process. However, for known losses on claims to be paid in foreign currencies, the Company re-measures the liabilities to their current U.S. dollar equivalent each period end with the resulting gain or loss reflected in income during the period. Net transaction gains and losses, primarily comprised of re-measurement of known losses on claims to be paid in foreign currencies, were a gain of \$0.3 million, a loss of \$2.9 million, and a gain of \$2.1 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Leases

The Company determines if an arrangement is a lease at inception. Leases with a term of 12 months or less are not recorded on the consolidated balance sheets. Lease right-of-use assets ("ROU") are included in other assets on the consolidated balance sheets and lease liabilities are included in other liabilities on the consolidated balance sheets.

Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The Company's leases do not provide an implicit rate; therefore, the Company uses its incremental borrowing rate at the commencement date in determining the present value of future payments. The ROU asset is calculated using the initial lease liability amount, plus any lease payments made at or before the commencement date, minus any lease incentives received, plus any initial direct costs incurred. Lease expenses for minimum lease payments are recognized on a straight-line basis over the lease term.

The Company's lease agreements may contain both lease and non-lease components which are accounted separately. The Company elected the practical expedient on not separating lease components from non-lease components for its equipment leases.

Other Income

In 2019 and 2018, other income is primarily comprised of fee income and foreign exchange gains and losses. In 2017, other income is comprised of fee income on policies issued, commission income, accrued interest on the anticipated indemnification of unpaid loss and loss adjustment expense reserve, and foreign exchange gains and losses.

3. Investments

The amortized cost and estimated fair value of investments were as follows as of December 31, 2019 and 2018:

(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, 2019					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 153,906	\$ 3,580	\$ (797)	\$ 156,689	\$—
Obligations of states and political subdivisions	63,256	853	(271)	63,838	—
Mortgage-backed securities	325,448	3,177	(251)	328,374	—
Asset-backed securities	168,020	937	(420)	168,537	—
Commercial mortgage-backed securities	183,944	4,369	(209)	188,104	—
Corporate bonds	239,860	8,478	(79)	248,259	—
Foreign corporate bonds	97,134	2,247	(23)	99,358	—
Total fixed maturities	1,231,568	23,641	(2,050)	1,253,159	—
Equity Securities	263,104	—	—	263,104	—
Other invested assets	47,279	—	—	47,279	—
Total	<u>\$1,541,951</u>	<u>\$23,641</u>	<u>\$(2,050)</u>	<u>\$1,563,542</u>	<u>\$—</u>

(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, 2018					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 79,766	\$ 252	\$ (1,163)	\$ 78,855	\$—
Obligations of states and political subdivisions	95,629	322	(338)	95,613	—
Mortgage-backed securities	119,327	313	(1,786)	117,854	—
Asset-backed securities	185,430	336	(2,012)	183,754	—
Commercial mortgage-backed securities	206,236	338	(3,852)	202,722	—
Corporate bonds	452,692	243	(12,080)	440,855	—
Foreign corporate bonds	118,750	44	(3,292)	115,502	—
Total fixed maturities	1,257,830	1,848	(24,523)	1,235,155	—
Common stock	124,747	—	—	124,747	—
Other invested assets	50,753	—	—	50,753	—
Total	<u>\$1,433,330</u>	<u>\$1,848</u>	<u>\$(24,523)</u>	<u>\$1,410,655</u>	<u>\$—</u>

(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”).

As of December 31, 2019, the Company’s investments in equity securities consist of \$135.3 million of common stock, \$11.7 million of preferred stock, \$54.6 million of mutual funds that invest in fixed maturities, and \$61.5 million of mutual funds that invest in common stocks.

As of December 31, 2019, the Company held a Fannie Mae mortgage pool totaling 4.2% of shareholders’ equity. Excluding the Fannie Mae pool, U.S. treasuries, agency bonds, mutual funds, and limited partnerships, the Company did not hold any debt or equity investments in a single issuer in excess of 3% of shareholders’ equity at December 31, 2019 and December 31, 2018.

The amortized cost and estimated fair value of the Company’s fixed maturities portfolio classified as available for sale at December 31, 2019, 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	\$ 18,857	\$ 18,931
Due in one year through five years	266,699	272,472
Due in five years through ten years	181,756	186,057
Due in ten years through fifteen years	25,728	26,338
Due after fifteen years	61,116	64,346
Mortgage-backed securities	325,448	328,374
Asset-backed securities	168,020	168,537
Commercial mortgage-backed securities	183,944	188,104
Total	<u>\$1,231,568</u>	<u>\$1,253,159</u>

The following table contains an analysis of the Company's fixed income securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of December 31, 2019.

(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	\$35,633	\$ (797)	\$ —	\$ —	\$35,633	\$ (797)
Obligations of states and political subdivisions	27,180	(271)	—	—	27,180	(271)
Mortgage-backed securities	93,579	(244)	902	(7)	94,481	(251)
Asset-backed securities	43,402	(167)	16,152	(253)	59,554	(420)
Commercial mortgage-backed securities	25,698	(196)	1,945	(13)	27,643	(209)
Corporate bonds	19,407	(79)	—	—	19,407	(79)
Foreign corporate bonds	4,822	(20)	2,035	(3)	6,857	(23)
Total fixed maturities	<u>\$249,721</u>	<u>\$(1,774)</u>	<u>\$ 21,034</u>	<u>\$ (276)</u>	<u>\$270,755</u>	<u>\$(2,050)</u>

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

The following table contains an analysis of the Company's fixed income securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of December 31, 2018:

(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	\$ —	\$ —	\$ 67,185	\$(1,163)	\$ 67,185	\$ (1,163)
Obligations of states and political subdivisions	22,802	(57)	28,179	(281)	50,981	(338)
Mortgage-backed securities	36,858	(408)	60,838	(1,378)	97,696	(1,786)
Asset-backed securities	96,085	(1,342)	50,506	(670)	146,591	(2,012)
Commercial mortgage-backed securities	44,596	(878)	127,557	(2,974)	172,153	(3,852)
Corporate bonds	285,997	(8,791)	115,052	(3,289)	401,049	(12,080)
Foreign corporate bonds	56,543	(1,795)	47,494	(1,497)	104,037	(3,292)
Total fixed maturities	<u>\$ 542,881</u>	<u>\$(13,271)</u>	<u>\$ 496,811</u>	<u>\$(11,252)</u>	<u>\$1,039,692</u>	<u>\$ (24,523)</u>

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

Subject to the risks and uncertainties in evaluating the potential impairment of a security's value, the impairment evaluation conducted by the Company as of December 31, 2019 concluded the unrealized losses discussed above are not other than temporary impairments. The impairment evaluation process is discussed in the "Investment" section of Note 2 ("Summary of Significant Accounting Policies").

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 December 31, 2019, gross unrealized losses related to U.S. treasury and agency obligations were \$0.797 million. All unrealized losses have been in an unrealized loss position for less than twelve months. Macroeconomic and market analysis is conducted in evaluating these securities. Consideration is given to the interest rate environment, duration and yield curve management of the portfolio, sector allocation and security selection.

Obligations of states and political subdivisions—As of December 31, 2019, gross unrealized losses related to obligations of states and political subdivisions were \$0.271 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All factors that influence performance of the municipal bond market are considered in evaluating these securities. The aforementioned factors include investor expectations, supply and demand patterns, and current versus historical yield and spread relationships. The analysis relies on the output of fixed income credit analysts, as well as dedicated municipal bond analysts who perform extensive in-house fundamental analysis on each issuer, regardless of their rating by the major agencies.

Mortgage-backed securities (“MBS”)—As of December 31, 2019, gross unrealized losses related to mortgage-backed securities were \$0.251 million. Of this amount, \$0.007 million have been in an unrealized loss position for twelve months or greater and are rated AA+ or better. Mortgage-backed securities are modeled 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. These forecasts incorporate not just national macro-economic trends, but also regional impacts to arrive at the most granular and accurate projections. These assumptions are incorporated into the model as a basis to generate delinquency probabilities, default curves, loss severity curves, and voluntary prepayment curves at the loan level within each deal. The model utilizes HPI-adjusted current LTV, payment history, loan terms, loan modification history, and borrower characteristics as inputs to generate expected cash flows and principal loss for each bond under various scenarios.

Asset backed securities (“ABS”)—As of December 31, 2019, gross unrealized losses related to asset backed securities were \$0.420 million. Of this amount, \$0.253 million have been in an unrealized loss position for twelve months or greater and are rated A or better. The weighted average credit enhancement for the Company’s asset backed portfolio is 28.7. This represents the percentage of pool losses that can occur before an asset backed security will incur its first dollar of principal losses. Every ABS transaction is analyzed on a stand-alone basis. This analysis involves a thorough review of the collateral, prepayment, and structural risk in each transaction. Additionally, the analysis includes an in-depth credit analysis of the originator and servicer of the collateral. The analysis 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 the deal will incur its first dollar of principal 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 December 31, 2019, gross unrealized losses related to the CMBS portfolio were \$0.209 million. Of this amount, \$0.013 million have been in an unrealized loss position for twelve months or greater and are rated AA+ or better. The weighted average credit enhancement for the Company’s CMBS portfolio is 30.0. This represents the percentage of pool losses that can occur before a mortgage-backed security will incur its first dollar of principal loss. For the Company’s CMBS portfolio, a loan level analysis is utilized where every underlying CMBS loan is re-underwritten based on a set of assumptions reflecting expectations for the future path of the economy. Each loan is analyzed over time using a series of tests to determine if a credit event will occur during the life of the loan. Inherent in this process are several economic scenarios and their corresponding rent/vacancy and capital market states. The five primary credit events that frame the analysis include loan modifications, term default, balloon default, extension, and ability to pay off at balloon. The resulting output is the expected loss adjusted cash flows for each bond under the base case and distressed scenarios.

Corporate bonds—As of December 31, 2019, gross unrealized losses related to corporate bonds were \$0.079 million. All unrealized losses have been in an unrealized loss position for less than twelve months. The analysis for this asset class includes maintaining detailed financial models that include a projection of each issuer’s future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, the issuer’s current competitive position, its vulnerability to changes in the competitive and 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 December 31, 2019, gross unrealized losses related to foreign bonds were \$0.023 million. Of this amount, \$0.003 million have been in an unrealized loss position for twelve months or greater and are rated AA-. For this asset class, detailed financial models are maintained that include a projection of each issuer’s future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, the issuer’s current competitive position, its vulnerability to changes in the competitive and 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.

The Company recorded the following other than temporary impairments (“OTTI”) on its investment portfolio for the years ended December 31, 2019, 2018, and 2017:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Fixed maturities:			
OTTI losses, gross	\$(1,897)	\$(456)	\$ (31)
Portion of loss recognized in other comprehensive income (pre-tax)	—	—	—
Net impairment losses on fixed maturities recognized in earnings	(1,897)	(456)	(31)
Equity securities	—	—	(2,575)
Total	<u>\$(1,897)</u>	<u>\$(456)</u>	<u>\$(2,606)</u>

The following table is an analysis of the credit losses recognized in earnings on fixed maturities held by the Company as of December 31, 2019, 2018, and 2017 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Balance at beginning of period	\$ 13	\$ 13	\$ 31
Additions where no OTTI was previously recorded	—	—	—
Additions where an OTTI was previously recorded	—	—	—
Reductions for securities for which the company intends to sell or more likely than not will be required to sell before recovery	—	—	—
Reductions reflecting increases in expected cash flows to be collected	—	—	—
Reductions for securities sold during the period	(13)	—	(18)
Balance at end of period	<u>\$—</u>	<u>\$ 13</u>	<u>\$ 13</u>

Accumulated Other Comprehensive Income, Net of Tax

Accumulated other comprehensive income, net of tax, as of December 31, 2019 and 2018 was as follows:

(Dollars in thousands)	December 31,	
	2019	2018
Net unrealized gains (losses) from:		
Fixed maturities	\$21,591	\$(22,675)
Foreign currency fluctuations	(1,032)	(1,334)
Deferred taxes	(2,950)	2,778
Accumulated other comprehensive income, net of tax	<u>\$17,609</u>	<u>\$(21,231)</u>

The following tables present the changes in accumulated other comprehensive income, net of tax, by component for the years ended December 31, 2019 and 2018:

Year Ended December 31, 2019 (Dollars in thousands)	Unrealized Gains and Losses on Available for Sale Securities	Foreign Currency Items	Accumulated Other Comprehensive Income
Beginning balance, net of tax	\$(19,897)	\$(1,334)	\$(21,231)
Other comprehensive income (loss) before reclassification, before tax	50,325	302	50,627
Amounts reclassified from accumulated other comprehensive income (loss), before tax	(6,059)	—	(6,059)
Other comprehensive income (loss), before tax	44,266	302	44,568
Income tax benefit (expense)	(5,728)	—	(5,728)
Ending balance, net of tax	<u>\$ 18,641</u>	<u>\$(1,032)</u>	<u>\$ 17,609</u>

Year Ended December 31, 2018 (Dollars in thousands)	Unrealized Gains and Losses on Available for Sale Securities	Foreign Currency Items	Accumulated Other Comprehensive Income
Beginning balance, net of tax	\$ 8,272	\$ 711	\$ 8,983
Other comprehensive income (loss) before reclassification, before tax	(23,891)	(1,885)	(25,776)
Amounts reclassified from accumulated other comprehensive income (loss), before tax	2,923	—	2,923
Other comprehensive income (loss), before tax	(20,968)	(1,885)	(22,853)
Income tax expense	2,667	—	2,667
Cumulative effect adjustment, net of tax	(9,868)	(160)	(10,028)
Ending balance, net of tax	<u>\$ (19,897)</u>	<u>\$ (1,334)</u>	<u>\$ (21,231)</u>

The reclassifications out of accumulated other comprehensive income for the years ended December 31, 2019 and 2018 were as follows:

(Dollars in thousands) Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	Amounts Reclassified from Accumulated Other Comprehensive Income Years Ended December 31,	
		2019	2018
Unrealized gains and losses on available for sale securities	Other net realized investment (gains) losses	\$(7,956)	\$2,467
	Other than temporary impairment losses on investments	1,897	456
	Total before tax	(6,059)	2,923
	Income tax expense (benefit)	622	(473)
	Unrealized gains and losses on available for sale securities, net of tax	<u>(5,437)</u>	<u>2,450</u>
Foreign currency items	Other net realized investment (gains) losses	—	—
	Income tax expense	—	—
	Foreign currency items, net of tax	<u>—</u>	<u>—</u>
Total reclassifications	Total reclassifications, net of tax	<u>\$ (5,437)</u>	<u>\$ 2,450</u>

Net Realized Investment Gains (Losses)

The components of net realized investment gains (losses) for the years ended December 31, 2019, 2018, and 2017 were as follows:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Fixed maturities:			
Gross realized gains	\$ 9,675	\$ 354	\$ 4,066
Gross realized losses	(3,616)	(3,277)	(3,387)
Net realized gains (losses)	<u>6,059</u>	<u>(2,923)</u>	<u>679</u>
Equity Securities:			
Gross realized gains	40,730	6,491	4,178
Gross realized losses	(6,737)	(22,592)	(3,206)
Net realized gains (losses)	<u>33,993</u>	<u>(16,101)</u>	<u>972</u>
Derivatives:			
Gross realized gains	3,518	3,906	3,555
Gross realized losses	(8,228)	(1,789)	(3,630)
Net realized gains (losses) (1)	<u>(4,710)</u>	<u>2,117</u>	<u>(75)</u>
Total net realized investment gains (losses)	<u>\$35,342</u>	<u>\$ (16,907)</u>	<u>\$ 1,576</u>

(1) Includes periodic net interest settlements related to the derivatives of \$1.2 million, \$1.9 million, and \$3.6 million for the years ended December 31, 2019, 2018, and 2017, respectively.

New accounting guidance regarding equity securities was implemented on January 1, 2018 which requires companies to disclose realized gains and losses for equity securities still held at period end and gains and losses from securities sold during the period. The following table shows the calculation of the portion of realized gains and losses related to equity securities held as of December 31, 2019:

(Dollars in thousands)	Years Ended December 31,	
	2019	2018
Net gains and (losses) recognized during the period on equity securities	\$33,993	\$(16,101)
Less: Net gains (losses) recognized during the period on equity securities sold during the period	<u>10,846</u>	<u>5,921</u>
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting date	<u>\$23,147</u>	<u>\$(22,022)</u>

The proceeds from sales and redemptions of available for sale and equity securities resulting in net realized investment gains (losses) for the years ended December 31, 2019, 2018, and 2017 were as follows:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Fixed maturities	\$977,321	\$293,348	\$918,439
Equity securities	260,891	35,639	32,218

Net Investment Income

The sources of net investment income for the years ended December 31, 2019, 2018, and 2017 were as follows:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Fixed maturities	\$36,673	\$37,085	\$33,020
Equity securities	7,006	4,037	3,595
Cash and cash equivalents	1,510	1,177	894
Other invested assets	<u>78</u>	<u>6,879</u>	<u>4,741</u>
Total investment income	45,267	49,178	42,250
Investment expense	<u>(3,215)</u>	<u>(2,836)</u>	<u>(2,927)</u>
Net investment income	<u>\$42,052</u>	<u>\$46,342</u>	<u>\$39,323</u>

As of December 31, 2019, the Company did not own fixed maturity securities that were non-income producing for the preceding twelve months. As of December 31, 2018, the Company owned fixed maturity securities with a market value of \$0.4 million that were non-income producing for the preceding twelve months.

The Company's total investment return on a pre-tax basis for the years ended December 31, 2019, 2018, and 2017 were as follows:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Net investment income	\$ 42,052	\$ 46,342	\$ 39,323
Net realized investment gains(losses)	35,342	(16,907)	1,576
Change in unrealized holding gains and losses	<u>44,568</u>	<u>(22,853)</u>	<u>14,424</u>
Net realized and unrealized investment returns	79,910	(39,760)	16,000
Total investment return	<u>\$ 121,962</u>	<u>\$ 6,582</u>	<u>\$ 55,323</u>
Total investment return %	<u>7.8%</u>	<u>0.4%</u>	<u>3.5%</u>
Average investment portfolio	<u>\$1,558,565</u>	<u>\$1,522,805</u>	<u>\$1,597,487</u>

Insurance Enhanced Asset-Backed and Credit Securities

As of December 31, 2019, the Company held insurance enhanced bonds with a market value of approximately \$36.5 million, which represented 2.3% of the Company's total cash and invested assets, net of payable/ receivable for securities purchased and sold. The insurance enhanced bonds are comprised of \$16.3 million of municipal bonds, \$20.1 million of commercial mortgage-backed securities, and \$0.1 million of collateralized mortgage obligations. The financial guarantors of the Company's \$36.5 million of insurance enhanced commercial-mortgage-backed, municipal securities, and collateralized mortgage obligations include Municipal Bond Insurance Association (\$3.9 million), Assured Guaranty Corporation (\$10.2 million), Federal Home Loan Mortgage Corporation (\$20.1 million), Ambac Financial Group (\$2.2 million), and Federal Deposit Insurance Corporation (\$0.1 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 December 31, 2019.

Bonds Held on Deposit

Certain cash balances, cash equivalents, equity securities, and bonds available for sale were deposited with various governmental authorities in accordance with statutory requirements, were held as collateral, or were held in trust pursuant to intercompany reinsurance agreements. The fair values were as follows as of December 31, 2019 and 2018:

(Dollars in thousands)	Estimated Fair Value	
	December 31, 2019	December 31, 2018
On deposit with governmental authorities	\$ 26,431	\$ 25,855
Intercompany trusts held for the benefit of U.S. policyholders	179,116	209,028
Held in trust pursuant to third party requirements	133,122	98,417
Letter of credit held for third party requirements	1,458	2,317
Securities held as collateral	91,229	83,214
Total	<u>\$431,356</u>	<u>\$418,831</u>

Variable Interest Entities

A Variable Interest Entity (VIE) refers to an investment in which an investor holds a controlling interest that is not based on the majority of voting rights. Under the VIE model, the party that has the power to exercise significant management influence and maintain a controlling financial interest in the entity's economics is said to be the primary beneficiary, and is required to consolidate the entity within their results. Other entities that participate in a VIE, for which their financial interests fluctuate with changes in the fair value of the investment entity's net assets but do not have significant management influence and the ability to direct the VIE's significant economic activities are said to have a variable interest in the VIE but do not consolidate the VIE in their financial results.

The Company has variable interests in three VIE's for which it is not the primary beneficiary. These investments are accounted for under the equity method of accounting as their ownership interest exceeds 3% of their respective investments.

The fair value of one of the Company's VIE's, which invests in distressed securities and assets, was \$13.5 million and \$17.9 million as of December 31, 2019 and 2018, respectively. The Company's maximum exposure to loss from this VIE, which factors in future funding commitments, was \$27.7 million and \$32.1 million at December 31, 2019 and 2018, respectively. The fair value of a second VIE that also invests in distressed securities and assets was \$24.0 million and \$32.9 million as of December 31, 2019 and 2018, respectively. The Company's maximum exposure to loss from this VIE, which factors in future funding commitments, was \$41.0 million and \$53.4 million at December 31, 2019 and 2018, respectively. The fair value of a third VIE that invests in REIT qualifying assets was \$9.8 million as of December 31, 2019. The Company's maximum exposure to loss from this VIE, which factors in future funding commitments, was \$10.3 million at December 31, 2019. The Company's investment in VIEs is included in other invested assets on the consolidated balance sheet with changes in fair value recorded in the consolidated statements of operations.

4. Derivative Instruments

Derivatives are used by the Company to reduce risks from changes in interest rates and limit exposure to severe equity market changes. The Company has interest rate swaps with terms to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts as calculated by reference to an agreed notional amount. In 2019, the Company began to utilize exchange-traded futures contracts, which give the holder the right and obligation to participate in market movements at a future date, to allow the Company to react faster to market conditions. The Company posts collateral and settles variation margin in cash on a daily basis equal to the amount of the futures contracts' change in value scaled by a multiplier.

The Company accounts for the interest rate swaps and futures as non-hedge instruments and recognizes the fair value of the interest rate swaps in other assets or other liabilities on the consolidated balance sheets with the changes in fair value recognized as net realized investment gains or losses in the consolidated statements of operations. The Company is ultimately responsible for the valuation of the interest rate swaps. To aid in determining the estimated fair value of the interest rate swaps, the Company relies on the forward interest rate curve and information obtained from a third party financial institution.

The following table summarizes information on the location and the gross amount of the derivatives on the consolidated balance sheets as of December 31, 2019 and 2018:

(Dollars in thousands)	Balance Sheet Location	December 31, 2019		December 31, 2018	
		Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives Not Designated as Hedging Instruments under ASC 815					
Interest rate swap agreements	Other assets/liabilities	\$200,000	\$(10,275)	\$200,000	\$(4,062)
Futures contracts on bonds (1)	Other assets/liabilities	16,894	—	—	—
Futures contracts on equities (1)	Other assets/liabilities	57,816	—	—	—
Total		<u>\$274,710</u>	<u>\$(10,275)</u>	<u>\$200,000</u>	<u>\$(4,062)</u>

(1) Futures are settled daily such that their fair value is not reflected in the consolidated statements of financial position

The following table summarizes the net gains (losses) included in the consolidated statements of operations for changes in the fair value of the derivatives and the periodic net interest settlements under the derivatives for the years ended December 31, 2019, 2018, and 2017:

(Dollars in thousands)	Consolidated Statements of Operations Line	Years Ended December 31,		
		2019	2018	2017
Interest rate swap agreements	Net realized investment gains (losses)	\$(7,449)	\$2,117	\$(75)
Futures contracts on bonds	Net realized investment gains (losses)	873	—	—
Futures contracts on equities	Net realized investment gains (losses)	1,866	—	—
		<u>\$(4,710)</u>	<u>\$2,117</u>	<u>\$(75)</u>

As of December 31, 2019 and 2018, the Company is due \$3.0 million and \$2.6 million, respectively, for funds it needed to post to execute the swap transaction and \$12.5 million and \$3.7 million, respectively, for margin calls made in connection with the interest rate swaps. These amounts are included in other assets on the consolidated balance sheets.

As of December 31, 2019, the Company posted initial margin of \$3.0 million in securities for trading futures contracts and has a mark-to-market receivable of \$0.3 million in connection with the futures contracts. Variation margin is included in other assets on the consolidated balance sheets.

5. Fair Value Measurements

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

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

- Level 1—inputs utilize quoted prices (unadjusted) in active markets for identical assets that the Company has the ability to access at the measurement date.
- Level 2—inputs utilize other than quoted prices included in Level 1 that are observable for similar assets, either directly or indirectly.
- Level 3—inputs are unobservable for the asset, and include situations where there is little, if any, market activity for the asset.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the

significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

The following table presents information about the Company's invested assets and derivative instruments measured at fair value on a recurring basis as of December 31, 2019 and 2018, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of December 31, 2019 (Dollars in thousands)	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	\$156,689	\$ —	\$—	\$ 156,689
Obligations of states and political subdivisions	—	63,838	—	63,838
Mortgage-backed securities	—	328,374	—	328,374
Commercial mortgage-backed securities	—	188,104	—	188,104
Asset-backed securities	—	168,537	—	168,537
Corporate bonds	—	248,259	—	248,259
Foreign corporate bonds	—	99,358	—	99,358
Total fixed maturities	156,689	1,096,470	—	1,253,159
Equity securities	251,448	11,656	—	263,104
Total assets measured at fair value (1)	\$408,137	\$1,108,126	\$—	\$1,516,263
Liabilities:				
Derivative instruments	\$ —	\$ 10,275	\$—	\$ 10,275
Total Liabilities measured at fair value	\$ —	\$ 10,275	\$—	\$ 10,275

(1) Excluded from the table above are limited partnerships of \$47.3 million at December 31, 2019 whose fair value is based on net asset value as a practical expedient.

As of December 31, 2018 (Dollars in thousands)	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	\$ 78,855	\$ —	\$—	\$ 78,855
Obligations of states and political subdivisions	—	95,613	—	95,613
Mortgage-backed securities	—	117,854	—	117,854
Commercial mortgage-backed securities	—	202,722	—	202,722
Asset-backed securities	—	183,754	—	183,754
Corporate bonds	—	440,855	—	440,855
Foreign corporate bonds	—	115,502	—	115,502
Total fixed maturities	78,855	1,156,300	—	1,235,155
Equity securities	124,747	—	—	124,747
Total assets measured at fair value (1)	\$203,602	\$1,156,300	\$—	\$1,359,902
Liabilities:				
Derivative instruments	\$ —	\$ 4,062	\$—	\$ 4,062
Total liabilities measured at fair value	\$ —	\$ 4,062	\$—	\$ 4,062

(1) Excluded from the table above are limited partnerships of \$50.8 million at December 31, 2018 whose fair value is based on net asset value as a practical expedient.

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 and derivative instruments. 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. The estimated fair value of the derivative instruments, consisting of interest rate swaps, is obtained from a third party financial institution that utilizes observable inputs such as the forward interest rate curve.

For the Company's material debt arrangements, the current fair value of the Company's debt at December 31, 2019 and 2018 was as follows:

(Dollars in thousands)	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Margin Borrowing Facility	\$ 73,629	\$ 73,629	\$ 65,818	\$ 65,818
7.75% Subordinated Notes due 2045 (1)	96,864	100,264	96,742	92,261
7.875% Subordinated Notes due 2047 (2)	126,147	134,462	126,005	120,597
Total	<u>\$296,640</u>	<u>\$308,355</u>	<u>\$288,565</u>	<u>\$278,676</u>

- (1) As of December 31, 2019 and 2018, the carrying value and fair value of the 7.75% Subordinated Notes due 2045 are net of unamortized debt issuance cost of \$3.1 million and \$3.3 million, respectively.
- (2) As of December 31, 2019 and 2018, the carrying value and fair value of the 7.875% Subordinated Notes due 2047 are net of unamortized debt issuance cost of \$3.9 million and \$4.0 million, respectively.

The fair value of the margin borrowing facility approximates its carrying value due to the facility being due on demand. The subordinated notes due 2045 and 2047 are publicly traded instruments and are classified as Level 1 in the fair value hierarchy.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2019, 2018, and 2017.

Fair Value of Alternative Investments

Other invested assets consist of limited liability partnerships whose fair value is based on net asset value per share practical expedient.

The following table provides the fair value and future funding commitments related to these investments at December 31, 2019 and 2018.

(Dollars in thousands)	December 31, 2019		December 31, 2018	
	Fair Value	Future Funding Commitment	Fair Value	Future Funding Commitment
Real Estate Fund, LP (1)	\$ —	\$ —	\$ —	\$ —
European Non-Performing Loan Fund, LP (2)	13,530	14,214	17,893	14,214
Distressed Debt Fund, LP (3)	23,966	17,000	32,860	20,500
Mortgage Debt Fund, LP (4)	9,783	506	—	—
Total	<u>\$47,279</u>	<u>\$31,720</u>	<u>\$50,753</u>	<u>\$34,714</u>

- (1) 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.
- (2) This limited partnership invests in distressed securities and assets through senior and subordinated, secured and unsecured debt and equity, in both public and private large-cap and middle-market companies. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. 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. Based on the terms of the partnership agreement, the Company anticipates its interest in this partnership to be redeemed by 2020 unless extended with the consent of the limited partners.
- (3) This limited partnership invests in stressed and distressed securities and structured products. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. 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. Based on the terms of the partnership agreement, the Company anticipates its interest to be redeemed no later than 2027 unless extended with the consent of the limited partners.
- (4) This limited partnership invests in REIT qualifying assets such as mortgage loans, investor property loans, and commercial mortgage loans. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. 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. Based on the terms of the partnership agreement, the Company anticipates its interest to be redeemed no later than 2027 unless extended with the consent of the limited partners.

Limited Partnerships with ownership interest exceeding 3%

The Company uses the equity method to account for investments in limited partnerships where its ownership interest exceeds 3%. The equity method of accounting for an investment in a limited partnership requires that its cost basis be

updated to account for the income or loss earned on the investment. The investment income associated with these limited partnerships, which is reflected in the consolidated statements of operations, was less than \$0.1 million, \$6.9 million, and \$4.7 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Pricing

The Company's pricing vendors provide prices for all investment categories except for investments in limited partnerships whose fair value is based on net asset values as a practical expedient. Two primary vendors are utilized to provide prices for equity and fixed maturity securities.

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

- Equity security prices are received from primary and secondary exchanges.
- Corporate and agency bonds are evaluated by utilizing a spread to a benchmark curve. Bonds with similar characteristics are grouped into specific sectors. Inputs for both asset classes consist of trade prices, broker quotes, the new issue market, and prices on comparable securities.
- Data from commercial vendors is aggregated with market information, then converted into an option adjusted spread "OAS" matrix and prepayment model used for commercial mortgage obligations ("CMO"). CMOs are categorized with mortgage-backed securities in the tables listed above. For asset-backed securities, spread data is derived from trade prices, dealer quotations, and research reports. For both asset classes, evaluations utilize standard inputs plus new issue data, and collateral performance. The evaluated pricing models incorporate cash flows, broker quotes, market trades, historical prepayment speeds, and dealer projected speeds.
- For obligations of state and political subdivisions, an attribute-based modeling system is used. The pricing model incorporates trades, market clearing yields, market color, and fundamental credit research.
- U.S. treasuries are evaluated by obtaining feeds from a number of live data sources including primary and secondary dealers as well as inter-dealer brokers.
- For mortgage-backed securities, various external analytical products are utilized and purchased from commercial vendors.

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

- Reviewing periodic reports provided by the Investment Manager that provides information regarding rating changes and securities placed on watch. This procedure allows the Company to understand why a particular security's market value may have changed or may potentially change.
- 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.
- On a quarterly basis, the Company corroborates investment security prices received from its pricing vendors by obtaining pricing from a second pricing vendor for a sample of securities.

During 2019 and 2018, the Company has not adjusted quotes or prices obtained from the pricing vendors.

6. Goodwill and Intangible Assets

Goodwill

As a result of acquisitions in 2015 and 2010, the Company has goodwill, within the Specialty Property and Farm, Ranch, & Stable segments, of \$6.5 million as of December 31, 2019 and 2018. The goodwill represents the excess purchase price over the Company's best estimate of the fair value of the assets acquired. Impairment testing performed in 2019 and 2018 did not result in impairment of the goodwill acquired.

Intangible assets

The following table presents details of the Company's intangible assets as of December 31, 2019:

(Dollars in thousands) Description	Weighted Average Amortization Period	Cost	Accumulated Amortization	Net Value
Trademarks	Indefinite	\$ 4,800	\$ —	\$ 4,800
Tradenames	Indefinite	4,200	—	4,200
State insurance licenses	Indefinite	10,000	—	10,000
Customer relationships	15 years	5,300	3,430	1,870
Agent relationships	10 years	900	444	456
Trade names	7 years	600	435	165
		<u>\$25,800</u>	<u>\$4,309</u>	<u>\$21,491</u>

The following table presents details of the Company's intangible assets as of December 31, 2018:

(Dollars in thousands) Description	Weighted Average Amortization Period	Cost	Accumulated Amortization	Net Value
Trademarks	Indefinite	\$ 4,800	\$ —	\$ 4,800
Tradenames	Indefinite	4,200	—	4,200
State insurance licenses	Indefinite	10,000	—	10,000
Customer relationships	15 years	5,300	3,076	2,224
Agent relationships	10 years	900	356	544
Trade names	7 years	600	348	252
		<u>\$25,800</u>	<u>\$3,780</u>	<u>\$22,020</u>

Amortization related to the Company's definite lived intangible assets was \$0.5 million for each of the years ended December 31, 2019, 2018 and 2017. The weighted average amortization period for total definite lived intangible assets was 13.4 years.

The Company expects that amortization expense for the next five years will be as follows:

(Dollars in thousands)	
2020	\$529
2021	522
2022	443
2023	443
2024	443

Intangible assets with indefinite lives

As of December 31, 2019 and 2018, indefinite lived intangible assets, which are comprised of tradenames, trademarks, and state insurance licenses, were \$19.0 million. Impairment testing performed in 2019 and 2018 indicated that there was no impairment of these assets.

Intangible assets with definite lives

As of December 31, 2019 and 2018, definite lived intangible assets, net of accumulated amortization, were \$2.5 million and \$3.0 million, respectively, and were comprised of customer relationships, agent relationships, and tradenames. There was no impairment of these assets in 2019 or 2018.

7. 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, and 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 December 31, 2019 and 2018:

(Dollars in thousands)	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Reinsurance receivables, net	\$83,938	\$114,418
Collateral securing reinsurance receivables	<u>(3,802)</u>	<u>(11,347)</u>
Reinsurance receivables, net of collateral	<u>\$80,136</u>	<u>\$103,071</u>
Allowance for uncollectible reinsurance receivables	\$ 8,992	\$ 8,040
Prepaid reinsurance premiums	16,716	20,594

The reinsurance receivables above are net of a purchase accounting adjustment related to discounting acquired loss reserves to their present value and applying a risk margin to the discounted reserves. This adjustment was \$0.4 million and \$0.8 million at December 31, 2019 and 2018, respectively.

As of December 31, 2019, the Company had one aggregate unsecured reinsurance receivables that exceeded 3% of shareholders' equity from the following reinsurer. Unsecured reinsurance receivables include amounts receivable for paid and unpaid losses and loss adjustment expenses, less amounts secured by collateral.

(Dollars in thousands)	<u>Reinsurance Receivables</u>	<u>A.M. Best Ratings (As of December 31, 2019)</u>
Munich Re America Corporation	\$44,129	A+

The effect of reinsurance on premiums written and earned is as follows:

(Dollars in thousands)	<u>Written</u>	<u>Earned</u>
For the year ended December 31, 2019:		
Direct business	\$548,618	\$527,018
Reinsurance assumed	88,243	76,893
Reinsurance ceded (1)	<u>(74,772)</u>	<u>(78,649)</u>
Net premiums	<u>\$ 562,089</u>	<u>\$ 525,262</u>
For the year ended December 31, 2018:		
Direct business	\$495,129	\$483,229
Reinsurance assumed	52,768	68,156
Reinsurance ceded (1)	<u>(75,350)</u>	<u>(83,610)</u>
Net premiums	<u>\$ 472,547</u>	<u>\$ 467,775</u>
For the year ended December 31, 2017:		
Direct business	\$433,922	\$440,109
Reinsurance assumed	82,412	77,811
Reinsurance ceded (1)	<u>(66,154)</u>	<u>(79,886)</u>
Net premiums	<u>\$ 450,180</u>	<u>\$ 438,034</u>

(1) Includes ceded written premiums of (\$0.3) million, (\$2.1) million, and (\$1.3) million and ceded earned premiums of \$2.3 million, \$7.3 million and \$13.5 million to American Bankers Insurance Company for the years ended December 31, 2019, 2018, and 2017, respectively.

8. Income Taxes

As of December 31, 2019, the statutory income tax rates of the countries where the Company conducts or conducted business are 21% in the United States, 0% in Bermuda, 0% in the Cayman Islands, 24.94% for companies with a registered office in Luxembourg City, 1.0% to 2.5% in Barbados, 19% in the United Kingdom and 25% on non-trading income, 33% on capital gains and 12.5% on trading income in the Republic of Ireland. The statutory income tax rate of each country is applied against the expected annual taxable income of the Company in each country to estimate the annual income tax expense.

The Company's income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries for the years ended December 31, 2019, 2018, and 2017 were as follows:

Year Ended December 31, 2019 (Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross written premiums	\$ 88,282	\$548,579	\$ —	\$636,861
Net written premiums	\$ 88,285	\$473,804	\$ —	\$562,089
Net earned premiums	\$ 75,961	\$449,301	\$ —	\$525,262
Net investment income	29,307	26,816	(14,071)	42,052
Net realized investment gains	3,121	32,221	—	35,342
Other income (loss)	(165)	1,981	—	1,816
Total revenues	108,224	510,319	(14,071)	604,472
Losses and Expenses:				
Net losses and loss adjustment expenses	36,502	238,900	—	275,402
Acquisition costs and other underwriting expenses	23,610	184,793	—	208,403
Corporate and other operating expenses	7,462	11,426	—	18,888
Interest expense	1,409	32,684	(14,071)	20,022
Income before income taxes	\$ 39,241	\$ 42,516	\$ —	\$ 81,757
Year Ended December 31, 2018 (Dollars in thousands)				
	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross written premiums	\$ 48,050	\$499,847	\$ —	\$547,897
Net written premiums	\$ 48,041	\$424,506	\$ —	\$472,547
Net earned premiums	\$135,826	\$331,949	\$ —	\$467,775
Net investment income	49,699	27,294	(30,651)	46,342
Net realized investment losses	(669)	(16,238)	—	(16,907)
Other income (loss)	(210)	1,938	—	1,728
Total revenues	184,646	344,943	(30,651)	498,938
Losses and Expenses:				
Net losses and loss adjustment expenses	91,178	243,447	—	334,625
Acquisition costs and other underwriting expenses	57,487	133,291	—	190,778
Corporate and other operating expenses	12,234	17,532	—	29,766
Interest expense	7,108	43,237	(30,651)	19,694
Income (loss) before income taxes	\$ 16,639	\$ (92,564)	\$ —	\$ (75,925)
Year Ended December 31, 2017 (Dollars in thousands)				
	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross written premiums	\$212,386	\$462,453	\$(158,505)	\$516,334
Net written premiums	\$212,432	\$237,748	\$ —	\$450,180
Net earned premiums	\$201,165	\$236,869	\$ —	\$438,034
Net investment income	56,890	24,609	(42,176)	39,323
Net realized investment gains (losses)	(641)	2,217	—	1,576
Other income	216	6,366	—	6,582
Total revenues	257,630	270,061	(42,176)	485,515
Losses and Expenses:				
Net losses and loss adjustment expenses	94,903	174,309	—	269,212
Acquisition costs and other underwriting expenses	89,153	94,580	—	183,733
Corporate and other operating expenses	17,399	8,315	—	25,714
Interest expense	16,740	42,342	(42,176)	16,906
Income (loss) before income taxes	\$ 39,435	\$ (49,485)	\$ —	\$ (10,050)

For the year ended December 31, 2017, the Company's income (loss) before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, as reported in the table above, includes the results of the quota share agreement between Global Indemnity Reinsurance and the Insurance Operations. This quota share agreement was cancelled on a runoff basis effective January 1, 2018.

The following table summarizes the components of income tax expense (benefit):

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Current income tax expense (benefit):			
Foreign	\$ (41)	\$ 325	\$ 392
U.S. Federal	—	—	127
Total current income tax expense (benefit)	(41)	325	519
Deferred income tax expense (benefit):			
U.S. tax rate change	—	—	17,524
U.S. Federal	11,783	(19,554)	(18,542)
Total deferred income tax expense (benefit)	11,783	(19,554)	(1,018)
Total income tax expense (benefit)	<u>\$11,742</u>	<u>\$(19,229)</u>	<u>\$ (499)</u>

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

The following table summarizes the differences between the tax provision for financial statement purposes and the expected tax provision at the weighted average tax rate:

(Dollars in thousands)	Years Ended December 31,					
	2019		2018		2017	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Expected tax provision at weighted average ...	\$ 8,928	10.9%	\$(19,112)	(25.2%)	\$(16,928)	(168.4%)
Adjustments:						
Tax exempt interest	(3)	(0.0)	(6)	—	(213)	(2.1)
Dividend exclusion	(284)	(0.3)	(279)	(0.4)	(571)	(5.7)
Tax rate change	—	—	—	—	17,524	174.4
Non-deductible interest	2,714	3.3	356	0.5	—	—
Other	387	0.5	(188)	(0.2)	(311)	(3.2)
Effective income tax expense (benefit)	<u>\$11,742</u>	<u>14.4%</u>	<u>\$(19,229)</u>	<u>(25.3%)</u>	<u>\$ (499)</u>	<u>(5.0%)</u>

The effective income tax expense rate for 2019 was 14.4%, compared with an effective income tax benefit rate of 25.3% and 5.0% for 2018 and 2017, respectively. The increase in the effective income tax expense rate in 2019 compared to 2018 is due to higher pretax income in the U.S. in 2019. The increase in the effective income tax benefit rate in 2018 compared to 2017 is due to a \$17.5 million tax expense recorded in 2017 as a result of the TCJA enacted in 2017 resulting in lowering the tax rate from 35% to 21% which caused the Company to write down its deferred tax asset offset by an increase in losses incurred by the Company's non-U.S. operations in 2018 compared to 2017.

The tax effects of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2019 and 2018 are presented below:

(Dollars in thousands)	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Discounted unpaid losses and loss adjustment expenses	\$ 3,681	\$ 3,482
Unearned premiums	10,234	9,206
Section 163(j) carryforward	9,023	11,075
Net operating loss carryforward	21,871	29,480
Partnership K1 basis differences	1,703	113
Loss on derivative instruments	2,158	853
Investment impairments	1	816
Stock options	1,352	1,375
Stat-to-GAAP reinsurance reserve	874	895
Unrealized loss on securities available-for-sale and investments in limited partnerships included in accumulated other comprehensive income (loss)	—	2,778
Unrealized loss on equity securities	—	1,409
Intercompany transfers	—	210
Other	1,840	1,860
Total deferred tax assets	<u>52,737</u>	<u>63,552</u>
Deferred tax liabilities:		
Intangible assets	3,112	3,150
Unrealized gain on securities available-for-sale and investments in limited partnerships included in accumulated other comprehensive income (loss)	2,950	—
Unrealized gain on equity securities	3,438	—
Investment basis differences	—	212
Deferred acquisition costs	11,608	10,525
Depreciation and amortization	436	528
Other	116	548
Total deferred tax liabilities	<u>21,660</u>	<u>14,963</u>
Total net deferred tax assets	<u>\$ 31,077</u>	<u>\$ 48,589</u>

The deferred tax assets and deferred tax liabilities listed in the table above relate to temporary differences between the Company's accounting and tax carrying values and carryforwards for its companies in the United States. Management believes it is more likely than not that the remaining deferred tax assets will be completely utilized in future years. As a result, the Company has not recorded a valuation allowance at December 31, 2019 and 2018.

The Company has a net operating loss ("NOL") carryforward of \$21.9 million as of December 31, 2019, which begins to expire in 2036 based on when the original NOL was generated. The Company's NOL carryforward as of December 31, 2018 was \$29.5 million.

The Company has a Section 163(j) ("163(j)") carryforward of \$9.0 million and \$11.1 million as of December 31, 2019 and 2018, respectively, which can be carried forward indefinitely. The 163(j) carryforward relates to the limitation on the deduction for business interest expense paid or accrued.

The Company had an alternative minimum tax ("AMT") credit carryforward of \$11.0 million as of December 31, 2017. The TCJA repealed the corporate AMT. The AMT credit carryforward of \$11.0 million was reclassified to federal income taxes receivable at December 31, 2017 and will be fully refunded by the end of 2021.

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 2016.

Should the Company's subsidiaries that are subject to income taxes imposed by the U.S. authorities pay a dividend to their foreign affiliates, withholding taxes would apply. The Company has not recorded deferred taxes for potential withholding tax on undistributed earnings. The Company believes, although there can be no assurances, that it qualifies for treaty benefits under the Tax Convention with Luxembourg and would be subject to a 5% withholding tax if it were to pay a dividend. Determination of the unrecognized deferred tax liability related to these undistributed earnings is not practicable because of the complexities with its hypothetical calculation. The Company did not pay any dividends from a U.S. subsidiary to a foreign affiliate during 2019, 2018, or 2017.

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. All tax benefits recognized by the company in 2019, 2018, and 2017 have a greater than 50% likelihood of being sustained upon examination by the taxing authorities.

The Company classifies all interest and penalties related to uncertain tax positions as income tax expense. The Company did not incur any interest and penalties related to uncertain tax positions during the years ended December 31, 2019, 2018 and 2017. As of December 31, 2019, the Company did not record any liabilities for tax-related interest and penalties on its consolidated balance sheets.

9. Liability for Unpaid Losses and Loss Adjustment Expenses

Consolidated Activity

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

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Balance at beginning of period	\$680,031	\$634,664	\$651,042
Less: Ceded reinsurance receivables	109,342	97,243	130,439
Net balance at beginning of period	570,689	537,421	520,603
Purchased reserves, gross	—	—	19,333
Less: Purchased reserves ceded	—	—	(29)
Purchase reserves, net of third party reinsurance	—	—	19,362
Incurred losses and loss adjustment expenses related to:			
Current year	308,211	363,423	323,112
Prior years	(32,809)	(28,798)	(53,900)
Total incurred losses and loss adjustment expenses	275,402	334,625	269,212
Paid losses and loss adjustment expenses related to:			
Current year	146,128	173,545	156,325
Prior years	146,055	127,812	115,431
Total paid losses and loss adjustment expenses	292,183	301,357	271,756
Net balance at end of period	553,908	570,689	537,421
Plus: Ceded reinsurance receivables	76,273	109,342	97,243
Balance at end of period	\$630,181	\$680,031	\$634,664

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.

During 2019, the Company reduced its prior accident year loss reserves by \$32.8 million, which consisted of a \$18.4 million decrease related to Commercial Specialty, \$10.8 million decrease related to Specialty Property, \$5.5 million decrease related to Farm, Ranch, & Stable, and a \$1.9 million increase related to Reinsurance Operations.

The \$18.4 million reduction of prior accident year loss reserves related to Commercial Specialty primarily consisted of the following:

- **General Liability:** A \$14.5 million reduction in aggregate with \$3.5 million of favorable development in the construction defect reserve category and \$11.0 million of favorable development in the other general liability reserve categories. The favorable development in the construction defect reserve category recognizes better than expected claims frequency and severity in the 2004 through 2009, 2011 through 2015, 2017 and 2018 accident years, partially offset by increases in the 2010 and 2016 accident years which reflects higher than anticipated claims severity. The decreases in the other general liability reserve categories primarily recognizes lower than anticipated claims severity in the 1999 through 2014, 2016 and 2017 accident years, partially offset by an increase in the 2015 accident year which was impacted by higher than expected claims severity.
- **Commercial Auto Liability:** A \$2.0 million decrease primarily driven by better than expected claims severity in the 2000 through 2002, 2010 through 2013, 2015 and 2016 accident years.
- **Professional Liability:** A \$1.9 million reduction primarily in the 2007 through 2011 accident years recognizes better than expected claims severity.
- **Property:** A \$0.9 million decrease in aggregate mainly due to lower than anticipated claims severity in the 2012 through 2016 accident years, partially offset by increases in the 2010, 2017 and 2018 accident years which were impacted by higher than expected claims severity.
- **Reinsurance:** A \$1.0 million increase was recognized based on a review of expected ceded recoverables by reinsurer. The increase was primarily in the general liability reserve categories and older accident years.

The \$10.8 million reduction of prior accident year loss reserves related to Specialty Property primarily consisted of the following:

- **Property:** A \$10.2 million decrease in aggregate primarily recognizes a reduction in the catastrophe reserve category for subrogation recoveries from the California Camp wildfire loss in the 2018 accident year. There also was favorable development in accident years 2015 through 2017 reflecting better than expected claims severity.
- **General Liability:** A \$0.6 million decrease primarily recognizes lower than expected claims severity in the 2014 through 2016 and 2018 accident years, partially offset by increases in the 2010 and 2017 accident years, recognizing higher than expected claims severity.

The \$5.5 million reduction of prior accident year loss reserves related to Farm, Ranch, & Stable primarily consisted of the following:

- **Property:** A \$3.9 million decrease in aggregate in the 2015 through 2018 accident years primarily reflects lower than expected claims severity. Also, there were ceded recoveries from a second accident quarter catastrophe in the 2018 accident year leading to favorable development in that year.
- **Liability:** A \$1.6 million decrease primarily in the 2015 through 2017 accident years recognizes lower than anticipated claims severity, partially offset by increases in the 2013, 2014, and 2018 accident years which reflects higher than expected claims severity

The \$1.9 million increase in prior accident year loss reserves related to Reinsurance Operations primarily consisted of the following:

- **Property:** A \$5.0 million increase primarily in the 2016 through 2018 accident years partially offset by favorable development in the 2011 through 2015 accident years based on a review of the experience reported from the cedants. The 2018 accident year was adversely impacted by \$9.0 million of development from Typhoon Jebi.
- **Professional Liability:** A \$3.1 million decrease was recognized in the 2008, 2010 and 2013 through 2015 accident years, partially offset by an increase in the 2007 accident year based on a review of the experience reported from the cedants.

During 2018, the Company reduced its prior accident year loss reserves by \$28.8 million, which consisted of a \$7.3 million decrease related to Commercial Specialty, \$7.9 million decrease related to Specialty Property, \$4.7 million decrease related to Farm, Ranch, & Stable, and a \$8.9 million decrease related to Reinsurance Operations.

The \$7.3 million reduction of prior accident year loss reserves related to Commercial Specialty primarily consisted of the following:

- **General Liability:** A \$1.3 million reduction in reserve categories excluding construction defect. Lower than expected claims severity was the primary driver of the favorable development, mainly in the 2002 through 2004, 2006 through 2010, and 2012 through 2014 accident years which was partially offset by increases in the 2011 and 2015 through 2017 accident years.
- **Commercial Auto Liability:** A \$3.2 million decrease in the aggregate primarily due to a reduction in the 2010, 2012 and 2013 accident years resulting from lower than anticipated claims severity partially offset by an increase in the 2015 and 2017 accident years.
- **Professional Liability:** A \$0.9 million decrease reflects lower than expected claims severity mainly in the 2008, 2011, and 2014 accident years.
- **Property:** A \$1.9 million decrease in the aggregate recognizes lower than anticipated claims severity primarily in the 2007, 2014, 2015, and 2017 accident years partially offset by an increase in the 2016 accident year.

The \$7.9 million reduction of prior accident year loss reserves related to Specialty Property primarily consisted of the following:

- **Property:** A \$5.7 million reduction in the property reserve categories. The decrease reflects lower than anticipated claims severity primarily in the 2014 through 2017 accident years.
- **General Liability:** A \$2.2 million decrease primarily in the 2011 through 2014 and 2016 through 2017 accident years, which recognizes lower than expected claims severity, partially offset by an increase in the 2015 accident year which reflects higher than expected claims severity.

The \$4.7 reduction of prior accident year loss reserves related to Farm, Ranch, & Stable primarily consisted of the following:

- **Property:** A \$1.3 million reduction primarily in the 2014 through 2017 accident years mainly reflects lower than expected claims severity.
- **Liability:** A \$3.4 million decrease reflects lower than expected claims severity primarily in the 2012, 2014, 2016 and 2017 accident years, partially offset by increases in the 2007 and 2013 accident years recognizing higher than anticipated claims severity.

The \$8.9 million reduction of prior accident year loss reserves related to Reinsurance Operations was from the property lines for accident years 2007, 2009 through 2012, 2015, and 2016 partially offset by increases in the 2013, 2014, and 2017 accident years. The accident year changes were based on a review of the experience reported from cedants.

During 2017, the Company reduced its prior accident year loss reserves by \$53.9 million, which consisted of a \$39.4 million decrease related to Commercial Specialty, \$1.6 million decrease related to Specialty Property, \$5.0 million decrease related to Farm, Ranch, & Stable, and a \$7.9 million decrease related to Reinsurance Operations.

The \$39.4 million reduction of prior accident year loss reserves related to Commercial Specialty primarily consisted of the following:

- **General Liability:** A \$26.9 million reduction in aggregate with \$6.9 million of favorable development in the construction defect reserve category and \$20.0 million of favorable development in the other general liability reserve categories. The favorable development in the construction defect reserve category recognizes lower than anticipated claims frequency and severity which led to reductions primarily in the 2005 through 2016 accident years. For the other general liability reserve categories, lower than expected claims severity was the primary driver of the favorable development mainly in the 2005 through 2014 accident years.
- **Professional Liability:** A \$5.8 million decrease in aggregate primarily reflects lower than expected claims severity in the 2006 through 2008 and 2011 through 2012 accident years.
- **Property:** A \$6.3 million reduction in aggregate with \$4.0 million of favorable development in the property excluding catastrophe reserve categories and \$2.3 million of favorable development in the property catastrophe reserve categories. The favorable development in the reserve categories excluding catastrophe experience reflects lower than expected claims severity in the 2011 through 2015 accident years. For the property catastrophe reserve categories, lower than anticipated claims severity was the driver of the favorable development in the 2011 through 2016 accident years.

- **Workers Compensation:** A \$0.5 million reduction primarily due to lower than expected case incurred emergence in the 2011 accident year.

The \$1.6 million reduction of prior accident year loss reserves related to Specialty Property primarily consisted of the following:

- **Property:** A \$4.0 million reduction in the property reserve categories. The decrease mainly reflects lower than anticipated claims severity primarily in the 2012, 2013, 2015, and 2016 accident years.
- **General Liability:** A \$2.4 million increase in the 2015 accident year recognizes higher than expected claims severity, partially offset by a decrease in the 2016 accident year mainly due to lower than anticipated claims severity.

The \$5.0 reduction of prior accident year loss reserves related to Farm, Ranch, & Stable primarily consisted of the following:

- **Property:** A \$2.1 million decrease mainly in the 2016 accident year primarily reflects lower than expected claims severity.
- **Liability:** A \$2.9 million decrease primarily reflects lower than expected claims severity in the 2015 and 2016 accident years.

The \$7.9 million reduction of prior accident year loss reserves related to Reinsurance Operations was primarily from the property lines for accident years 2008 through 2016. Ultimate losses were lowered in these accident years based on reviews of the experience reported from cedants.

Prior to 2001, the Company underwrote multi-peril business insuring general contractors, developers, and sub-contractors primarily involved in residential construction that has resulted in significant exposure to construction defect (“CD”) claims. The Company’s reserves for CD claims are established based upon management’s best estimate in consideration of known facts, existing case law and generally accepted actuarial methodologies. However, due to the inherent uncertainty concerning this type of business, the ultimate exposure for these claims may vary significantly from the amounts currently recorded. As of December 31, 2019 and 2018, gross reserves for CD claims were \$36.9 million and \$42.4 million, respectively, and net reserves for CD claims were \$35.4 million and \$39.3 million, respectively.

The Company has exposure to asbestos and environmental (“A&E”) claims. The asbestos exposure primarily arises from the sale of product liability insurance, and the environmental exposure arises from the sale of general liability and commercial multi-peril insurance. In establishing the liability for unpaid losses and loss adjustment expenses related to A&E exposures, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities have been established to cover additional exposures on both known and unasserted claims. Estimates of the liabilities are reviewed and updated regularly. Case law continues to evolve for such claims, and uncertainty exists about the outcome of coverage litigation and whether past claim experience will be representative of future claim experience. Included in net unpaid losses and loss adjustment expenses as of December 31, 2019, 2018, and 2017 were IBNR reserves of \$27.1 million, \$27.4 million, and \$26.9 million, respectively, and case reserves of approximately \$2.0 million, \$2.1 million, and \$3.3 million, respectively, for known A&E-related claims.

The following table shows the Company’s gross reserves for A&E losses:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Gross reserve for A&E losses and loss adjustment expenses—beginning of period	\$50,445	\$51,873	\$51,919
Plus: Change in incurred losses and loss adjustment expenses	(2)	(1)	1,470
Less: Payments	1,618	1,427	1,516
Gross reserves for A&E losses and loss adjustment expenses—end of period	<u>\$48,825</u>	<u>\$50,445</u>	<u>\$51,873</u>

The following table shows the Company’s net reserves for A&E losses:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Net reserve for A&E losses and loss adjustment expenses—beginning of period	\$29,524	\$30,124	\$29,890
Plus: Change in incurred losses and loss adjustment expenses	(1)	—	967
Less: Payments	490	600	733
Net reserves for A&E losses and loss adjustment expenses—end of period	<u>\$29,033</u>	<u>\$29,524</u>	<u>\$30,124</u>

Establishing reserves for A&E and other mass tort claims involves 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.

As of December 31, 2019, 2018, and 2017, the survival ratio on a gross basis for the Company’s open A&E claims was 32.1 years, 24.2 years, and 20.7 years, respectively. As of December 31, 2019, 2018, and 2017, the survival ratio on a net basis for the Company’s open A&E claims was 47.8 years, 35.7 years, and 35.6 years, respectively. The survival ratio, which is the ratio of gross or net reserves to the 3-year average of annual paid claims, is a financial measure that indicates how long the current amount of gross or net reserves are expected to last based on the current rate of paid claims.

Line of Business Categories

The following is information, presented by lines of business with similar characteristics including similar payout patterns, about incurred and paid claims development as of December 31, 2019, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities included within the net incurred claims amounts. The years included represent the number of years for which claims incurred typically remain outstanding but need not exceed 10 years including the most recent report period presented.

The information about incurred and paid claims development for the years ended December 31, 2010 to 2019, is presented as required supplementary unaudited information.

Commercial Specialty

Property and Casualty Methodologies

Commercial Specialty’s internal actuarial reserve reviews were completed for loss and allocated loss adjustment expenses (“ALAE”) separately for property excluding catastrophe experience, property catastrophes, and casualty reserve categories. The internal actuarial reserve reviews were completed with data through December, 2019. Actuarial methodologies, such as the Loss Development and Bornhuetter-Ferguson methods, were employed to develop estimates of ultimate Loss & ALAE for most reserve categories. Additional actuarial methodologies were employed to develop estimates of ultimate Loss & ALAE for mass tort and constructions defect reserve categories due to the unique characteristics of the exposures involved. Management’s ultimate selections were based on the internal actuarial review and a third party actuarial review completed during the 4th quarter of 2019. Case incurred is subtracted from the management selected ultimates to obtain the booked IBNR reserves. These methodologies are consistent with last year.

Commercial Specialty’s cumulative claim frequency has been calculated at the claim level and includes claims closed without payment.

Commercial Specialty—Property

(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,			As of December 31, 2019	
	2017 (unaudited)	2018 (unaudited)	2019	IBNR (1)	Cumulative Number of Reported Claims
2017	\$44,785	\$43,805	\$ 45,627	\$1,468	2,960
2018		60,555	62,219	1,853	2,688
2019			54,853	8,966	2,669
		Total	<u>\$162,699</u>		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Commercial Specialty—Property

(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,		
	2017 (unaudited)	2018 (unaudited)	2019
2017	\$28,541	\$37,712	\$ 42,699
2018		36,161	54,400
2019			34,921
		Total	132,020
	All outstanding liabilities before 2017, net of reinsurance		2,972
	Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance		<u>\$ 33,651</u>

The following is required supplementary information about average historical claims duration as of December 31, 2019:

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)		
	1	2	3
Commercial Specialty—Property	61.4%	24.7%	10.9%

Commercial Specialty—Casualty

(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,										As of December 31, 2019	
	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019	IBNR (1)	Cumulative Number of Reported Claims
2010	\$79,188	\$101,830	\$102,252	\$101,113	\$ 94,484	\$ 91,368	\$84,681	\$82,824	\$80,012	\$ 79,022	\$ 6,152	3,528
2011		115,441	117,602	117,288	115,193	108,720	96,361	84,269	87,045	83,825	4,144	3,887
2012			61,340	65,911	65,637	63,359	55,137	52,504	50,022	47,966	6,686	2,411
2013				63,807	68,089	67,702	66,301	64,877	61,487	58,756	4,505	2,548
2014					61,325	60,227	58,042	56,837	56,129	53,955	8,413	2,345
2015						57,262	56,620	57,775	58,392	59,568	10,462	2,101
2016							54,130	53,776	53,584	51,893	9,740	1,927
2017								54,338	54,572	53,385	16,667	1,795
2018									57,879	57,457	27,742	2,062
2019										68,952	51,764	1,747
									Total	<u>\$614,779</u>		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Commercial Specialty—Casualty

(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
2010	\$5,503	\$19,926	\$34,659	\$50,520	\$58,913	\$65,377	\$67,277	\$69,615	\$70,300	\$ 71,951
2011		5,451	21,325	41,282	56,562	64,722	72,087	74,839	77,675	78,595
2012			3,500	11,884	22,456	31,231	36,360	39,596	39,899	40,595
2013				6,400	17,881	29,510	38,438	46,272	50,964	52,265
2014					3,968	15,690	26,268	33,697	39,361	42,517
2015						3,336	14,584	25,147	35,816	42,543
2016							4,135	14,027	21,966	34,872
2017								4,914	12,711	22,988
2018									4,297	13,827
2019										5,174
									Total	405,327
									All outstanding liabilities before 2010, net of reinsurance	65,083
									Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	<u>\$274,535</u>

The following is required supplementary information about average historical claims duration as of December 31, 2019:

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)									
	1	2	3	4	5	6	7	8	9	10
Commercial Specialty—Casualty	7.7%	18.3%	19.5%	18.3%	11.0%	7.5%	2.1%	2.6%	1.0%	2.1%

Specialty Property

Property and Casualty Methodologies

Specialty Property’s internal actuarial reserve reviews were completed for loss and allocated loss adjustment expenses (ALAE) separately for property excluding catastrophe experience, property catastrophes, and casualty reserve categories. The internal actuarial reserve reviews were completed with data through December, 2019. Actuarial methodologies, such as the Loss Development and Bornhuetter-Ferguson methods, were employed to develop estimates of ultimate Loss & ALAE. Management’s ultimate selections were based on the internal actuarial review and a third party actuarial review completed during the 4th quarter of 2019. Case incurred is subtracted from the management selected ultimates to obtain the booked IBNR reserves. These methodologies are consistent with last year.

Specialty Property is primarily comprised of business acquired in the purchase of American Reliable, which occurred on January 1, 2015. The acquisition included the purchase of the business of the legal entity as well as additional books of business written by other Assurant entities. In addition, ceding arrangements subsequent to the date of the acquisition are not consistent with years prior to the acquisition. As a result, it is not practical, nor would it be consistent, to include information for years prior to 2015 in the development tables for Specialty Property.

Specialty Property’s cumulative claim frequency has been calculated at the claim level and includes claims closed without payment.

Specialty Property—Property

(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance			
	For the Years Ended December 31,		As of December 31, 2019	
	2018	2019	IBNR (1)	Cumulative Number of Reported Claims
2018	\$122,164	\$112,947	\$3,917	15,093
2019		79,798	7,553	9,695
	Total	\$192,745		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Specialty Property—Property

(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance	
	For the Years Ended December 31,	
	2018	2019
	(unaudited)	
2018	\$99,741	\$106,755
2019		66,786
	Total	173,541
All outstanding liabilities before 2018, net of reinsurance		5,146
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance		\$ 24,350

The following is required supplementary information about average historical claims duration as of December 31, 2019.

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)	
	1	2
Specialty Property—Property	86.0%	6.2%

Specialty Property—Casualty

(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance					As of December 31, 2019	
	For the Years Ended December 31,					IBNR (1)	Cumulative Number of Reported Claims
	2015	2016	2017	2018	2019		
2015	\$6,875	\$8,455	\$11,230	\$11,656	\$11,412	\$1,155	856
2016		8,249	8,068	7,613	6,713	1,467	854
2017			7,213	6,966	7,515	1,650	503
2018				5,242	5,028	3,194	330
2019					3,986	3,158	234
				Total	\$34,654		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Specialty Property—Casualty

(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,				
	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019
2015	\$1,301	\$4,979	\$6,698	\$9,129	\$10,050
2016		1,165	2,654	3,889	4,856
2017			979	2,658	4,502
2018				248	1,339
2019					397
				Total	21,144
				All outstanding liabilities before 2015, net of reinsurance	1,309
				Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	<u>\$14,819</u>

The following is required supplementary information about average historical claims duration as of December 31, 2019:

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)				
	1	2	3	4	5
Specialty Property—Casualty	11.3%	24.6%	19.3%	17.9%	8.1%

Farm, Ranch, & Stable

Property and Casualty Methodologies

Farm, Ranch, & Stable’s internal actuarial reserve reviews were completed for loss and allocated loss adjustment expenses (ALAE) separately for property excluding catastrophe experience, property catastrophes, and casualty reserve categories. The internal actuarial reserve reviews were completed with data through December, 2019. Actuarial methodologies, such as the Loss Development and Bornhuetter-Ferguson methods, were employed to develop estimates of ultimate Loss & ALAE. Management’s ultimate selections were based on the internal actuarial review and a third party actuarial review completed during the 4th quarter of 2019. Case incurred is subtracted from the management selected ultimates to obtain the booked IBNR reserves. These methodologies are consistent with last year.

Farm, Ranch, & Stable is primarily comprised of business acquired in the purchase of American Reliable, which occurred on January 1, 2015. The acquisition included the purchase of the business of the legal entity as well as additional books of business written by other Assurant entities. In addition, ceding arrangements subsequent to the date of the acquisition are not consistent with years prior to the acquisition. As a result, it is not practical, nor would it be consistent, to include information for years prior to 2015 in the development tables for Farm, Ranch, & Stable.

Farm, Ranch, & Stable’s cumulative claim frequency has been calculated at the claim level and includes claims closed without payment.

Farm, Ranch, & Stable—Property

(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,		As of December 31, 2019	
	2018 (unaudited)	2019	IBNR (1)	Cumulative Number of Reported Claims
2018	\$34,811	\$32,376	\$1,704	2,760
2019		37,120	2,332	2,890
	Total	<u>\$69,496</u>		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Farm, Ranch, & Stable—Property

(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,	
	2018 (unaudited)	2019
2018	\$27,427	\$30,475
2019		31,461
	Total	61,936
All outstanding liabilities before 2018, net of reinsurance		1,289
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance		<u>\$ 8,849</u>

The following is required supplementary information about average historical claims duration as of December 31, 2019.

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)	
	1	2
Farm, Ranch, & Stable—Property	84.7%	9.4%

Farm, Ranch, & Stable—Casualty

(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance					As of December 31, 2019	
	For the Years Ended December 31,					IBNR (1)	Cumulative Number of Reported Claims
	2015	2016	2017	2018	2019		
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
2015	\$12,055	\$12,052	\$10,621	\$10,664	\$10,383	\$1,525	475
2016		13,226	13,005	11,977	10,507	2,077	545
2017			12,786	12,171	10,600	4,562	488
2018				9,934	10,559	5,419	529
2019					9,781	6,957	452
				Total	\$51,830		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Farm, Ranch, & Stable—Casualty

(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance				
	For the Years Ended December 31,				
	2015	2016	2017	2018	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
2015	\$2,138	\$3,778	\$6,228	\$6,986	\$ 8,481
2016		2,342	4,231	5,954	7,069
2017			1,153	2,145	4,242
2018				1,092	3,225
2019					1,626
				Total	24,643
				All outstanding liabilities before 2015, net of reinsurance	1,546
				Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	\$28,733

The following is required supplementary information about average historical claims duration as of December 31, 2019:

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)				
	1	2	3	4	5
Farm, Ranch, & Stable—Casualty	16.1%	15.8%	19.9%	9.0%	14.4%

Reinsurance Lines

Property & Casualty Methodologies

Reinsurance Operations' internal reserve reviews were completed for loss and allocated loss adjustment expenses (ALAE) combined for run off treaties and the current book of business. The current book of business is constituted of professional liability portfolios and retrocessions from Bermuda based companies for property catastrophe, marine and casualty business. The reserve reviews were completed based on the latest data reported from the cedants which is typically on a quarter lag. Paid loss, ALAE and Case reserves, shown in the reinsurance category tables below, which are originally based in a foreign currency, are remeasured in U.S. dollars based on the Foreign Exchange (FX) rate at the end of the period. Management's ultimate selections were based on a review of ultimates reported from the cedants, including loss emergence during the reporting period, and a third party actuarial review completed during the 4th quarter of 2019. Case incurred is subtracted from the management selected ultimates to obtain the booked IBNR reserves. These methodologies are consistent with last year.

The Company does not have direct access to claim frequency information underlying certain reinsurance contracts. As a result, the Company does not believe providing claim frequency information is practicable.

Reinsurance Lines—Property

(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance								Cumulative Number of Reported Claims
	For the Years Ended December 31,							As of December 31, 2019	
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019	IBNR (1)	
2013 ...	\$15,153	\$ 9,948	\$ 8,197	\$ 6,698	\$ 6,345	\$ 6,471	\$ 6,130	\$ 332	—
2014 ...		21,787	18,861	14,139	13,590	14,301	13,554	642	—
2015 ...			19,877	16,738	12,526	9,945	9,050	1,005	—
2016 ...				23,646	22,485	12,497	13,021	2,255	—
2017 ...					43,782	50,032	51,711	10,371	—
2018 ...						59,022	66,314	19,511	—
2019 ...							32,442	27,907	—
						Total	\$192,222		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Reinsurance Lines—Property

(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance						
	For the Years Ended December 31,						
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019
2013	\$723	\$4,008	\$5,835	\$ 5,111	\$ 5,255	\$ 5,735	\$ 5,593
2014		2,243	9,035	10,460	11,182	12,339	12,480
2015			742	5,163	6,768	7,139	7,411
2016				2,071	5,704	7,161	8,514
2017					2,152	20,609	28,079
2018						21	21,608
2019							139
						Total	83,824
						All outstanding liabilities before 2013, net of reinsurance	859
						Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	\$109,257

The following is required supplementary information about average historical claims duration as of December 31, 2019:

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)						
	1	2	3	4	5	6	7
Reinsurance Lines—Property	8.2%	41.5%	16.7%	2.0%	4.6%	4.4%	-2.3%

Reinsurance Lines—Casualty

(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 2019	
	For the Years Ended December 31,										IBNR (1)	Cumulative Number of Reported Claims
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
2010 ..	\$41,831	\$53,279	\$57,916	\$62,628	\$61,062	\$61,792	\$60,701	\$60,573	\$60,151	\$ 59,426	\$ 1,009	—
2011 ..		45,726	48,846	44,692	47,980	46,510	43,657	42,968	42,235	41,826	762	—
2012 ..			15,865	15,624	17,123	17,579	17,360	17,348	16,982	16,449	473	—
2013 ..				1,224	1,262	1,172	1,013	974	974	112	14	—
2014 ..					1,988	2,095	2,060	1,957	1,957	593	590	—
2015 ..						2,908	2,911	2,780	2,780	2,180	2,179	—
2016 ..							3,627	3,627	3,627	3,627	3,627	—
2017 ..								4,358	4,358	4,358	4,356	—
2018 ..									5,573	5,573	5,573	—
2019 ..										13,686	13,575	—
										Total	\$147,830	

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Reinsurance Lines—Casualty

(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance										
	For the Years Ended December 31,										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
2010	\$10,185	\$21,447	\$30,754	\$36,090	\$39,123	\$55,315	\$55,848	\$56,960	\$57,042	\$ 58,088	
2011		7,968	20,072	28,495	36,020	38,907	39,815	40,079	40,303	40,476	
2012			5,312	9,435	11,658	15,534	15,696	15,790	15,625	15,691	
2013				123	50	62	65	65	65	71	
2014					88	47	50	1	1	1	
2015						107	128	1	1	1	
2016							—	—	—	—	
2017								—	2	2	
2018									—	—	
2019										27	
									Total	114,357	
									All outstanding liabilities before 2010, net of reinsurance	1,232	
									Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	\$ 34,705	

The following is required supplementary information about average historical claims duration as of December 31, 2019:

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited) (1)									
	1	2	3	4	5	6	7	8	9	10
Reinsurance Lines—Casualty	19.8%	0.2%	6.8%	6.3%	2.2%	6.0%	1.6%	0.9%	0.3%	1.8%

(1) May not be indicative of future average annual percentage payout of incurred claims due to a change in mix of business

The reconciliation of the net incurred and paid claims development tables to the liability for unpaid losses and loss adjustment expenses in the consolidated balance sheets as of December 31, 2019 is as follows:

Net outstanding liabilities	
Commercial Specialty – Property	\$ 33,651
Commercial Specialty – Casualty	274,535
Specialty Property – Property	24,350
Specialty Property – Casualty	14,819
Farm, Ranch, & Stable – Property	8,849
Farm, Ranch, & Stable – Casualty	28,733
Reinsurance Lines – Property	109,257
Reinsurance Lines – Casualty	34,705
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	<u>528,899</u>
Reinsurance recoverable on unpaid claims	
Commercial Specialty – Property	12,472
Commercial Specialty – Casualty	47,130
Specialty Property – Property	6,219
Specialty Property – Casualty	1,450
Farm, Ranch, & Stable – Property	563
Farm, Ranch, & Stable – Casualty	6,417
Reinsurance Lines – Property	—
Reinsurance Lines – Casualty	—
Total reinsurance recoverable on unpaid claims	<u>74,251</u>
Other outstanding liabilities	
Commercial Specialty	
Ceded Allowance	8,992
Unallocated claims adjustment expenses	15,707
Purchase accounting adjustment	(400)
Loss Clearing	(1,939)
Specialty Property	
Fronted business ceded to Assurant	2,421
Unallocated claims adjustment expenses	1,074
Loss Clearing	1
Farm, Ranch, & Stable	
Ceded Allowance	—
Unallocated claims adjustment expenses	1,040
Loss Clearing	—
Reinsurance Lines	
Unallocated claims adjustment expenses	365
Other	(230)
Total other outstanding liabilities	<u>27,031</u>
Total gross liability for unpaid losses and loss adjustment expenses	<u>\$630,181</u>

Loss indemnification related to Purchase of American Reliable

On March 8, 2018, the Company settled its final reserve calculation which resulted in \$41.5 million being due to Global Indemnity Group, LLC in accordance with the Stock Purchase Agreement between Global Indemnity Group, LLC and American Bankers Insurance Group, Inc. for the purchase of American Reliable. The settlement is comprised of (i) receipt of \$38.8 million for loss and loss adjustment expenses paid on or after January 1, 2015 or payable as of December 31, 2017 with respect to losses incurred prior to January 1, 2015, (ii) receipt of \$6.2 million for accrued interest and (iii) payment of \$3.5 million for the difference between the agreed upon purchase price and actual settlement on January 1, 2015. These amounts, which were included in other assets on the consolidated balance sheets as of December 31, 2017, were received on March 9, 2018.

10. Debt

The Company's outstanding debt consisted of the following at December 31, 2019 and 2018:

(Dollars in thousands)	December 31,	
	2019	2018
Margin Borrowing Facility	\$ 73,629	\$ 65,818
7.75% Subordinated Notes due 2045	96,864	96,742
7.875% Subordinated Notes due 2047	126,147	126,005
Total	<u>\$296,640</u>	<u>\$288,565</u>

Margin Borrowing Facility

The Company has available a margin borrowing facility. The borrowing rate for this facility is tied to the Fed Funds Effective rate and was approximately 1.9% and 2.7% at December 31, 2019 and 2018, respectively. This facility is due on demand. The borrowings are subject to maintenance margin, which is a minimum account balance that must be maintained. A decline in market conditions could require an additional deposit of collateral. As of December 31, 2019, approximately \$88.2 million in securities were deposited as collateral to support borrowings. The amount borrowed against the margin account may fluctuate as routine investment transactions, such as dividends received, investment income received, maturities and pay-downs, impact cash balances. The margin facility contains customary events of default, including, without limitation, insolvency, failure to make required payments, failure to comply with any representations or warranties, failure to adequately assure future performance, and failure of a guarantor to perform under its guarantee. The amount outstanding on the Company's margin borrowing facility was \$73.6 million and \$65.8 million as of December 31, 2019 and 2018, respectively.

The Company recorded interest expense related to the Margin Borrowing Facility of approximately \$1.8 million, \$1.4 million, and \$1.0 million for the years ended December 31, 2019, 2018, and 2017, respectively.

7.75% Subordinated Notes due 2045

On August 12, 2015, the Company issued \$100.0 million in aggregate principal amount of its 2045 Subordinated Notes through an underwritten public offering (the "2045 Notes").

The 2045 Notes bear interest at an annual rate equal to 7.75%, payable quarterly in arrears on February 15, May 15, August 15, and November 15 of each year, commencing November 15, 2015. The 2045 Notes mature on August 15, 2045. The Company has the right to redeem the 2045 Notes in \$25 increments, in whole or in part, on and after August 15, 2020, or on any interest payment date thereafter, at a redemption price equal to 100% of the principal amount of the 2045 Notes being redeemed plus accrued and unpaid interest to, but not including, the date of redemption.

The 2045 Notes are subordinated unsecured obligations and rank (i) senior to the Company's existing and future capital stock, (ii) senior in right of payment to future junior subordinated debt, (iii) equally in right of payment with any unsecured, subordinated debt that the Company incurs in the future that ranks equally with the 2045 Notes, and (iv) subordinate in right of payment to any of the Company's existing and future senior debt. In addition, the 2045 Notes are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of the Company's subsidiaries.

The 2045 Notes do not require the maintenance of any financial ratios or specified levels of net worth or liquidity, and do not contain provisions that would afford holders of the 2045 Notes protection in the event of a sudden and dramatic decline in the Company's credit quality resulting from any highly leveraged transaction, reorganization, restructuring, merger or similar transaction involving the Company that may adversely affect holders. The 2045 Notes do not restrict the Company in any way, now or in the future, from incurring additional indebtedness, including senior indebtedness that would rank senior in right of payment to the 2045 Notes. There is no right of acceleration of maturity of the 2045 Notes in the case of default in the payment of principal, premium, if any, or interest on the 2045 Notes or in the performance of any other obligation of the Company under the 2045 Notes or if the Company defaults on any other debt securities. Holders may accelerate payment of indebtedness on the 2045 Notes only upon the Company's bankruptcy, insolvency or reorganization.

The Company incurred \$3.7 million in deferred issuance costs associated with the 2045 Notes, which is being amortized over the term of the 2045 Notes. Interest expense, including amortization of deferred issuance costs, recognized on the 2045 Notes was \$7.9 million for each of the years ended December 31, 2019, 2018, and 2017.

7.875% Subordinated Notes due 2047

On March 23, 2017, the Company issued Subordinated Notes due in 2047 in the aggregate principal amount of \$120.0 million through an underwritten public offering (the “2047 Notes”). Pursuant to the underwriting agreement, the Company granted the underwriters a 30 day option to purchase up to an additional \$18 million aggregate principal amount of the 2047 Notes solely to cover over-allotments, if any. On March 30, 2017, the underwriters exercised their over-allotment option in the amount of \$10 million principal amount of the 2047 Notes. As a result, the aggregate principal amount of the 2047 Notes increased to \$130.0 million. The sale of the 2047 Notes pursuant to the over-allotment option closed on March 30, 2017.

The 2047 Notes bear interest at an annual rate equal to 7.875%, payable quarterly in arrears on January 15, April 15, July 15, and October 15 of each year, commencing July 15, 2017. The 2047 Notes mature on April 15, 2047. The Company has the right to redeem the 2047 Notes in \$25 increments, in whole or in part, on and after April 15, 2022, or on any interest payment date thereafter, at a redemption price equal to 100% of the principal amount of the 2047 Notes being redeemed plus accrued and unpaid interest to, but not including, the date of redemption. If the Company redeems only a portion of the 2047 Notes on any date of redemption, the Company may subsequently redeem additional 2047 Notes.

The 2047 Notes are subordinated unsecured obligations and rank (i) senior to the Company’s existing and future capital stock, (ii) senior in right of payment to future junior subordinated debt, (iii) equally in right of payment with any existing unsecured, subordinated debt that the Company has issued or may issue in the future that ranks equally with the 2047 Notes, including the Company’s 2045 Notes and (iv) subordinate in right of payment to any of the Company’s future senior debt. In addition, the 2047 Notes are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of the Company’s subsidiaries including the Company’s margin borrowing facility.

The 2047 Notes do not require the maintenance of any financial ratios or specified levels of net worth or liquidity, and do not contain provisions that would afford holders of the 2047 Notes protection in the event of a sudden and dramatic decline in the Company’s credit quality resulting from any highly leveraged transaction, reorganization, restructuring, merger or similar transaction involving the Company that may adversely affect holders. The 2047 Notes do not restrict the Company in any way, now or in the future, from incurring additional indebtedness, including senior indebtedness that would rank senior in right of payment to the 2047 Notes. There is no right of acceleration of maturity of the 2047 Notes in the case of default in the payment of principal, premium, if any, or interest on the 2047 Notes or in the performance of any other obligation of the Company under the notes or if the Company defaults on any other debt securities. Holders may accelerate payment of indebtedness on the 2047 Notes only upon the Company’s bankruptcy, insolvency or reorganization.

The Company incurred \$4.2 million in deferred issuance costs associated with the 2047 Notes, which is being amortized over the term of the 2047 Notes. Interest expense, including amortization of deferred issuance costs, recognized on the 2047 Notes was \$10.4 million, \$10.4 million, and \$8.0 million for the years ended December 31, 2019, 2018, and 2017 respectively.

The following table represents the amounts recorded for the subordinated notes as of December 31, 2019 and 2018:

(Dollars in thousands)	December 31, 2019		
	Outstanding Principal	Unamortized Debt Issuance Costs	Net Carrying Amount
7.75% Subordinated Notes due 2045	\$100,000	\$(3,136)	\$ 96,864
7.875% Subordinated Notes due 2047	130,000	(3,853)	126,147
	<u>\$230,000</u>	<u>\$(6,989)</u>	<u>\$223,011</u>
(Dollars in thousands)	December 31, 2018		
	Outstanding Principal	Unamortized Debt Issuance Costs	Net Carrying Amount
7.75% Subordinated Notes due 2045	\$100,000	\$(3,258)	\$ 96,742
7.875% Subordinated Notes due 2047	130,000	(3,995)	126,005
	<u>\$230,000</u>	<u>\$(7,253)</u>	<u>\$222,747</u>

Co-obligor Transaction

On April 25, 2018, Global Indemnity Group, LLC, an indirect wholly owned subsidiary of the Company, became a subordinated co-obligor with respect to the 2045 Notes and the 2047 Notes with the same obligations and duties as the Company under the Indenture (including the due and punctual performance and observance of all of the covenants and conditions to be performed by the Company, including, without limitation, the obligation to pay the principal of, and interest on, the Notes of either series when due whether at maturity, by acceleration, redemption or otherwise), and with the same rights, benefits and privileges of the Company thereunder. Notwithstanding the foregoing, Global Indemnity Group, LLC's obligations (including the obligation to pay the principal of and interest in respect of the Notes of any series) are subject to subordination to all monetary obligations or liabilities of Global Indemnity Group, LLC owing to Global Indemnity Reinsurance, Ltd., a wholly owned subsidiary of the Company, and/or any other regulated reinsurance or insurance company that is a direct or indirect subsidiary of the Company, in addition to indebtedness of Global Indemnity Group, LLC for borrowed money. If the Company pays any amount with respect to the subordinated note obligations, the Company is entitled to be reimbursed by Global Indemnity Group, LLC within 10 business days after a demand is made to Global Indemnity Group, LLC by the Company. In consideration for becoming a subordinated co-obligor on the subordinated notes, Global Indemnity Group, LLC received a promissory note from the Company with a principal amount of \$230 million due April 15, 2047 that has since been assigned to an affiliate. This promissory note is eliminated in consolidation.

11. Leases

Effective January 1, 2019, the Company adopted new accounting guidance which increased transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company adopted this new accounting guidance using the optional transition method. Under this method, the Company applied the new leases standard at the adoption date and recognized a cumulative effect adjustment of less than \$0.1 million to the opening balance sheet of retained earnings. The Company elected the package of practical expedients permitted under the transition guidance within the new standard. In addition, the Company elected the hindsight practical expedient to determine the lease term for existing leases.

The Company determines if an arrangement is a lease at inception. Leases with a term of 12 months or less are not recorded on the consolidated balance sheets. For leases with a term of greater than 12 months, lease right-of-use assets ("ROU") are included in other assets on the consolidated balance sheets and lease liabilities are included in other liabilities on the consolidated balance sheets.

Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The Company's leases do not provide an implicit rate; therefore, the Company uses its incremental borrowing rate at the commencement date in determining the present value of future payments. The ROU assets are calculated using the initial lease liability amount, plus any lease payments made at or before the commencement date, minus any lease incentives received, plus any initial direct costs incurred.

The Company's lease agreements may contain both lease and non-lease components which are accounted separately. The Company elected the practical expedient on not separating lease components from non-lease components for its equipment leases.

The Company leases office space and equipment under various operating lease arrangements. The Company's leases have remaining lease terms ranging from 5 months to 11 years. Some building leases have options to extend, terminate, or retract the leased area. The Company did not factor in term extension, terminations, or space retractions into the lease terms used to calculate the right-of-use assets and lease liabilities since it was uncertain as to whether these options would be executed.

The Company is also party to certain service contracts. These agreements will continue to be accounted for as service contracts and expensed in the period the services have been provided. As contracts are signed, renewed, or renegotiated, they will be evaluated using the criteria set forth in the new lease guidance to determine if these contracts contain a lease and will be accounted for properly depending upon the terms and language in the contract.

Lease expenses for minimum lease payments are recognized on a straight-line basis over the lease term.

The components of lease expenses for the year ended December 31, 2019 were as follows:

(Dollars in thousands)	
Operating lease expenses	\$3,293
Short-term lease expenses	<u>7</u>
Total lease expenses	<u>\$3,300</u>

Prior to the adoption of the new accounting guidance, rental expense under operating leases was \$3.5 million for the each of the years ended December 31, 2018 and 2017.

There was no sublease income for the years ended December 31, 2019, 2018, and 2017.

Supplemental cash flow information related to leases was as follows:

(Dollars in thousands)	<u>Year Ended December 31, 2019</u>
Cash paid for amounts included in the measurement of liabilities:	
Operating leases	\$ 2,530
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	\$13,858

Supplemental balance sheet information related to leases was as follows:

The table below presents the lease-related assets and liabilities recorded on the consolidated balance sheets.

(Dollars in thousands)	<u>Classification on the consolidated balance sheets</u>	<u>December 31, 2019</u>
Assets:		
Operating lease assets	Other assets	\$ 22,761
Liabilities:		
Operating lease liabilities	Other liabilities	\$ 23,539
Weighted-average remaining lease term		
Operating leases		10.2 years
Weighted-average discount rate		
Operating leases (1)		2.7%

(1) Represents the Company's incremental borrowing rate

At December 31, 2019, future minimum lease payments under non-cancelable operating leases were as follows:

(Dollars in thousands)	
2020	\$ 1,931
2021	2,779
2022	2,659
2023	2,702
2024	2,746
Thereafter	<u>14,142</u>
Total future minimum lease payments	26,959
Less: amount representing interest	<u>3,420</u>
Present value of minimum lease payments	<u>\$23,539</u>

12. Shareholders' Equity

Dividend Restriction

The ability of Global Indemnity Limited to pay dividends is subject to Cayman Island regulations. Under Cayman Islands law, dividends and distributions may only be made from distributable reserves or from amounts standing to the credit of the Company's share premium account, together with any reserve established by the revaluation of the Company's asset, subject to the ability of the Company to meet its obligations in the ordinary course as they fall due. Distributable reserves represents the accumulated realized profits and losses of Global Indemnity Limited on a standalone basis, which is \$270.8 million as of December 31, 2019. Share premium represents the excess of the consideration paid upon the initial issuance of any share over the par value. As of December 31, 2019, share premium was \$442.4 million. Reserves established by the revaluation of the Company's asset were \$17.6 million as of December 31, 2019. As of December 31, 2019, the maximum dividends and distributions allowable under Cayman Island law is \$730.8 million.

Since the Company is a holding company and has no direct operations, its ability to pay dividends depends, in part, on the ability of its subsidiaries to pay dividends. Global Indemnity Reinsurance and the U.S. insurance subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. See Note 18 for additional information regarding dividend limitations imposed on Global Indemnity Reinsurance and the U.S. insurance subsidiaries.

Dividend Program

During the fourth quarter of 2017, Global Indemnity announced the adoption of a dividend program. Although subject to the absolute discretion of the Board of Directors and factors, conditions, and prospects as such may exist from time to time when the Board of Directors considers the advisability of declaring a quarterly dividend, the Company currently anticipates a dividend rate of \$0.25 per share per quarter (\$1.00 per share per year).

Dividends

Dividend payments of \$0.25 per ordinary share per quarter were declared during the year ended December 31, 2019 as follows:

<u>Approval Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Total Dividends Paid (Dollars in thousands)</u>
February 10, 2019	March 22, 2019	March 29, 2019	\$ 3,521
June 2, 2019	June 21, 2019	June 28, 2019	3,525
September 15, 2019	September 26, 2019	October 2, 2019	3,528
December 8, 2019	December 24, 2019	December 31, 2019	3,532
Various (1)	Various	Various	268
Total			<u>\$14,374</u>

(1) Represents dividends declared on unvested shares, net of forfeitures.

Dividend payments of \$0.25 per ordinary share per quarter were declared during the year ended December 31, 2018 as follows:

<u>Approval Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Total Dividends Paid (Dollars in thousands)</u>
March 4, 2018	March 21, 2018	March 29, 2018	\$ 3,499
June 3, 2018	June 22, 2018	June 29, 2018	3,502
September 16, 2018	September 27, 2018	October 1, 2018	3,504
December 2, 2018	December 24, 2018	December 31, 2018	3,506
Various (1)	Various	Various	197
Total			<u>\$14,208</u>

(1) Represents dividends declared on unvested shares, net of forfeitures.

There were no dividends declared during the year ended December 31, 2017.

As of December 31, 2019 and 2018, accrued dividends on unvested shares, which were included in other liabilities on the consolidated balance sheets, were \$0.3 million and \$0.2 million, respectively.

Repurchases and Redemptions of the Company's Ordinary Shares

The Company allows employees to surrender A ordinary shares as payment for the tax liability incurred upon the vesting of restricted stock that was issued under the Company's share incentive plan in effect at the time of issuance. During 2019, 2018, and 2017, the Company purchased an aggregate of 27,028, 45,233 and 29,551, respectively, of surrendered A ordinary shares from its employees for \$0.9 million, \$1.8 million and \$1.2 million, respectively. All shares purchased from employees by the Company are held as treasury stock and recorded at cost until formally retired by the company.

In 2015, the Company entered into a redemption agreement with certain affiliates of the Fox Paine Funds to redeem 8,260,870 of its ordinary shares. In conjunction with the 2015 redemption, the Company acquired rights, expiring year end 2019, to redeem an additional 3,397,031 ordinary shares for \$78.1 million, which amount was subject to an annual 3% increase. On December 29, 2017, Global Indemnity acquired 3,397,031 of its A ordinary shares for approximately \$83.0 million in the aggregate (approximately \$24.44 per share) from former investors in the Fox Paine Funds. See Note 12 of the notes to the consolidated financial statements in Item 8 of Part II of the Company's 2015 Annual Report on Form 10-K for more information on the 2015 redemption.

The following table provides information with respect to the A ordinary shares that were surrendered, repurchased, or redeemed in 2019:

<u>Period ⁽¹⁾</u>	<u>Total Number of Shares Purchased or Redeemed</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan or Program</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
A ordinary shares:				
January 1-31, 2019	7,945(2)	\$36.23	—	—
February 1-28, 2019	19,083(2)	\$34.59	—	—
Total	<u>27,028</u>	<u>\$35.07</u>	<u>—</u>	<u>—</u>

(1) Based on settlement date.

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

There were no B ordinary shares that were surrendered, repurchased, or redeemed in 2019.

The following table provides information with respect to the A ordinary shares that were surrendered, repurchased, or redeemed in 2018:

<u>Period (1)</u>	<u>Total Number of Shares Purchased or Redeemed</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan or Program</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
A ordinary shares:				
January 1-31, 2018	26,639(2)	\$42.02	—	—
March 1-31, 2018	18,594(2)	\$37.27	—	—
Total	<u>45,233</u>	<u>\$40.07</u>	<u>—</u>	<u>—</u>

(1) Based on settlement date.

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

There were no B ordinary shares that were surrendered, repurchased, or redeemed in 2018.

Each A ordinary share has one vote and each B ordinary share has ten votes.

As of December 31, 2019, the Company's A ordinary shares were held by approximately 218 shareholders of record. There were four holders of record of the Company's B ordinary shares, all of whom are affiliated investment funds of Fox Paine & Company, LLC or an affiliate of an investment fund, as of December 31, 2019.

13. Related Party Transactions

Fox Paine Entities

As of December 31, 2019, U.N. Co-Investment Fund III (Cayman), L.P. and Fox Paine Capital Fund II International, L.P. (collectively, the “Fox Paine Funds”), which are investment funds managed by Fox Paine & Company, LLC, beneficially own approximately 80.3% of the Company’s total voting power. As of December 31, 2019, Fox Mercury Investments, L.P. and certain of its affiliates (collectively, the “FM Entities”) separately beneficially own approximately 2.1% of the Company’s total voting power. The Fox Paine Funds have the right to appoint a number of the Company’s Directors equal in aggregate to the pro rata percentage of the voting shares of the Company beneficially held by the Fox Paine Funds, FM Entities and Fox Paine & Company, LLC (collectively, “Fox Paine Entities”) so long as the Fox Paine Entities beneficially own shares representing an aggregate 25% or more of the voting power in the Company. The Fox Paine Funds control the election of all of the Company’s Directors due to its controlling share ownership. The Company’s Chairman is the chief executive and founder of Fox Paine & Company, LLC.

The Company relies on Fox Paine & Company, LLC to provide management services and other services related to the operations of the Company. Starting in 2014, this fee is adjusted annually to reflect the percentage change in the CPI-U. Management fee expense of \$2.1 million, \$2.1 million, and \$2.2 million was incurred during the years ended December 31, 2019, 2018, and 2017, respectively. Prepaid management fees, which were included in other assets on the consolidated balance sheets, were \$1.4 million as of December 31, 2019 and 2018.

In addition, Fox Paine & Company, LLC may also propose and negotiate transaction fees with the Company subject to the provisions of the Company’s related party transaction policies, including approval of the Company’s Audit Committee of the Board of Directors, for those services from time to time. Each of the Company’s transactions with Fox Paine & Company, LLC described below was reviewed and approved by the Company’s Audit Committee, which is composed of independent directors, and the Board of Directors (other than Saul A. Fox, Chairman of the Board of Directors of the Company and Chief Executive of Fox Paine & Company, LLC, who is not a member of the Audit Committee and recused himself from the Board of Directors’ deliberations).

Recapitalization and Reorganization Transactions Fee

On April 25, 2018, the Company and its indirect wholly owned subsidiaries (including Global Indemnity Group, LLC and Global Indemnity Reinsurance) entered into a series of recapitalization and reorganization transactions (collectively, the “Reorganization”) designed to improve the Company’s annual results and long-term financial performance. Pursuant to the Reorganization, the Company’s affiliated group implemented the following, among other things: (i) Global Indemnity Group, LLC became a subordinated co-obligor with the Company under the Company’s 7.75% Subordinated Notes due in 2045 and its 7.875% Subordinated Notes due in 2047, (ii) Global Indemnity Group, LLC agreed to provide capital to Global Indemnity Reinsurance from time to time to satisfy Global Indemnity Reinsurance’s obligations incurred in connection with its insurance and reinsurance business and (iii) Global Indemnity Group, LLC received a promissory note from the Company, which was subsequently assigned within the Company’s affiliated group in connection with the settlement of certain intra-group indebtedness.

Fox Paine & Company, LLC acted as financial advisor to the Company’s affiliated group in connection with the design, structuring and implementation of the Reorganization. Fox Paine & Company, LLC’s services for the Company’s affiliated group in connection with the Reorganization were performed during the first and second quarter of 2018. The total fee for these services was \$12.5 million which was paid in June 2018. As with each of the Company’s transactions with Fox Paine & Company, LLC, this transaction was reviewed and approved by the Company’s Audit Committee and the Board of Directors (other than Saul A. Fox, Chairman of the Board of Directors of the Company and Chief Executive of Fox Paine & Company, LLC, who is not a member of the Audit Committee and recused himself from the Board of Directors’ deliberations), and, in connection with its review and approval of this transaction, the Audit Committee also engaged its own investment banking firm for advice.

Illiquid Investment Fund Divestiture Fee

On December 21, 2018, Global Indemnity Group, LLC exited an investment in a private credit fund pursuant to a sale of Global Indemnity Group, LLC’s investment to third parties at par plus accrued interest. Fox Paine & Company, LLC provided services to Global Indemnity Group, LLC in connection with the sale, including conducting due diligence to evaluate the private fund, recommending that Global Indemnity Group, LLC withdraw from the private fund, and conducting extended negotiations with the private fund to secure Global Indemnity Group, LLC’s withdrawal from the private fund on favorable terms. Fox Paine & Company, LLC’s services for Global Indemnity Group, LLC in connection with the sale were performed during the second, third, and fourth quarters of 2018. The total fee for these services was \$2.0 million which was paid in May 2019.

Other Transactions

The Company paid an \$11.0 million advisory fee to Fox Paine & Company, LLC in connection with the redemption of 3,397,031 shares on December 29, 2017 as well as other services performed. See Note 12 for additional information on the share redemption.

On September 17, 2017, the Company and Fox Paine & Company, LLC entered into a confidentiality agreement whereby Fox Paine & Company, LLC agrees to keep confidential proprietary information, as defined in the confidentiality agreement, it receives regarding the Company from time to time, including proprietary information it may receive from director or director nominees appointed by the Fox Paine Funds.

14. Commitments and Contingencies

Legal Proceedings

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

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

Commitments

In 2014, the Company entered into a \$50 million commitment to purchase an alternative investment vehicle which is comprised of European non-performing loans. As of December 31, 2019, the Company has funded \$35.8 million of this commitment leaving \$14.2 million as unfunded.

In 2017, the Company entered into a \$50 million commitment to purchase an alternative investment vehicle comprised of stressed and distressed securities and structured products. As of December 31, 2019, the Company has funded \$33.0 million of this commitment leaving \$17.0 million as unfunded.

In 2019, the Company entered into a \$10 million commitment to purchase an alternative investment vehicle which is comprised of mortgage loans and other real-estate related investments. As of December 31, 2019, the Company has funded \$9.5 million of this commitment leaving \$0.5 million as unfunded.

Other Commitments

The Company is party to a Management Agreement, as amended, with Fox Paine & Company, LLC, whereby in connection with certain management services provided to it by Fox Paine & Company, LLC, the Company agreed to pay an annual management fee to Fox Paine & Company, LLC. See Note 13 above for additional information pertaining to this management agreement.

15. Share-Based Compensation Plans

Effective January 1, 2017, the Company adopted new accounting guidance which changed several aspects of the accounting for share-based payment transactions. Under the new guidance, all excess tax benefits and tax deficiencies associated with share-based payment awards are required to be recognized as an income tax benefit or expense in net income with the corresponding cash flows recognized as an operating activity in the Consolidated Statement of Cash Flow as opposed to being reported separately as a financing activity.

Excess tax benefits and deficiencies are no longer recognized in additional paid-in-capital. The new guidance removes the requirement to delay recognition of any excess tax benefit when there is no current taxes payable to which the benefit would be applied. The new guidance also allows an employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur, rather than estimating forfeitures upon issuance of the award.

Upon adoption of this new accounting guidance, the Company elected to retain its policy of accruing the compensation cost based on the number of awards that are expected to vest. The adoption of this accounting guidance did not result in

any cumulative adjustment or restatement. The provisions of this new guidance were adopted on a prospective basis and did not have a material impact on the Company's financial position, results of operations or cash flows.

The fair value method of accounting recognizes share-based compensation to employees and non-employee directors in the consolidated statements of operations using the grant-date fair value of the stock options and other equity-based compensation expensed over the requisite service and vesting period.

For the purpose of determining the fair value of stock option awards, the Company uses the Black-Scholes option-pricing model. An estimation of forfeitures is required when recognizing compensation expense which is then adjusted over the requisite service period should actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative adjustment to compensation in the period of change.

Share Incentive Plan

On June 13, 2018, the Company's Shareholders approved the Global Indemnity Limited 2018 Share Incentive Plan ("the 2018 Plan"). The purpose of the 2018 Plan is to provide the Company a competitive advantage in attracting, retaining, and motivating officers, employees, consultants and non-employee directors, and to provide the Company with a share plan providing incentives linked to the financial results of the Company's business and increases in shareholder value. Under the 2018 Plan, the Company may issue up to 2.5 million A ordinary shares pursuant to awards granted under the Plan. The 2018 Plan replaced the Global Indemnity Limited Share Incentive Plan, effective since February 2014, which was set to expire pursuant to its terms on February 9, 2019.

Options

Award activity for stock options granted under the Plan and the weighted average exercise price per share are summarized as follows:

	Time-Based Options	Performance- Based Options	Total Options	Weighted Average Exercise Price Per Share
Options outstanding at January 1, 2017	300,000	300,000	600,000	\$25.13
Options issued	—	—	—	—
Options forfeited	—	—	—	—
Options exercised	—	—	—	—
Options expired	—	—	—	—
Options purchased by the Company	—	—	—	—
Options outstanding at December 31, 2017	300,000	300,000(1)	600,000	25.13
Options issued	300,000	—	300,000	50.00
Options forfeited	—	(100,000)	(100,000)	38.43
Options exercised	—	—	—	—
Options expired	—	—	—	—
Options purchased by the Company	—	—	—	—
Options outstanding at December 31, 2018	600,000	200,000	800,000	35.06
Options issued	—	—	—	—
Options forfeited	—	—	—	—
Options exercised	—	—	—	—
Options expired	—	—	—	—
Options purchased by the Company	—	—	—	—
Options outstanding at December 31, 2019	600,000	200,000	800,000	\$35.06
Options exercisable at December 31, 2019	500,000	100,000	600,000	\$32.01

(1) In 2014, 300,000 options were granted. On March 6, 2018, the existing vesting provisions of these options were eliminated and replaced with new vesting provisions related to return on equity targets for 2018, 2019, and 2020 ("Bonus Years"). 100,000 options were related to the 2018 Bonus Year. Return on equity targets for the 2018 bonus year were not met and therefore, these 100,000 options have been forfeited. 200,000 options remain outstanding. 100,000 options, which were related to return on equity targets for the 2019 bonus year, vested on December 31, 2019. These options are subject to remeasurement of 2019 bonus year results after the third full calendar year following the bonus year. 100,000 options are related to return on equity targets for the 2020 bonus year. These options are subject to remeasurement of 2020 bonus year results after the third full calendar year following the bonus year.

During the year ended December 31, 2018, the Company awarded 300,000 options with a strike price of 50.00. There were no stock options granted in 2019 or 2017.

The Company recorded \$1.1 million, \$0.3 million, and (\$0.4) million of compensation expense for stock options outstanding under the Plan during the years ended December 31, 2019, 2018, and 2017, respectively.

The Company did not receive any proceeds from the exercise of options during 2019, 2018 or 2017 under the Plan.

Compensation expense related to options outstanding under the Plan is anticipated to be \$1.3 million during the year ended December 31, 2020.

Option intrinsic values, which are the differences between the fair value of \$29.63 at December 31, 2019 and the strike price of the option, are as follows:

	<u>Number of Shares</u>	<u>Weighted Average Strike Price</u>	<u>Intrinsic Value</u>
Outstanding	800,000	35.06	\$3.5 Million
Exercisable	600,000	32.01	\$3.5 Million
Exercised (1)	—	—	—

- (1) The intrinsic value of the exercised options is the difference between the fair market value at time of exercise and the strike price of the option.

The options exercisable at December 31, 2019 include the following:

<u>Option Price</u>	<u>Number of options exercisable</u>
\$17.87	300,000
\$38.43 (1)	100,000
\$50.00	<u>200,000</u>
Options exercisable at December 31, 2019	<u>600,000</u>

- (1) the weighted average per share exercise price on these shares outstanding is variable. See note below under Chief Executive Officer for additional information.

There were no options granted under the Plan in 2019 or 2017. The weighted average fair value of options granted under the Plan was \$3.79 in 2018 using a Black-Scholes option-pricing model and the following weighted average assumptions.

	<u>2018</u>
Dividend yield	2.0%
Expected volatility	22.47%
Risk-free interest rate	2.0%
Expected option life	3.3 years

The following tables summarize the range of exercise prices of options outstanding at December 31, 2019, 2018, and 2017:

<u>Ranges of Exercise Prices</u>	<u>Outstanding at December 31, 2019</u>	<u>Weighted Average Per Share Exercise Price</u>	<u>Weighted Average Remaining Life</u>
\$17.87 – \$19.99	300,000	\$17.87	1.7 years
\$30.00 – \$38.43	200,000(1)	\$38.43	5.0 years
\$50.00 – \$59.99	<u>300,000</u>	\$50.00	8.0 years
Total	<u>800,000</u>		

- (1) the weighted average per share exercise price on these shares outstanding is variable. See note below under Chief Executive Officer for additional information.

<u>Ranges of Exercise Prices</u>	<u>Outstanding at December 31, 2018</u>	<u>Weighted Average Per Share Exercise Price</u>	<u>Weighted Average Remaining Life</u>
\$17.87 – \$19.99	300,000	\$17.87	2.7 years
\$30.00 – \$38.43	200,000(1)	\$38.43	6.0 years
\$50.00 – \$59.99	<u>300,000</u>	\$50.00	9.0 years
Total	<u>800,000</u>		

- (1) the weighted average per share exercise price on these shares outstanding is variable. See note below under Chief Executive Officer for additional information.

<u>Ranges of Exercise Prices</u>	<u>Outstanding at December 31, 2017</u>	<u>Weighted Average Per Share Exercise Price</u>	<u>Weighted Average Remaining Life</u>
\$17.87 – \$19.99	300,000	\$17.87	3.7 years
\$30.00 – \$37.70	<u>300,000(1)</u>	\$32.38	6.1 years
Total	<u>600,000</u>		

(1) the weighted average per share exercise price on these shares outstanding is variable. See note below under Chief Executive Officer for additional information.

Restricted Shares / Restricted Stock Units

In addition to stock option grants, the Plan also provides for the granting of restricted shares and restricted stock units to employees and non-employee Directors. The Company recognized compensation expense for restricted stock of \$2.8 million, \$3.1 million and \$4.1 million for 2019, 2018, and 2017, respectively. The total unrecognized compensation expense for the non-vested restricted stock is \$2.5 million at December 31, 2019, which will be recognized over a weighted average life of 1.9 years. The Company recognized compensation expense for restricted stock units of \$0.4 million for 2019. There was no compensation expense for restricted stock units in 2018 or 2017. The total unrecognized compensation expense for the non-vested restricted stock units is \$4.0 million at December 31, 2019, which will be recognized over a weighted average life of 2.8 years.

The following table summarizes the restricted stock grants since the 2003 inception of the original share incentive plan:

<u>Year</u>	<u>Restricted Stock Awards</u>		
	<u>Employees</u>	<u>Directors</u>	<u>Total</u>
Inception through 2016	1,066,615	513,394	1,580,009
2017	22,503	27,121	49,624
2018	38,778	31,646	70,424
2019	43,680	66,919	110,599
	<u>1,171,576</u>	<u>639,080</u>	<u>1,810,656</u>

The following table summarizes the restricted stock unit grants since the 2003 inception of the original share incentive plan:

<u>Year</u>	<u>Restricted Stock Unit Awards</u>		
	<u>Employees</u>	<u>Directors</u>	<u>Total</u>
Inception through 2018	—	—	—
2019	175,498	—	175,498
	<u>175,498</u>	<u>—</u>	<u>175,498</u>

The following table summarizes the non-vested restricted shares activity for the years ended December 31, 2019, 2018, and 2017:

	<u>Number of Shares</u>	<u>Weighted Average Price Per Share</u>
Non-vested Restricted Shares at January 1, 2017	299,598	\$28.02
Shares issued	49,624	39.42
Shares vested	(116,111)	29.75
Shares forfeited	(20,299)	28.63
Non-vested Restricted Shares at December 31, 2017	212,812	29.67
Shares issued	70,424	38.85
Shares vested	(166,117)	30.88
Shares forfeited	(3,255)	28.91
Non-vested Restricted Shares at December 31, 2018	113,864	33.61
Shares issued	110,599	30.93
Shares vested	(150,395)	29.86
Shares forfeited	(11,828)	38.42
Non-vested Restricted Shares at December 31, 2019	<u>62,240</u>	<u>\$37.00</u>

The following table summarizes the non-vested restricted stock units activity for the years ended December 31, 2019, 2018, and 2017:

	<u>Number of Restricted Stock Units</u>	<u>Weighted Average Price Per Restricted Stock Unit</u>
Non-vested Restricted Stock Units at December 31, 2017 and 2018	—	\$ —
Restricted Stock Units issued	175,498	30.18
Restricted Stock Units vested	—	—
Restricted Stock Units forfeited	—	—
Non-vested Restricted Stock Units at December 31, 2019	<u>175,498</u>	<u>\$30.18</u>

Based on the terms of the restricted share and restricted stock unit grants, all forfeited shares revert back to the Company.

During 2017, the Company granted an aggregate of 22,503 A ordinary shares to key employees at a weighted average grant date fair value of \$38.21 per share under the Plan. These shares will vest as follows:

- 16.5% vested on both January 1, 2018 and January 1, 2019. 17.0% of the granted stock will vest on January 1, 2020.
- Subject to Board approval, 50% of granted stock will vests 100%, no later than March 15, 2020, following a re-measurement of 2016 results as of December 31, 2019.

During 2017, the Company granted 27,121 A ordinary shares, at a weighted average grant date fair value of \$40.42 per share, to non-employee directors of the Company under the Plan.

During 2018, the Company granted 38,778 A ordinary shares, with a weighted average grant date value of \$40.57 per share, to key employees under the Plan. 11,843 of these shares vested immediately. The remainder will vest as follows:

- 16.5% vested on January 1, 2019. 16.5% and 17.0% of the granted stock will vest on January 1, 2020 and January 1, 2021, respectively.
- Subject to Board approval, 50% of granted stock will vests 100%, no later than March 15, 2021, following a re-measurement of 2017 results as of December 31, 2020.

During 2018, the Company granted 31,646 A ordinary shares, at a weighted average grant date fair value of \$36.74 per share, to non-employee directors of the Company under the Plan.

During 2019, the Company granted 43,680 restricted A ordinary shares, with a weighted average grant date value of \$34.23 per share, to key employees under the Plan. 9,063 of these shares vested immediately. 27,117 of these shares will vest as follows:

- 16.5%, 16.5%, and 17.0% of the restricted stock will vest on January 1, 2020, January 1, 2021, and January 1, 2022, respectively.
- Subject to Board approval, 50% of restricted stock will vest 100%, no later than March 15, 2022, following a remeasurement of 2018 results as of December 31, 2021.

The remaining 7,500 shares will vest 20% on August 26, 2020, August 26, 2021, August 26, 2022, August 26, 2023 and August 26, 2024.

In addition, the Company granted 175,498 restricted stock units with a weighted average grant date value of \$30.18 per unit, to key employees under the Plan. These restricted stock units will vest as follows:

- 10.0%, 20.0%, 30.0%, and 40.0% of the restricted stock units will vest on June 18, 2021, June 18, 2022, June 18, 2023 and June 18, 2024, respectively.

During 2019, the Company granted 66,919 A ordinary shares at a weighted average grant date fair value of \$28.77 per share, to non-employee directors of the Company under the plan.

All of the shares granted to non-employee directors in 2019, 2018, and 2017 were fully vested but subject to certain restrictions.

Chief Executive Officer

On March 6, 2018, the Company entered into a Chief Executive Agreement (the “Employment Agreement”) with Cynthia Y. Valko, the Company’s Chief Executive Officer. In accordance with the Employment Agreement, the vesting schedule for the 300,000 stock options issued in 2014 (“Tranche 2 Options”) was modified. 100,000 of the Tranche 2 Options were related to the attainment of Return on Equity criteria for 2018 and were scheduled to vest on December 31, 2018. These options were forfeited on December 31, 2018 because the Return on Equity criteria was not met. Of the remaining 200,000 options, 100,000 vested on December 31, 2019 and 100,000 are scheduled to vest on December 31, 2020 if the 2020 Return on Equity criteria is met.

Under the terms of the Employment Agreement, Ms. Valko was also granted an additional 300,000 Time-Based Options (“Tranche 3 Options”) with an exercise price of \$50 per share. 100,000 of the Tranche 3 Options vested on December 31, 2018. 100,000 of the Tranche 3 Options vested on December 31, 2019. 100,000 of the Tranche 3 Options will vest on December 31, 2020 if Ms. Valko remains employed and in good standing as of such date. Tranche 3 Options expire on the earlier of December 31, 2027 or 90 calendar days after Ms. Valko is neither employed by Global Indemnity nor a member of the Board of Directors.

16. 401(k) Plan

The Company maintains a 401(k) defined contribution plan that covers all eligible U.S. employees. Under this plan, the Company matches 100% of the first 6% contributed by an employee. Vesting on contributions made by the Company is immediate. Total expenses for the plan were \$1.9 million for each of the years ended December 31, 2019, 2018, and 2017.

17. Earnings Per Share

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

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

	Years Ended December 31,		
	2019	2018	2017
(Dollars in thousands, except share and per share data)			
Net income (loss)	\$ 70,015	\$ (56,696)	\$ (9,551)
Basic earnings per share:			
Weighted average shares outstanding—basic	14,191,756	14,088,883	17,308,663
Net income (loss) per share	\$ 4.93	\$ (4.02)	\$ (0.55)
Diluted earnings per share:			
Weighted average shares outstanding—diluted (1)	14,334,706	14,088,883	17,308,663
Net income (loss) per share	\$ 4.88	\$ (4.02)	\$ (0.55)

(1) For the years ended December 31, 2018 and 2017, “weighted average shares outstanding – basic” was used to calculate “diluted earnings per share” due to a net loss for the period.

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

	Years Ended December 31,		
	2019	2018	2017
Weighted average shares for basic earnings per share	14,191,756	14,088,883	17,308,663
Non-vested restricted stock	20,492	—	—
Non-vested restricted stock units	3,392	—	—
Options	119,066	—	—
Weighted average shares for diluted earnings per share	14,334,706	14,088,883	17,308,663

If the Company had not incurred a loss in the years ended December 31, 2018 and 2017, 14,325,276 and 17,680,209 weighted average shares, respectively, would have been used to compute the diluted loss per share calculations. In addition to the basic shares, weighted average shares for the diluted calculations would have included 76,568 and 157,441 shares of non-vested restricted stock, respectively, and 159,825 and 214,105 share equivalents for options, respectively.

The weighted average shares outstanding used to determine dilutive earnings per share for the years ended December 31, 2019 and 2018 do not include 500,000 options which were deemed to be anti-dilutive. The year ended December 31, 2017 did not have any options that were deemed to be anti-dilutive.

18. Statutory Financial Information

GAAP differs in certain respects from Statutory Accounting Principles (“SAP”) as prescribed or permitted by the various U.S. state insurance departments. The principal differences between SAP and GAAP are as follows:

- Under SAP, investments in debt securities are primarily carried at amortized cost, while under GAAP the Company records its debt securities at estimated fair value.
- Under SAP, policy acquisition costs, such as commissions, premium taxes, fees and other costs of underwriting policies are charged to current operations as incurred, while under GAAP such costs are deferred and amortized on a pro rata basis over the period covered by the policy.
- Under SAP, certain assets designated as “Non-admitted assets” (such as prepaid expenses) are charged against surplus.
- Under SAP, net deferred income tax assets are admitted following the application of specified criteria, with the resulting admitted deferred tax amount being credited directly to surplus.
- Under SAP, certain premium receivables are non-admitted and are charged against surplus based upon aging criteria.
- Under SAP, the costs and related receivables for guaranty funds and other assessments are recorded based on management’s estimate of the ultimate liability and related receivable settlement, while under GAAP such costs are accrued when the liability is probable and reasonably estimable and the related receivable amount is based on future premium collections or policy surcharges from in-force policies.
- Under SAP, unpaid losses and loss adjustment expenses and unearned premiums are reported net of the effects of reinsurance transactions, whereas under GAAP, unpaid losses and loss adjustment expenses and unearned premiums are reported gross of reinsurance.
- Under SAP, a provision for reinsurance is charged to surplus based on the authorized status of reinsurers, available collateral, and certain aging criteria, whereas under GAAP, an allowance for uncollectible reinsurance is established based on management’s best estimate of the collectability of reinsurance receivables.
- Under SAP, the tax impact of the Tax Cuts and Jobs Act enacted on December 22, 2017 is recorded through surplus, whereas under GAAP, the tax impact is recorded in the Consolidated Statements of Operations.

The National Association of Insurance Commissioners (“NAIC”) issues model laws and regulations, many of which have been adopted by state insurance regulators, relating to: (a) risk-based capital (“RBC”) standards; (b) codification of insurance accounting principles; (c) investment restrictions; and (d) restrictions on the ability of insurance companies to pay dividends.

The Company’s U.S. insurance subsidiaries are required by law to maintain certain minimum surplus on a statutory basis, and are subject to regulations under which payment of a dividend from statutory surplus is restricted and may require prior approval of regulatory authorities. Applying the current regulatory restrictions as of December 31, 2019, the maximum amount of distributions that could be paid in 2020 by the United National insurance companies, the Penn-America insurance companies, and American Reliable under applicable laws and regulations without regulatory approval is approximately \$13.2 million, \$7.4 million, and \$9.0 million, respectively. The Penn-America insurance companies limitation includes \$2.4 million that would be distributed to United National Insurance Company or its subsidiary Penn Independent Corporation based on the December 31, 2019 ownership percentages. The Company’s U.S. insurance subsidiaries did not declare or pay any dividends in 2019.

The NAIC’s RBC model provides a tool for insurance regulators to determine the levels of statutory capital and surplus an insurer must maintain in relation to its insurance and investment risks, as well as its reinsurance exposures, to assess the potential need for regulatory attention. The model provides four levels of regulatory attention, varying with the ratio of an insurance company’s total adjusted capital to its authorized control level RBC (“ACLRBC”). If a company’s total adjusted capital is:

- (a) less than or equal to 200%, but greater than 150% of its ACLRBC (the “Company Action Level”), the company must submit a comprehensive plan to the regulatory authority proposing corrective actions aimed at improving its capital position;
- (b) less than or equal to 150%, but greater than 100% of its ACLRBC (the “Regulatory Action Level”), the regulatory authority will perform a special examination of the company and issue an order specifying the corrective actions that must be followed;

- (c) less than or equal to 100%, but greater than 70% of its ACLRBC (the “Authorized Control Level”), the regulatory authority may take any action it deems necessary, including placing the company under regulatory control; and
- (d) less than or equal to 70% of its ACLRBC (the “Mandatory Control Level”), the regulatory authority must place the company under its control.

Based on the standards currently adopted, the Company reported in its 2019 statutory filings that the capital and surplus of the U.S. insurance companies are above the prescribed Company Action Level RBC requirements.

The following is selected information for the Company’s U.S. insurance companies, net of intercompany eliminations, where applicable, as determined in accordance with SAP:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Statutory capital and surplus, as of end of period	\$263,793	\$225,645	\$274,586
Statutory net income (loss)	39,971	(52,036)	(19,019)

Global Indemnity Reinsurance must also prepare annual statutory financial statements. The Bermuda Insurance Act 1978 (the “Insurance Act”) prescribes rules for the preparation and substance of these statutory financial statements which include, in statutory form, a balance sheet, an income statement, a statement of capital and surplus and notes thereto. The statutory financial statements are not prepared in accordance with GAAP or SAP and are distinct from the financial statements prepared for presentation to Global Indemnity Reinsurance’s shareholders and under the Bermuda Companies Act 1981 (the “Companies Act”), which financial statements will be prepared in accordance with GAAP.

The principal differences between statutory financial statements prepared under the Insurance Act and GAAP are as follows:

- Under the Insurance Act, policy acquisition costs, such as commissions, premium taxes, fees and other costs of underwriting policies are charged to current operations as incurred, while under GAAP such costs are deferred and amortized on a pro rata basis over the period covered by the policy.
- Under the Insurance Act, prepaid expenses and intangible assets are charged to current operations as incurred, while under GAAP such costs are deferred and amortized on a pro rata basis.
- Under the Insurance Act, unpaid losses and loss adjustment expenses and unearned premiums are reported net of the effects of reinsurance transactions, whereas under GAAP, unpaid losses and loss adjustment expenses and unearned premiums are reported gross of reinsurance.

Under the Companies Act, Global Indemnity Reinsurance may only declare or pay a dividend if it has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Global Indemnity Reinsurance is also prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital or 25% or more of its total statutory capital and surplus 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 2019 statutory financial statements that will be filed in 2020, Global Indemnity Reinsurance could pay a dividend of up to \$198.8 million without requesting BMA approval. Global Indemnity Reinsurance is dependent on receiving distributions from its subsidiaries in order to pay the full dividend in cash. Global Indemnity Reinsurance did not declare or pay any dividends during 2019.

The following is selected information for Global Indemnity Reinsurance, net of intercompany eliminations, where applicable, as determined in accordance with the Bermuda Insurance Act 1978:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Statutory capital and surplus, as of end of period	\$885,763	\$835,620	\$908,433
Statutory net income	34,086	(3,972)	29,647

19. Segment Information

During the 1st quarter of 2019, the Company re-evaluated its Personal Lines segment and determined that Personal Lines should be bifurcated into two reportable segments: Specialty Property and Farm, Ranch, & Stable. In addition, the Company has changed the name of its Commercial Lines segment to Commercial Specialty to better align with its key product offerings. The segment results for the years ended December 31, 2018 and 2017 have been revised to reflect these changes. Please see Note 1 for additional information related to these segment changes.

All four segments 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 2.

The Company manages its business through four business segments. Commercial Specialty offers specialty property and casualty products designed for product lines such as Small Business Binding Authority, Property Brokerage, and Programs. Specialty Property offers specialty personal lines property and casualty insurance products. Farm, Ranch, & Stable offers specialized property and casualty coverage including Commercial Farm Auto and Excess/Umbrella Coverage for the agriculture industry as well as specialized insurance products for the equine mortality and equine major medical industry. Reinsurance Operations provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.

The following are tabulations of business segment information for the years ended December 31, 2019, 2018, and 2017. Corporate information is included to reconcile segment data to the consolidated financial statements.

2019: (Dollars in thousands)	Commercial Specialty (1)	Specialty Property (1)	Farm, Ranch, & Stable (1)	Reinsurance Operations (2)	Total
Revenues:					
Gross written premiums	\$297,332	\$163,503(3)	\$ 87,745	\$ 88,281	\$ 636,861
Net written premiums	\$258,719	\$140,670	\$ 74,416	\$ 88,284	\$ 562,089
Net earned premiums	\$237,758	\$140,232	\$ 71,312	\$ 75,960	\$ 525,262
Other income (loss)	—	1,820	132	(136)	1,816
Total revenues	237,758	142,052	71,444	75,824	527,078
Losses and Expenses:					
Net losses and loss adjustment expenses	108,911	75,426	42,700	48,365	275,402
Acquisition costs and other underwriting expenses	96,475	58,768	29,551	23,609	208,403
Income (loss) from segments	\$ 32,372	\$ 7,858	\$ (807)	\$ 3,850	43,273
Unallocated Items:					
Net investment income					42,052
Net realized investment gains					35,342
Corporate and other operating expenses					(18,888)
Interest expense					(20,022)
Income before income taxes					81,757
Income tax expense					(11,742)
Net income					\$ 70,015
Segment assets	\$713,010	\$226,388	\$136,891	\$325,451	\$1,401,740
Corporate assets					674,145
Total assets					\$2,075,885

(1) Includes business ceded to the Company's Reinsurance Operations. This quota share agreement was cancelled effective January 1, 2018.

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

(3) Includes (\$273) of business written by American Reliable that was ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

2018: (Dollars in thousands)	Commercial Specialty (1)	Specialty Property (1)	Farm, Ranch, & Stable (1)	Reinsurance Operations (2)	Total
Revenues:					
Gross written premiums	\$249,948	\$170,168(6)	\$ 79,738	\$ 48,043	\$ 547,897
Net written premiums	\$226,827	\$127,470	\$ 70,217	\$ 48,033	\$ 472,547
Net earned premiums	\$218,357	\$128,768	\$ 69,248	\$ 51,402	\$ 467,775
Other income (loss)	—	1,782	156	(210)	1,728
Total revenues	<u>218,357</u>	<u>130,550</u>	<u>69,404</u>	<u>51,192</u>	<u>469,503</u>
Losses and Expenses:					
Net losses and loss adjustment expenses	114,476	122,709	41,180	56,260	334,625
Acquisition costs and other underwriting expenses	<u>87,371(3)</u>	<u>55,760(4)</u>	<u>29,801(5)</u>	<u>17,846</u>	<u>190,778</u>
Income (loss) from segments	<u>\$ 16,510</u>	<u>\$(47,919)</u>	<u>\$ (1,577)</u>	<u>\$(22,914)</u>	<u>\$ (55,900)</u>
Unallocated Items:					
Net investment income					46,342
Net realized investment losses					(16,907)
Corporate and other operating expenses					(29,766)
Interest expense					(19,694)
Loss before income taxes					(75,925)
Income tax benefit					19,229
Net loss					<u>\$ (56,696)</u>
Segment assets	<u>\$712,632</u>	<u>\$270,083</u>	<u>\$134,056</u>	<u>\$316,922</u>	\$1,433,693
Corporate assets					526,573
Total assets					<u>\$1,960,266</u>

- (1) Includes business ceded to the Company's Reinsurance Operations. This quota share agreement was cancelled effective January 1, 2018.
- (2) External business only, excluding business assumed from affiliates.
- (3) Includes federal excise tax of \$386 relating to cessions from Commercial Specialty to Reinsurance Operations.
- (4) Includes federal excise tax of \$313 relating to cessions from Specialty Property to Reinsurance Operations.
- (5) Includes federal excise tax of \$145 relating to cessions from Farm, Ranch, & Stable to Reinsurance Operations.
- (6) Includes (\$2,062) of business written by American Reliable that was ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

2017: (Dollars in thousands)	Commercial Specialty (1)	Specialty Property (1)	Farm, Ranch, & Stable (1)	Reinsurance Operations (2)	Total
Revenues:					
Gross written premiums	\$212,670	\$173,780(6)	\$ 75,997	\$ 53,887	\$ 516,334
Net written premiums	\$186,448	\$144,271	\$ 65,528	\$ 53,933	\$ 450,180
Net earned premiums	\$178,798	\$149,786	\$ 66,197	\$ 43,253	\$ 438,034
Other income	78	6,013	275	216	6,582
Total revenues	<u>178,876</u>	<u>155,799</u>	<u>66,472</u>	<u>43,469</u>	<u>444,616</u>
Losses and Expenses:					
Net losses and loss adjustment expenses	62,834	112,055	53,743	40,580	269,212
Acquisition costs and other underwriting expenses	<u>75,990(3)</u>	<u>63,477(4)</u>	<u>29,636(5)</u>	<u>14,630</u>	<u>183,733</u>
Income (loss) from segments	<u>\$ 40,052</u>	<u>\$ (19,733)</u>	<u>\$ (16,907)</u>	<u>\$ (11,741)</u>	<u>\$ (8,329)</u>
Unallocated Items:					
Net investment income					39,323
Net realized investment gains					1,576
Corporate and other operating expenses					(25,714)
Interest expense					(16,906)
Loss before income taxes					(10,050)
Income tax benefit					499
Net loss					\$ (9,551)
Segment assets	<u>\$688,250</u>	<u>\$249,596</u>	<u>\$140,785</u>	<u>\$281,648</u>	<u>\$1,360,279</u>
Corporate assets					641,390
Total assets					<u>\$2,001,669</u>

- (1) Includes business ceded to the Company's Reinsurance Operations. This quota share agreement was cancelled effective January 1, 2018.
- (2) External business only, excluding business assumed from affiliates.
- (3) Includes federal excise tax of \$714 relating to cessions from Commercial Specialty to Reinsurance Operations.
- (4) Includes federal excise tax of \$597 relating to cessions from Specialty Property to Reinsurance Operations.
- (5) Includes federal excise tax of 265 relating to cessions from Farm, Ranch, & Stable to Reinsurance Operations.
- (6) Includes (\$1,338) of business written by American Reliable that was ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

20. Condensed Consolidating Financial Information Provided in Connection with Outstanding Debt of Subsidiaries

The following tables present condensed consolidating balance sheets at December 31, 2019 and December 31, 2018, condensed consolidating statements of operations, condensed consolidating statements of comprehensive income, and condensed consolidating statements of cash flows for the years ended December 31, 2019, 2018, and 2017. Global Indemnity Group, LLC is a 100% owned subsidiary of the Company. See Note 10 for information on the Company's debt obligations.

Condensed Consolidating Balance Sheets at December 31, 2019 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Consolidating Adjustments (2)	Global Indemnity Limited Consolidated
ASSETS					
Total investments	\$ 44,468	\$257,317	\$1,261,757	\$ —	\$1,563,542
Cash and cash equivalents	977	2,663	40,631	—	44,271
Investments in subsidiaries	1,218,491	355,777	434,278	(2,008,546)	—
Due from subsidiaries and affiliates	(3,612)	(3,965)	7,577	—	—
Notes receivable – affiliate	—	80,049	445,498	(525,547)	—
Interest receivable – affiliate	—	5,014	17,258	(22,272)	—
Premiums receivable, net	—	—	118,035	—	118,035
Reinsurance receivables, net	—	—	83,938	—	83,938
Funds held by ceding insurers	—	—	48,580	—	48,580
Federal income taxes receivable	—	14,197	(3,208)	—	10,989
Deferred federal income taxes	—	31,833	(756)	—	31,077
Deferred acquisition costs	—	—	70,677	—	70,677
Intangible assets	—	—	21,491	—	21,491
Goodwill	—	—	6,521	—	6,521
Prepaid reinsurance premiums	—	—	16,716	—	16,716
Other assets	9,394	12,622	45,021	(6,989)	60,048
Total assets	<u>\$1,269,718</u>	<u>\$755,507</u>	<u>\$2,614,014</u>	<u>\$(2,563,354)</u>	<u>\$2,075,885</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Unpaid losses and loss adjustment expenses	\$ —	\$ —	\$ 630,181	\$ —	\$ 630,181
Unearned premiums	—	—	314,861	—	314,861
Ceded balances payable	—	—	20,404	—	20,404
Payable for securities purchased	—	—	850	—	850
Contingent commissions	—	—	11,928	—	11,928
Debt	—	303,629	—	(6,989)	296,640
Notes payable – affiliates	520,498	—	5,049	(525,547)	—
Accrued interest payable – affiliates	20,343	—	1,929	(22,272)	—
Other liabilities	2,068	17,600	54,544	—	74,212
Total liabilities	<u>542,909</u>	<u>321,229</u>	<u>1,039,746</u>	<u>(554,808)</u>	<u>1,349,076</u>
Shareholders' equity					
Total shareholders' equity	726,809	434,278	1,574,268	(2,008,546)	726,809
Total liabilities and shareholders' equity	<u>\$1,269,718</u>	<u>\$755,507</u>	<u>\$2,614,014</u>	<u>\$(2,563,354)</u>	<u>\$2,075,885</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

(2) Includes Parent co-obligor and subsidiary co-obligor consolidating adjustments

Condensed Consolidating Balance Sheets at December 31, 2018 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Consolidating Adjustments (2)	Global Indemnity Limited Consolidated
ASSETS					
Total investments	\$ 55,377	\$233,479	\$1,121,799	\$ —	\$1,410,655
Cash and cash equivalents	2,221	26,039	71,237	—	99,497
Investments in subsidiaries	1,105,032	296,357	(19,922)	(1,381,467)	—
Due from subsidiaries and affiliates	584	(2,133)	1,549	—	—
Notes receivable – affiliate	—	80,049	847,808	(927,857)	—
Interest receivable – affiliate	—	3,869	17,425	(21,294)	—
Premiums receivable, net	—	—	87,679	—	87,679
Reinsurance receivables, net	—	—	114,418	—	114,418
Funds held by ceding insurers	—	—	49,206	—	49,206
Federal income taxes receivable	—	4,631	6,235	—	10,866
Deferred federal income taxes	—	44,481	4,108	—	48,589
Deferred acquisition costs	—	—	61,676	—	61,676
Intangible assets	—	—	22,020	—	22,020
Goodwill	—	—	6,521	—	6,521
Prepaid reinsurance premiums	—	—	20,594	—	20,594
Receivable for securities sold	—	—	15	—	15
Other assets	8,461	5,085	22,237	(7,253)	28,530
Total assets	<u>\$1,171,675</u>	<u>\$691,857</u>	<u>\$2,434,605</u>	<u>\$(2,337,871)</u>	<u>\$1,960,266</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Unpaid losses and loss adjustment expenses	\$ —	\$ —	\$ 680,031	\$ —	\$ 680,031
Unearned premiums	—	—	281,912	—	281,912
Ceded balances payable	—	—	14,994	—	14,994
Contingent commissions	—	—	10,636	—	10,636
Debt	—	295,818	—	(7,253)	288,565
Notes payable – affiliates	520,498	402,310	5,049	(927,857)	—
Accrued interest payable – affiliates	19,499	—	1,795	(21,294)	—
Other liabilities	2,619	13,651	38,799	—	55,069
Total liabilities	<u>542,616</u>	<u>711,779</u>	<u>1,033,216</u>	<u>(956,404)</u>	<u>1,331,207</u>
Shareholders' equity					
Total shareholders' equity	<u>629,059</u>	<u>(19,922)</u>	<u>1,401,389</u>	<u>(1,381,467)</u>	<u>629,059</u>
Total liabilities and shareholders' equity	<u>\$1,171,675</u>	<u>\$691,857</u>	<u>\$2,434,605</u>	<u>\$(2,337,871)</u>	<u>\$1,960,266</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

(2) Includes Parent co-obligor and subsidiary co-obligor consolidating adjustments

Condensed Consolidating Statements of Operations for the Year Ended December 31, 2019 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non- co-obligor subsidiaries) (1)	Consolidating Adjustments (2)	Global Indemnity Limited Consolidated
Revenues:					
Net earned premiums	\$ —	\$ —	\$525,262	\$ —	\$525,262
Net investment income	2,295	6,563	34,339	(1,145)	42,052
Net realized investment gains	574	28,596	6,172	—	35,342
Other income	—	30	1,786	—	1,816
Total revenues	2,869	35,189	567,559	(1,145)	604,472
Losses and Expenses:					
Net losses and loss adjustment expenses	—	—	275,402	—	275,402
Acquisition costs and other underwriting expenses	—	—	208,403	—	208,403
Corporate and other operating expenses	6,692	10,254	1,942	—	18,888
Interest expense	1,108	19,743	316	(1,145)	20,022
Income (loss) before equity in net income of subsidiaries and income taxes	(4,931)	5,192	81,496	—	81,757
Equity in net income of subsidiaries	74,946	28,401	32,067	(135,414)	—
Income before income taxes	70,015	33,593	113,563	(135,414)	81,757
Income tax expense	—	1,526	10,216	—	11,742
Net income	<u>\$70,015</u>	<u>\$32,067</u>	<u>\$103,347</u>	<u>\$(135,414)</u>	<u>\$ 70,015</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

(2) Includes Parent co-obligor and subsidiary co-obligor consolidating adjustments

Condensed Consolidating Statements of Operations for the Year Ended December 31, 2018 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Consolidating Adjustments (2)	Global Indemnity Limited Consolidated
Revenues:					
Net earned premiums	\$ —	\$ —	\$467,775	\$ —	\$467,775
Net investment income	658	9,208	73,317	(36,841)	46,342
Net realized investment losses	(154)	(15,284)	(1,469)	—	(16,907)
Other income	—	20	1,708	—	1,728
Total revenues	504	(6,056)	541,331	(36,841)	498,938
Losses and Expenses:					
Net losses and loss adjustment expenses	—	—	334,625	—	334,625
Acquisition costs and other underwriting expenses	—	—	190,778	—	190,778
Corporate and other operating expenses	11,317	17,047	1,402	—	29,766
Interest expense	12,994	43,187	354	(36,841)	19,694
Income (loss) before equity in net loss of subsidiaries and income taxes	(23,807)	(66,290)	14,172	—	(75,925)
Equity in net loss of subsidiaries	(32,889)	(16,694)	(73,009)	122,592	—
Loss before income taxes	(56,696)	(82,984)	(58,837)	122,592	(75,925)
Income tax benefit	—	(9,975)	(9,254)	—	(19,229)
Net loss	<u>\$(56,696)</u>	<u>\$(73,009)</u>	<u>\$(49,583)</u>	<u>\$122,592</u>	<u>\$(56,696)</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

(2) Includes Parent co-obligor and subsidiary co-obligor consolidating adjustments

Condensed Consolidating Statements of Operations for the Year Ended December 31, 2017 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Consolidating Adjustments (2)	Global Indemnity Limited Consolidated
Revenues:					
Net earned premiums	\$ —	\$ —	\$438,034	\$ —	\$438,034
Net investment income	361	8,943	74,264	(44,245)	39,323
Net realized investment gains (losses)	(368)	877	1,067	—	1,576
Other income	6	4,170	2,406	—	6,582
Total revenues	(1)	13,990	515,771	(44,245)	485,515
Losses and Expenses:					
Net losses and loss adjustment expenses	—	—	269,212	—	269,212
Acquisition costs and other underwriting expenses	—	—	183,733	—	183,733
Corporate and other operating expenses	16,807	(11,595)	20,502	—	25,714
Interest expense	18,349	42,332	332	(44,107)	16,906
Income (loss) before equity in net income (loss) of subsidiaries and income taxes	(35,157)	(16,747)	41,992	(138)	(10,050)
Equity in net income (loss) of subsidiaries	25,606	(19,018)	(48,595)	42,007	—
Loss before income taxes	(9,551)	(35,765)	(6,603)	41,869	(10,050)
Income tax expense (benefit)	—	12,830	(13,329)	—	(499)
Net income (loss)	<u>\$ (9,551)</u>	<u>\$(48,595)</u>	<u>\$ 6,726</u>	<u>\$ 41,869</u>	<u>\$(9,551)</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

(2) Includes Parent co-obligor and subsidiary co-obligor consolidating adjustments

Condensed Consolidating Statements of Comprehensive Income for the Year Ended December 31, 2019 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Consolidating Adjustments (2)	Global Indemnity Limited Consolidated
Net income	\$ 70,015	\$32,067	\$103,347	\$(135,414)	\$ 70,015
Other comprehensive income, net of tax:					
Unrealized holding gains	872	1,588	41,520	—	43,980
Equity in other comprehensive income of unconsolidated subsidiaries	38,520	19,734	21,547	(79,801)	—
Portion of other-than-temporary impairment losses recognized in other comprehensive income	—	—	(5)	—	(5)
Reclassification adjustment for (gains) losses included in net income	(552)	225	(5,110)	—	(5,437)
Unrealized foreign currency translation gains	—	—	302	—	302
Other comprehensive income, net of tax	<u>38,840</u>	<u>21,547</u>	<u>58,254</u>	<u>(79,801)</u>	<u>38,840</u>
Comprehensive income, net of tax	<u>\$108,855</u>	<u>\$53,614</u>	<u>\$161,601</u>	<u>\$(215,215)</u>	<u>\$108,855</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

(2) Includes Parent co-obligor and subsidiary co-obligor consolidating adjustments

Condensed Consolidating Statements of Comprehensive Income for the Year Ended December 31, 2018 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Consolidating Adjustments (2)	Global Indemnity Limited Consolidated
Net loss	\$(56,696)	\$(73,009)	\$(49,583)	\$122,592	\$(56,696)
Other comprehensive loss, net of tax:					
Unrealized holding gains	(499)	(2,917)	(17,332)	—	(20,748)
Equity in other comprehensive loss of unconsolidated subsidiaries	(19,841)	(8,230)	(10,120)	38,191	—
Portion of other-than-temporary impairment losses recognized in other comprehensive losses	—	—	(3)	—	(3)
Reclassification adjustment for losses included in net loss	154	1,027	1,269	—	2,450
Unrealized foreign currency translation loss	—	—	(1,885)	—	(1,885)
Other comprehensive loss, net of tax	<u>(20,186)</u>	<u>(10,120)</u>	<u>(28,071)</u>	<u>38,191</u>	<u>(20,186)</u>
Comprehensive loss, net of tax	<u>\$(76,882)</u>	<u>\$(83,129)</u>	<u>\$(77,654)</u>	<u>\$160,783</u>	<u>\$(76,882)</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

(2) Includes Parent co-obligor and subsidiary co-obligor consolidating adjustments

Condensed Consolidating Statements of Comprehensive Income for the Year Ended December 31, 2017 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Consolidating Adjustments (2)	Global Indemnity Limited Consolidated
Net income (loss)	\$(9,551)	\$(48,595)	\$ 6,726	\$ 41,869	\$(9,551)
Other comprehensive income (loss), net of tax:					
Unrealized holding gains (losses)	(216)	9,735	187	(29)	9,677
Equity in other comprehensive income (loss) of unconsolidated subsidiaries	9,449	(385)	8,955	(18,019)	—
Portion of other-than-temporary impairment losses recognized in other comprehensive income (losses)	—	—	(3)	—	(3)
Reclassification adjustment for (gains) losses included in net income	368	(619)	(735)	138	(848)
Unrealized foreign currency translation gains	—	224	551	—	775
Other comprehensive income (loss), net of tax	9,601	8,955	8,955	(17,910)	9,601
Comprehensive income (loss), net of tax	<u>\$ 50</u>	<u>\$(39,640)</u>	<u>\$15,681</u>	<u>\$ 23,959</u>	<u>\$ 50</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

(2) Includes Parent co-obligor and subsidiary co-obligor consolidating adjustments

Condensed Consolidating Statements of Cash Flows for the Year Ended December 31, 2019 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Global Indemnity Limited Consolidated
Cash flows from operating activities:				
Net cash provided by (used for) operating activities	\$ 2,632	\$ (23,295)	\$ 53,039	\$ 32,376
Cash flows from investing activities:				
Proceeds from sale of fixed maturities	48,393	101,584	827,344	977,321
Proceeds from sale of equity securities	10,900	249,991	—	260,891
Proceeds from maturity of fixed maturities	—	—	180,546	180,546
Proceeds from other invested assets	4,363	12,394	—	16,757
Amount paid in connection with derivatives	—	(7,654)	—	(7,654)
Purchases of fixed maturities	(10,548)	(26,205)	(1,092,814)	(1,129,567)
Purchases of equity securities	(41,815)	(311,711)	(11,729)	(365,255)
Purchases of other invested assets	—	(13,283)	—	(13,283)
Net cash provided by (used for) investing activities	11,293	5,116	(96,653)	(80,244)
Cash flows from financing activities:				
Net borrowings under margin borrowing facility ...	—	7,811	—	7,811
Dividends paid to shareholders	(14,222)	—	—	(14,222)
Capital contribution	—	(13,008)	13,008	—
Purchase of A ordinary shares	(947)	—	—	(947)
Net cash provided by (used for) financing activities	(15,169)	(5,197)	13,008	(7,358)
Net change in cash and cash equivalents	(1,244)	(23,376)	(30,606)	(55,226)
Cash and cash equivalents at beginning of period	2,221	26,039	71,237	99,497
Cash and cash equivalents at end of period	<u>\$ 977</u>	<u>\$ 2,663</u>	<u>\$ 40,631</u>	<u>\$ 44,271</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

Condensed Consolidating Statements of Cash Flows for the Year Ended December 31, 2018 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Global Indemnity Limited Consolidated
Cash flows from operating activities:				
Net cash provided by (used for) operating activities	\$ (20,178)	\$ (35,207)	\$ 97,454	\$ 42,069
Cash flows from investing activities:				
Proceeds from sale of fixed maturities	32,980	71,900	188,468	293,348
Proceeds from sale of equity securities	—	35,639	—	35,639
Proceeds from maturity of fixed maturities	5,431	7,600	42,151	55,182
Proceeds from other invested assets	1,500	34,499	7,378	43,377
Amount received in connection with derivatives . . .	—	4,392	—	4,392
Purchases of fixed maturities	(33,327)	(40,858)	(296,351)	(370,536)
Purchases of equity securities	—	(36,258)	—	(36,258)
Purchases of other invested assets	—	(15,800)	(509)	(16,309)
Acquisition of business	—	(3,515)	—	(3,515)
Net cash provided by (used for) investing activities	6,584	57,599	(58,863)	5,320
Cash flows from financing activities:				
Net repayments under margin borrowing facility . . .	—	(6,412)	—	(6,412)
Proceeds / (issuance) of notes to affiliates	230,000	(227,690)	(2,310)	—
Debt restructuring	(230,000)	230,000	—	—
Dividends paid to shareholders	(14,027)	—	—	(14,027)
Dividends from subsidiaries	20,620	—	(20,620)	—
Purchase of A ordinary shares	(1,867)	—	—	(1,867)
Net cash provided by (used for) financing activities	4,726	(4,102)	(22,930)	(22,306)
Net change in cash and cash equivalents	(8,868)	18,290	15,661	25,083
Cash and cash equivalents at beginning of period	11,089	7,749	55,576	74,414
Cash and cash equivalents at end of period	<u>\$ 2,221</u>	<u>\$ 26,039</u>	<u>\$ 71,237</u>	<u>\$ 99,497</u>

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

Condensed Consolidating Statements of Cash Flows for the Year Ended December 31, 2017 (Dollars in thousands)	Global Indemnity Limited (Parent co-obligor)	Global Indemnity Group, LLC (Subsidiary co-obligor)	Other Global Indemnity Limited Subsidiaries and Eliminations (non-co-obligor subsidiaries) (1)	Global Indemnity Limited Consolidated
Cash flows from operating activities:				
Net cash provided by (used for) operating activities	\$ (24,927)	\$ (37,165)	\$ 43,183	\$ (18,909)
Cash flows from investing activities:				
Proceeds from sale of fixed maturities	12,389	54,082	851,968	918,439
Proceeds from sale of equity securities	—	32,218	—	32,218
Proceeds from maturity of fixed maturities	10,000	78,925	56,550	145,475
Proceeds from other invested assets	—	4,139	8,160	12,299
Amount received in connection with derivatives	—	1,464	—	1,464
Purchases of fixed maturities	(32,044)	(254,152)	(792,003)	(1,078,199)
Purchases of equity securities	—	(36,647)	—	(36,647)
Purchases of other invested assets	—	(22,500)	(1,500)	(24,000)
Net cash provided by (used for) investing activities	(9,655)	(142,471)	123,175	(28,951)
Cash flows from financing activities:				
Net borrowings under margin borrowing facility	—	5,584	—	5,584
Redemption of ordinary shares	(83,015)	—	—	(83,015)
Proceeds from issuance of subordinated notes	130,000	—	—	130,000
Debt issuance cost	(4,246)	—	—	(4,246)
Proceeds / (issuance) of notes to affiliates	—	120,000	(120,000)	—
Dividends from subsidiaries	100,000	56,265	(156,265)	—
Capital contribution	(96,000)	—	96,000	—
Purchase of A ordinary shares	(1,159)	—	—	(1,159)
Net cash provided by (used for) financing activities	45,580	181,849	(180,265)	47,164
Net change in cash and cash equivalents	10,998	2,213	(13,907)	(696)
Cash and cash equivalents at beginning of period	91	5,536	69,483	75,110
Cash and cash equivalents at end of period	\$ 11,089	\$ 7,749	\$ 55,576	\$ 74,414

(1) Includes all other subsidiaries of Global Indemnity Limited and eliminations

21. Supplemental Cash Flow Information

Taxes and Interest Paid

The Company paid the following net federal income taxes and interest for 2019, 2018, and 2017:

(Dollars in thousands)	Years Ended December 31,		
	2019	2018	2017
Federal income taxes paid	\$ 251	\$ 859	\$ 133
Federal income taxes recovered	170	—	19
Interest paid	19,711	19,387	14,504

22. New Accounting Pronouncements

Accounting Standards Adopted in 2019

In July, 2019, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance which updated the U.S. Securities and Exchange Commission (“SEC”) sections of the Codification. This Update amends certain disclosure requirements which are redundant, duplicative, overlapping, outdated or superseded. This guidance is effective immediately. The adoption of this new accounting guidance did not have a material impact to the Company’s financial condition, results of operation, or cash flows.

In February, 2016, the FASB issued new accounting guidance regarding leases. The new guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In July, 2018, additional accounting guidance was issued which provided entities with an additional and optional transition method when adopting this new standard.

Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative effect adjustment to the opening balance sheet of retained earnings. The lease guidance is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted this new accounting guidance on January 1, 2019 using the optional transition method. The Company elected the package of practical expedients permitted under the transition guidance within the new standard. In addition, the Company elected the hindsight practical expedient to determine the lease term for existing leases. Upon adoption, the Company recognized right-of-use lease assets and lease liabilities of \$25.3 million and \$25.4 million, respectively, and recorded a cumulative effect adjustment, net of tax, of less than \$0.1 million to retained earnings.

In March, 2017, the FASB issued new accounting guidance which amended the amortization period for certain purchased callable debt securities held at a premium. Prior to adoption, entities generally amortized the premium as an adjustment of yield over the contractual life of the instruments. Under the new guidance, the amortization period was shortened to the earliest call date. This guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company adopted this guidance on January 1, 2019. The adoption of this new accounting guidance did not have a material impact on its financial condition, results of operations, and cash flows.

In April, 2019, the FASB issued new accounting guidance that affected a wide variety of topics in the Codification. The amendments in this update represent changes to clarify certain aspects in the Codification as it relates to Topic 326, Financial Instruments, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. The amendments in this update are meant to make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarification. Some of the amendments in this guidance are effective immediately with the remainder effective for fiscal years beginning after December 31, 2019, including interim periods within those fiscal years. The adoption of this new accounting guidance did not have a material impact to the Company's financial condition, results of operation, or cash flows.

Recently Issued Accounting Guidance Not Yet Adopted

In December, 2019, the FASB issued updated guidance related to the accounting for income taxes. The updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. Although the Company is still evaluating the impact of this new guidance, the Company does not anticipate that it will have a material impact on its financial condition, results of operations, or cash flows.

In May, 2019, the FASB issued new accounting guidance which provides optional targeted transition relief related to the measurement of credit losses on financial instruments. Under the new guidance, companies will have the option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. Election of the fair value option would be applied on an instrument by instrument basis for eligible instruments. This guidance is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this new accounting guidance will not have a material impact on the Company's financial condition, results of operations, and cash flows.

In August, 2018, the FASB issued new accounting guidance which removed, modified, and added certain disclosures related to Topic 820, Fair Value. This guidance is effective for all fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. The adoption of this new accounting guidance will not have a material impact on the Company's financial condition, results of operations, and cash flows.

In January, 2017, the FASB issued updated guidance that simplifies how an entity is required to test goodwill for impairment by eliminating the requirement to calculate the implied fair value of goodwill (i.e. Step 2 of the current goodwill impairment test). Under the new amendments, an entity may still first assess qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. If determined to be necessary, the quantitative impairment test shall be used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized, if any. A goodwill impairment loss is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. This guidance is effective for public business entities' annual or interim goodwill impairment testing in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this new accounting guidance will not have a material impact on the Company's financial condition, results of operations, and cash flows.

In June, 2016, the FASB issued new accounting guidance addressing the measurement of credit losses on financial instruments. For assets held at amortized cost basis, the new guidance replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of information for credit loss estimates. For available for sale debt securities, credit losses should be measured similar to current GAAP; however, the new guidance requires that credit losses be presented as an allowance rather than as a write-down and allows for the reversal of credit losses in the current period net income. This guidance is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods

within those fiscal years. Early application of this new guidance is permitted as of the fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. This guidance will be applied using a modified-retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The adoption of this new accounting guidance will not have a material impact on the Company's financial condition, results of operations, and cash flows.

23. Summary of Quarterly Financial Information (Unaudited)

An unaudited summary of the Company's 2019 and 2018 quarterly performance is as follows:

(Dollars in thousands, except per share data)	Year Ended December 31, 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net earned premiums	\$122,089	\$128,201	\$133,312	\$141,660
Net investment income	7,219	13,826	11,348	9,659
Net realized investment gains (losses)	10,390	3,590	(2,690)	24,052
Net losses and loss adjustment expenses	58,321	70,075	73,583	73,423
Acquisition costs and other underwriting expenses	49,743	50,534	53,366	54,760
Income before income taxes	23,894	15,849	6,404	35,610
Net income	19,600	14,663	6,721	29,031
Per share data—Diluted:				
Net income	\$ 1.37	\$ 1.02	\$ 0.47	\$ 2.02

(Dollars in thousands, except per share data)	Year Ended December 31, 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net earned premiums	\$108,002	\$113,917	\$120,528	\$125,328
Net investment income	11,404	10,954	11,750	12,234
Net realized investment gains (losses)	(316)	2,830	5,319	(24,740)
Net losses and loss adjustment expenses	56,072	58,861	80,493	139,199
Acquisition costs and other underwriting expenses	45,003	47,513	48,680	49,582
Income (loss) before income taxes	4,448	5,793	436	(86,602)
Net income (loss)	5,701	7,192	3,728	(73,317)
Per share data—Diluted:				
Net income (loss)	\$ 0.40	\$ 0.50	\$ 0.26	\$ (5.20)

24. Subsequent events

On February 9, 2020, the Company's Board of Directors approved a dividend payment of \$0.25 per ordinary share to be paid on March 31, 2020 to all shareholders of record as of the close of business on March 24, 2020.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A. 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 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 its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of disclosure controls and procedures as of December 31, 2019. Based upon that evaluation and subject to the foregoing, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2019, the design and operation of the Company’s disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Management’s Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of the consolidated financial statements of the Company in accordance with U.S. generally accepted accounting principles.

The Company’s internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of the Company’s management and Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the Company’s internal control over financial reporting as of December 31, 2019. The standard measures adopted by management in making its evaluation are the measures in the Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Based upon its assessment, management has concluded that the Company’s internal control over financial reporting was effective at December 31, 2019, and that there were no material weaknesses in the Company’s internal control over financial reporting as of that date.

Ernst & Young, LLP, an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Form 10-K, has issued its report on the effectiveness of the Company’s internal control over financial reporting. See “Report of Independent Registered Public Accounting Firm” on page 152.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting that occurred during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and
the Board of Directors of Global Indemnity Limited

Opinion on Internal Control over Financial Reporting

We have audited Global Indemnity Limited's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Global Indemnity Limited (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules listed in the Index at Item 15(a) and our report dated March 6, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Philadelphia, PA
March 6, 2020

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to, and will be contained in, the Company's definitive proxy statement relating to the 2020 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019 ("2020 Proxy Statement").

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to, and will be contained in, the Company's 2020 Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to, and will be contained in, the Company's 2020 Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to, and will be contained in, the Company's 2020 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to, and will be contained in, the Company's 2020 Proxy Statement.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by the Company in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

The following documents are filed as part of this report:

- (a)(1) The Financial Statements listed in the accompanying index on page 79 are filed as part of this report.
- (a)(2) The Financial Statement Schedules listed in the accompanying index on page 79 are filed as part of this report.

<u>Exhibit No.</u>	<u>Description</u>
2.1	American Reliable SPA dated as of October 16, 2014 (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated October 21, 2014 (File No. 001-34809)).
3.1	Certificate of Incorporation of Global Indemnity Limited (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
3.2	Certificate of Incorporation of Change on Name of Global Indemnity Limited (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
3.3	Amended and Restated Memorandum and Articles of Association of Global Indemnity Limited (incorporated by reference to Exhibit 3.3 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
4.1	Specimen Share Certificate (evidencing the common shares of Global Indemnity Limited)(incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
4.2	Indenture, dated as of August 12, 2015, by and between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated August 12, 2015)(File No. 001-34809)).
4.3	First Supplemental Indenture, dated November 7, 2016, among Global Indemnity Limited, Global Indemnity plc and Wells Fargo Bank, National Association, as Trustee, to the Indenture dated as of August 12, 2015 (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
4.4	Officers' Certificate, dated August 12, 2015 (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K dated August 12, 2015 (File No. 001-34809)).
4.5+	Form of 7.75% Subordinated Notes due 2045.
4.6	Second Supplemental Indenture, dated as of March 23, 2017, among Global Indemnity Limited, Wells Fargo Bank, National Association, and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K dated March 23, 2017 (File No. 001-34809)).
4.7+	Form of 7.875% Subordinated Notes due 2047.
4.8	Third Supplemental Indenture, dated as of April 25, 2018, by and among the Company, Wells Fargo Bank, National Association, and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated April 25, 2018 (File No. 001-34809)).
10.1*	Management Agreement, dated as of September 5, 2003, by and among United National Group, Ltd., Fox Paine & Company, LLC and The AMC Group, L.P. with related Indemnity Letter (incorporated by reference to Exhibit 10.3 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-108857) filed on October 28, 2003)(File No. 000-50511)).

<u>Exhibit No.</u>	<u>Description</u>
10.2*	Amendment No. 1 to the Management Agreement, dated as of May 25, 2006, by and among United America Indemnity, Ltd., Fox Paine & Company, LLC and Wind River Holdings, L.P., formerly The AMC Group, L.P. (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on June 1, 2006) (File No. 000-50511)).
10.3*	Letter Agreement, dated March 16, 2011, assigning the 2003 Management Agreement (as amended) and related indemnity agreement, by and among United America Indemnity, Ltd., Global Indemnity (Cayman) Ltd. and Fox Paine & Company, LLC (incorporated by reference to Exhibit 10.26 of the Company's annual report on Form 10-K for the fiscal year ended December 31, 2010 (File No. 000-34809)).
10.4*	Guaranties, dated March 15, 2011, provided by each of United America Indemnity, Ltd., Global Indemnity Reinsurance Company, Ltd., and Global Indemnity Group, Inc., in each case in favor of Fox Paine & Company, LLC, relating to the obligations of Global Indemnity (Cayman) Ltd. under the Letter Agreement, dated March 15, 2011 (incorporated by reference to Exhibit 10.27 of the Company's annual report on Form 10-K for the fiscal year ended December 31, 2010 (File No. 000-34809)).
10.5*	Amendment No. 3 to the Management Agreement, dated as of April 10, 2011, by and among Global Indemnity (Cayman) Ltd. and Fox Paine & Company, LLC (incorporated by reference to Exhibit 10.5 of the Company's annual report on Form 10-K for the fiscal year ended December 31, 2012 (File No. 001-34809)).
10.6*	Amended and Restated Management Agreement, dated as of October 31, 2013, by and among Global Indemnity (Cayman) Ltd. and Fox Paine & Company, LLC (incorporated by reference to Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2013 (File No. 001-34809)).
10.7*	Confirmation Letter, dated as of November 7, 2016, between Global Indemnity Limited, Global Indemnity plc, Global Indemnity (Cayman) Limited and Fox Paine & Company, LLC (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.8*	Reaffirmation Agreements, dated as of October 31, 2013, provided by each of United America Indemnity, Ltd., Global Indemnity Reinsurance Company, Ltd., and Global Indemnity Group, Inc. reaffirming the March 15, 2011 Guaranty Agreements (incorporated by reference to Exhibit 10.2 of the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2013 (File No. 001-34809)).
10.9*	Reaffirmation Agreement, dated as of November 7, 2016, by Global Indemnity Group, Inc. (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.10*	Reaffirmation Agreement, dated as of November 7, 2016, by Global Indemnity Reinsurance Company, Ltd. (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.11*	Amendment No. 1 and the Global Indemnity plc Share Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K dated May 28, 2015 (File No. 001-34809)).
10.12*	Global Indemnity Limited Share Incentive Plan, as amended and restated and effective as of November 7, 2016 (incorporated by reference to Exhibit 10.15 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.13*	Global Indemnity Limited 2018 Share Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company's current Report on Form 8-K dated June 14, 2018 (File No. 001-34809)).
10.14*	Deed Poll of Assumption for United America Indemnity, Ltd. Annual Incentive Award Program by Global Indemnity plc, dated July 2, 2010 (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K12B dated July 2, 2010 (File No. 001-34809)).
10.15*	Global Indemnity Limited Annual Incentive Awards Program, as amended and restated and effective as of November 7, 2016 (incorporated by reference to Exhibit 10.16 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.18*	Amended and Restated Shareholders Agreement, dated July 2, 2010, by and among Global Indemnity plc (as successor to United America Indemnity, Ltd.) and the signatories thereto (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K12B dated July 2, 2010 (File No. 001-34809)).
10.20*	Assignment and Assumption Agreement relating to the Amended and Restated Shareholders Agreement, dated July 2, 2010 (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K12B dated July 2, 2010 (File No. 001-34809)).

<u>Exhibit No.</u>	<u>Description</u>
10.21*	Amendment to the Amended and Restated Shareholders Agreement, dated as of October 31, 2013, by and among Global Indemnity plc and the signatories thereto (incorporated by reference to Exhibit 10.3 of the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2013 (File No. 001-34809)).
10.22*	Assignment and Assumption Agreement, dated as of November 7, 2016, between Global Indemnity Limited and Global Indemnity plc (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.23*	Indemnification Agreement between United America Indemnity, Ltd. and Fox Paine Capital Fund II International L.P., dated July 2, 2010 (incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K12b dated July 2, 2010 (File No. 001-34809)).
10.24*	Assignment and Assumption Agreement, dated as of November 7, 2016, between Global Indemnity Limited, Global Indemnity plc and Fox Paine Capital Fund II International L.P. (incorporated by reference to Exhibit 10.13 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.25*	Form of Indemnification Agreement between United America Indemnity, Ltd. and certain directors and officers of Global Indemnity plc, dated July 2, 2010 (incorporated by reference to Exhibit 10.9 of the Company's Current Report on form 8-K12B dated July 2, 2010 (File No. 001-34809)).
10.26*	Form of Assignment and Assumption Agreement, dated as of , 2016, between Global Indemnity Limited, Global Indemnity plc, United America Indemnity, Ltd. and certain directors and officers of who may become a party thereto (incorporated by reference to Exhibit 10.14 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.27*	Executive Employment Agreement, dated as of December 8, 2009, between United America Indemnity, Ltd. and Thomas M. McGeehan (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (File No. 000-50511)).
10.28*	Amendment to Executive Employment Agreement with Thomas M. McGeehan, dated November 7, 2016 (incorporated by reference to exhibit 10.10 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.29*	Cynthia Valko Chief Executive Agreement (incorporated by reference to exhibit 10.41 of the Company's Annual Report on Form 10-K dated March 9, 2018 (File No. 001-34809)).
10.30*	Executive Employment Term Sheet with Stephen Green, dated February 18, 2015 (incorporated by reference to exhibit 10.20 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (File No. 001-34809)).
10.31*	Amendment to the Executive Employment Term Sheet with Stephen Green, dated November 7, 2016 (incorporated by reference to Exhibit 10.9 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.32*	Amendment to the Executive Employment Agreement with Stephen Green, dated August 8, 2017 (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (File No. 001-34809)).
10.36	Redemption Agreement, dated October 29, 2015, by and between Global Indemnity plc and the parties listed on Annex A thereto (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K dated October 29, 2015)(File No. 001-34809)).
10.37	Amended and Restated Additional Redemption Agreement, dated as of November 7, 2016, between Global Indemnity Limited, Global Indemnity plc and other parties listed therein (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.38	Assignment and Assumption Agreement, dated as of November 7, 2016, among Global Indemnity Limited, Global Indemnity plc, Global Indemnity Group, Inc., American Bankers Insurance Group, Inc. and Assurant, Inc. (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8K-12B dated November 7, 2016 (File No. 001-34809)).
10.39	Deed Poll, dated as of November 7, 2016, by Global Indemnity Limited (incorporated by reference to Exhibit 10.12 of the Company's Current Report on Form 8-K12B dated November 7, 2016 (File No. 001-34809)).
10.40	Institutional Services Customer Agreement dated as of December 12, 2016 (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-34809)).

<u>Exhibit No.</u>	<u>Description</u>
10.41	Confidentiality Agreement between Fox Paine & Company, LLC and Global Indemnity Limited, dated September 17, 2017 (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (File No. 001-34809)).
21.1+	List of Subsidiaries.
23.1+	Consent of Independent Registered Public Accounting Firm.
31.1+	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Chief Financial Officer 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's Annual Report on Form 10-K for the Year Ended December 31, 2019 formatted in XBRL: (i) Consolidated Balance Sheets for the years ended December 31, 2019 and 2018; (ii) Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2019, 2018 and 2017; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017; (vi) Notes to Consolidated Financial Statements; and (vii) Financial Statement Schedules.

+ Filed or furnished herewith.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15 (d) of the Securities Exchange Act of 1934, Global Indemnity has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GLOBAL INDEMNITY LIMITED

By: /s/ Cynthia Y. Valko
Name: *Cynthia Y. Valko*
Title: *Chief Executive Officer*
Date: *March 6, 2020*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated below on March 6, 2020.

<u>SIGNATURE</u>	<u>TITLE</u>
<u> /s/ Saul A. Fox </u> Saul A. Fox	Chairman and Director
<u> /s/ Cynthia Y. Valko </u> Cynthia Y. Valko	Chief Executive Officer (Principal Executive Officer) and Director
<u> /s/ Thomas M. McGeehan </u> Thomas M. McGeehan	Chief Financial Officer (Principal Financial and Accounting Officer)
<u> /s/ Seth J. Gersch </u> Seth J. Gersch	Director
<u> /s/ Michele Colucci </u> Michele Colucci	Director
<u> /s/ Bruce Lederman </u> Bruce Lederman	Director
<u> /s/ Joseph W. Brown </u> Joseph W. Brown	Director
<u> /s/ James D. Wehr </u> James D. Wehr	Director
<u> /s/ Jason B. Hurwitz </u> Jason B. Hurwitz	Director

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GLOBAL INDEMNITY LIMITED

**SCHEDULE I—SUMMARY OF INVESTMENTS—OTHER THAN INVESTMENTS
IN RELATED PARTIES**

(In thousands)

	As of December 31, 2019		
	Cost *	Value	Amount Included in the Balance Sheet
Type of Investment:			
Fixed maturities:			
United States government and government agencies and authorities	\$ 153,906	\$ 156,689	\$ 156,689
States, municipalities, and political subdivisions	63,256	63,838	63,838
Mortgage-backed and asset-backed securities	677,412	685,015	685,015
Public utilities	22,937	23,724	23,724
All other corporate bonds	314,057	323,893	323,893
Total fixed maturities	1,231,568	1,253,159	1,253,159
Equity securities:			
Public utilities	4,096	4,096	4,096
Industrial and miscellaneous	259,008	259,008	259,008
Total equity securities	263,104	263,104	263,104
Other long-term investments	47,279	47,279	47,279
Total investments	\$1,541,951	\$1,563,542	\$1,563,542

* Original cost of fixed maturities adjusted for amortization of premiums and accretion of discounts; original cost of equity securities and other long-term investments adjusted for income or loss earned on investments in accordance with equity method of accounting. All amounts are shown net of impairment losses.

GLOBAL INDEMNITY LIMITED
SCHEDULE II—Condensed Financial Information of Registrant
(Parent Only)
Balance Sheets
(Dollars in thousands, except share data)

	Years Ended December 31,	
	2019	2018
ASSETS		
Fixed maturities	\$ 30,938	\$ 37,484
Other invested assets	13,530	17,893
Total investments	44,468	55,377
Cash and cash equivalents	977	2,221
Equity in unconsolidated subsidiaries (1)	1,218,491	1,105,032
Due from affiliates (1)	—	584
Other assets	9,394	8,461
Total assets	\$1,273,330	\$1,171,675
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Debt	\$ —	\$ —
Due to affiliates (1)	3,612	—
Intercompany notes payable (1)	520,498	520,498
Interest payable—affiliates (1)	20,343	19,499
Interest payable	—	—
Other liabilities	2,068	2,619
Total liabilities	546,521	542,616
Commitments and contingencies	—	—
Shareholders' equity:		
Ordinary shares, \$0.0001 par value, 900,000,000 ordinary shares authorized; A ordinary shares issued: 10,282,277 and 10,171,954, respectively; A ordinary shares outstanding: 10,167,056 and 10,095,312, respectively; B ordinary shares issued and outstanding: 4,133,366 and 4,133,366, respectively	2	2
Preferred shares, \$0.0001 par value, 100,000,000 shares authorized, none issued and outstanding	—	—
Additional paid-in capital	442,403	438,182
Accumulated other comprehensive income (loss), net of tax	17,609	(21,231)
Retained earnings	270,768	215,132
A ordinary shares in treasury, at cost: 115,221 and 76,642 shares, respectively	(3,973)	(3,026)
Total shareholders' equity	726,809	629,059
Total liabilities and shareholders' equity	\$1,273,330	\$1,171,675

(1) This item has been eliminated in the Company's Consolidated Financial Statements.

See Notes to Consolidated Financial Statements included in Item 8.

GLOBAL INDEMNITY LIMITED

SCHEDULE II—Condensed Financial Information of Registrant (continued)

(Parent Only)

Statement of Operations and Comprehensive Income

(Dollars in thousands)

	Years Ended December 31,		
	2019	2018	2017
Revenues:			
Net investment income	\$ 2,295	\$ 658	\$ 361
Net realized investment gains (losses)	574	(154)	(368)
Other income (loss)	—	—	6
Total revenues	2,869	504	(1)
Expenses:			
Intercompany interest expense (1)	844	7,034	2,477
Interest expense	264	5,960	15,872
Other expenses	6,692	11,317	16,807
Loss before equity in earnings of unconsolidated subsidiaries	(4,931)	(23,807)	(35,157)
Equity in earnings of unconsolidated subsidiaries (1)	74,946	(32,889)	25,606
Net income (loss)	70,015	(56,696)	(9,551)
Other comprehensive income (loss), net of tax:			
Unrealized holding gains (losses)	872	(499)	(216)
Equity in other comprehensive income (loss) of unconsolidated subsidiaries (1)	38,520	(19,841)	9,449
Reclassification adjustment for (gains) losses included in net income (loss)	(552)	154	368
Other comprehensive income (loss), net of tax	38,840	(20,186)	9,601
Comprehensive income (loss), net of tax	\$108,855	\$(76,882)	\$ 50

(1) This item has been eliminated in the Company's Consolidated Financial Statements.

See Notes to Consolidated Financial Statements included in Item 8.

GLOBAL INDEMNITY LIMITED
SCHEDULE II—Condensed Financial Information of Registrant—(continued)
(Parent Only)
Statements of Cash Flows
(Dollars in thousands)

	<u>Years Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net cash provided by (used in) operating activities	\$ 2,632	\$ (20,178)	\$ (24,927)
Cash flows from investing activities:			
Proceeds from sale of fixed maturities	48,393	32,980	12,389
Proceeds from sale of equity securities	10,900	—	—
Proceeds from maturity of fixed maturities	—	5,431	10,000
Proceeds from other invested assets	4,363	1,500	—
Purchase of fixed maturities	(10,548)	(33,327)	(32,044)
Purchases of equity securities	(41,815)	—	—
Net cash provided by (used in) investing activities	<u>11,293</u>	<u>6,584</u>	<u>(9,655)</u>
Cash flows from financing activities:			
Redemption of ordinary shares	—	—	(83,015)
Proceeds from issuance of subordinated notes	—	—	130,000
Debt issuance cost	—	—	(4,246)
Proceeds from notes to affiliates	—	230,000	—
Debt restructuring	—	(230,000)	—
Dividends paid to shareholders	(14,222)	(14,027)	—
Dividends from subsidiaries	—	20,620	100,000
Capital contribution	—	—	(96,000)
Purchase of A ordinary shares	(947)	(1,867)	(1,159)
Net cash provided by (used in) financing activities	<u>(15,169)</u>	<u>4,726</u>	<u>45,580</u>
Net change in cash and equivalents	(1,244)	(8,868)	10,998
Cash and cash equivalents at beginning of period	2,221	11,089	91
Cash and cash equivalents at end of period	<u>\$ 977</u>	<u>\$ 2,221</u>	<u>\$ 11,089</u>

See Notes to Consolidated Financial Statements included in Item 8.

GLOBAL INDEMNITY LIMITED
SCHEDULE III—SUPPLEMENTARY INSURANCE INFORMATION

(Dollars in thousands)

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims And Loss Expenses	Unearned Premiums	Other Policy and Benefits Payable
At December 31, 2019:				
Commercial Specialty	\$27,415	\$390,148	\$134,433	\$—
Specialty Property	18,249	50,334	81,922	—
Farm, Ranch, & Stable	9,612	45,601	44,048	—
Reinsurance Operations	15,401	144,098	54,458	—
At December 31, 2018:				
Commercial Specialty	\$23,059	\$417,175	\$110,704	\$—
Specialty Property	18,161	82,722	88,809	—
Farm, Ranch, & Stable	8,897	50,923	40,265	—
Reinsurance Operations	11,559	129,211	42,134	—
At December 31, 2017:				
Commercial Specialty	\$21,222	\$419,042	\$102,191	\$—
Specialty Property	18,668	68,900	99,631	—
Farm, Ranch, & Stable	8,895	51,355	38,073	—
Reinsurance Operations	12,862	95,367	45,502	—

Segment	Premium Revenue	Benefits, Claims, Losses And Settlement Expenses	Amortization of Deferred Policy Acquisition Costs	Net Written Premium
For the year ended December 31, 2019:				
Commercial Specialty	\$237,758	\$108,911	\$ 56,339	\$258,719
Specialty Property	140,232	75,426	37,811	140,670
Farm, Ranch, & Stable	71,312	42,700	18,307	74,416
Reinsurance Operations	75,960	48,365	19,872	88,284
Total	<u>\$525,262</u>	<u>\$275,402</u>	<u>\$132,329</u>	<u>\$562,089</u>
For the year ended December 31, 2018:				
Commercial Specialty	\$ 218,357	\$ 114,476	\$ 49,715	\$ 226,827
Specialty Property	128,768	122,709	37,854	127,470
Farm, Ranch, & Stable	69,248	41,180	17,536	70,217
Reinsurance Operations	51,402	56,260	12,883	48,033
Total	<u>\$ 467,775</u>	<u>\$ 334,625</u>	<u>\$ 117,988</u>	<u>\$ 472,547</u>
For the year ended December 31, 2017:				
Commercial Specialty	\$ 178,798	\$ 62,834	\$ 42,008	\$ 186,448
Specialty Property	149,786	112,055	38,893	144,271
Farm, Ranch, & Stable	66,197	53,743	17,723	65,528
Reinsurance Operations	43,253	40,580	10,340	53,933
Total	<u>\$ 438,034</u>	<u>\$ 269,212</u>	<u>\$ 108,964</u>	<u>\$ 450,180</u>

<u>Unallocated Corporate Items</u>	<u>Net Investment Income</u>	<u>Corporate and Other Operating Expenses</u>
For the year ended December 31, 2019	\$42,052	\$18,888
For the year ended December 31, 2018	46,342	29,766
For the year ended December 31, 2017	39,323	25,714

GLOBAL INDEMNITY LIMITED

SCHEDULE IV—REINSURANCE

EARNED PREMIUMS

(Dollars in thousands)

	<u>Direct Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed from Other Companies</u>	<u>Net Amount</u>	<u>Percentage of Amount Assumed to Net</u>
For the year ended December 31, 2019:					
Property & Liability Insurance	\$527,018	\$78,649	\$76,893	\$525,262	14.6%
For the year ended December 31, 2018:					
Property & Liability Insurance	\$483,229	\$83,610	\$68,156	\$467,775	14.6%
For the year ended December 31, 2017:					
Property & Liability Insurance	\$440,109	\$79,886	\$77,811	\$438,034	17.8%

GLOBAL INDEMNITY LIMITED
SCHEDULE V—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(Dollars in thousands)

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged (Credited) to Costs and Expenses</u>	<u>Charged (Credited) to Other Accounts</u>	<u>Other Deductions</u>	<u>Balance at End of Period</u>
For the year ended December 31, 2019:					
<i>Investment asset valuation reserves:</i>					
Mortgage loans	\$ —	\$ —	\$—	\$—	\$ —
Real estate	—	—	—	—	—
<i>Allowance for doubtful accounts:</i>					
Premiums, accounts and notes receivable	\$2,272	\$ 482	\$—	\$—	\$2,754
Deferred tax asset valuation allowance	—	—	—	—	—
Reinsurance receivables	8,040	952	—	—	8,992
For the year ended December 31, 2018:					
<i>Investment asset valuation reserves:</i>					
Mortgage loans	\$ —	\$ —	\$—	\$—	\$ —
Real estate	—	—	—	—	—
<i>Allowance for doubtful accounts:</i>					
Premiums, accounts and notes receivable	\$2,179	\$ 93	\$—	\$—	\$2,272
Deferred tax asset valuation allowance	—	—	—	—	—
Reinsurance receivables	8,040	—	—	—	8,040
For the year ended December 31, 2017:					
<i>Investment asset valuation reserves:</i>					
Mortgage loans	\$ —	\$ —	\$—	\$—	\$ —
Real estate	—	—	—	—	—
<i>Allowance for doubtful accounts:</i>					
Premiums, accounts and notes receivable	\$1,928	\$ 251	\$—	\$—	\$2,179
Deferred tax asset valuation allowance	—	—	—	—	—
Reinsurance receivables	8,040	—	—	—	8,040

GLOBAL INDEMNITY LIMITED

SCHEDULE VI—SUPPLEMENTARY INFORMATION FOR PROPERTY CASUALTY UNDERWRITERS

(Dollars in thousands)

	<u>Deferred Policy Acquisition Costs</u>	<u>Reserves for Unpaid Claims and Claim Adjustment Expenses</u>	<u>Discount If Any Deducted</u>	<u>Unearned Premiums</u>
<i>Consolidated Property & Casualty Entities:</i>				
As of December 31, 2019	\$70,677	\$630,181	\$ 400	\$314,861
As of December 31, 2018	61,676	680,031	800	281,912
As of December 31, 2017	61,647	634,664	1,200	285,397

	<u>Earned Premiums</u>	<u>Net Investment Income</u>	<u>Claims and Claim Adjustment Expense Incurred Related To Current Year</u>	<u>Prior Year</u>	<u>Amortization Of Deferred Policy Acquisition Costs</u>	<u>Paid Claims and Claim Adjustment Expenses</u>	<u>Premiums Written</u>
<i>Consolidated Property & Casualty Entities:</i>							
For the year ended December 31, 2019	\$525,262	\$42,052	\$308,211	\$(32,809)	\$132,329	\$292,183	\$562,089
For the year ended December 31, 2018	467,775	46,342	363,423	(28,798)	117,988	301,357	472,547
For the year ended December 31, 2017	438,034	39,323	323,112	(53,900)	108,964	271,756	450,180

Note: All of the Company's insurance subsidiaries are 100% owned and consolidated.

Independent Auditors

Ernst & Young
One Commerce Square
Suite 700
2005 Market Street
Philadelphia, PA 19103

Registrar & Transfer Agent

Computershare
250 Royall Street
Canton, MA 02021
781-575-3120
800-962-4284

Stock Trading

A Ordinary Shares of
Global Indemnity Limited on NASDAQ
under the ticker symbol "GBLI"

Annual General Meeting

The 2020 Annual Meeting is
scheduled for 11:00 a.m. Cayman Islands Time
Wednesday, June 17, 2020 at
190 Elgin Avenue
George Town, Grand Cayman, KY1-9001
Cayman Islands

Forward-Looking Statements Disclosure

The forward-looking statements contained in this report [1] involve a number of risks and uncertainties. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, statements regarding Global Indemnity's strategies, areas of focus, and future performance, the Company's intent to reduce catastrophe exposure and methods of doing so, as well as Global Indemnity's expectation with regards to improved performance and decreased volatility in future periods.

Risks that contribute to the uncertain nature of the forward-looking statements include, among others, Global Indemnity's ability to execute its strategies, changes in business and economic conditions, domestic and international disasters, as well as other risks listed or described from time to time in the Company's filings with the Securities and Exchange Commission. Shareholders are cautioned that Global Indemnity's actual results may be materially different from the estimates expressed in, or implied, or projected by, the forward-looking statements. These statements are based on estimates and information available to us at the time of this report. All forward-looking statements in this report are based on information available to Global Indemnity as of the date hereof. The foregoing review of factors that could cause actual financial or operating performance to differ materially from expectations is not exhaustive. Please see Global Indemnity's filings with the Securities and Exchange Commission for a discussion of risks and uncertainties which could impact the Company and for a more detailed explication regarding forward-looking statements. Global Indemnity does not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

[1] Disseminated pursuant to the "safe harbor" provisions of Section 21E of the Security Exchange Act of 1934.



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