GLOBAL INDEMNITY REINSURANCE COMPANY, LTD.

Consolidated Financial Statements
For the Years Ended December 31, 2015 and 2014

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD.

Table of Contents

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Report of Independent Auditors

To the Board of Directors
Global Indemnity Reinsurance Company, Ltd.

We have audited the accompanying consolidated financial statements of Global Indemnity Reinsurance Company, Ltd. and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Global Indemnity Reinsurance Company, Ltd. and subsidiaries at December 31, 2015, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Other matter

The financial statements of Global Indemnity Reinsurance Company, Ltd. for the year ended December, 31 2014, were audited by another auditor who expressed an unmodified opinion on those statements on April 27, 2015.

Ernst & Young LLP

April 27, 2016

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD

Consolidated Balance Sheets

(Dollars in thousands)

ASSETS	December 31, 2015	December 31, 2014
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,304,949 and $1,052,185)	$ 1,303,194	$ 1,062,120
Equity securities:		
Available for sale, at fair value (cost: $100,157 and $99,297)	110,315	122,048
Other invested assets	33,376	33,663
Total investments	1,446,885	1,217,831
Cash and cash equivalents	63,223	58,178
Restricted cash (Note 2)	-	113,696
Premiums receivable, net	89,246	56,586
Reinsurance receivables, net	115,594	125,718
Funds held by ceding insurers	16,037	25,176
Accrued investment income	8,330	6,274
Federal income taxes receivable	4,815	3,142
Deferred federal income taxes	34,688	20,250
Deferred acquisition costs	56,517	25,238
Intangible assets	23,607	17,636
Goodwill	6,521	4,820
Prepaid reinsurance premiums	44,362	4,725
Receivable for securities sold	172	60
Due from affiliates	-	2,345
Notes receivable from affiliates	-	211,497
Other assets	41,300	26,810
Total assets	$ 1,951,297	$ 1,919,982
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 680,046	$ 675,472
Unearned premiums	286,286	120,815
Due to affiliates	3,718	-
Amounts held for the accounts of others	5,435	4,555
Ceded balances payable	4,592	2,800
Contingent commissions	11,069	12,985
Margin borrowing facility	75,646	72,646
Other liabilities	41,878	28,335
Total liabilities	1,108,670	917,608
Shareholder's equity:		
Common shares, $1 par value, 120,000 shares authorized, issued, and outstanding	120	120
Additional paid-in capital	563,500	463,500
Accumulated other comprehensive income, net of taxes	(285,912)	22,787
Retained earnings	564,919	515,967
Total shareholder's equity	842,627	1,002,374
Total liabilities and shareholder's equity	$ 1,951,297	$ 1,919,982

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD

Consolidated Statements of Operations
(Dollars in thousands)

	Years Ended December 31,	
	2015	**2014**
Revenues:		
Gross premiums written	$ 590,233	$ 291,253
Net premiums written	$ 501,244	$ 273,181
Net premiums earned	$ 504,143	$ 268,519
Net investment income	32,905	27,865
Net realized investment gains:		
Other than temporary impairment losses on investments	(7,335)	(470)
Other net realized investment gains	3,767	37,969
Total net realized investment gains (losses)	(3,568)	37,499
Other income	3,440	597
Total revenues	536,920	334,480
Losses and Expenses:		
Net losses and loss adjustment expenses	275,368	137,561
Acquisition costs and other underwriting expenses	201,303	109,619
Corporate and other operating expenses	19,202	9,945
Interest expense	837	804
Income before income taxes	40,210	76,551
Income tax expense (benefit)	(8,742)	8,351
Net income	$ 48,952	$ 68,200

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Years Ended December 31,	
	2015	**2014**
Net income	$ 48,952	$ 68,200
Other comprehensive income (loss), net of tax:		
Reduction of notes receivable from affilates	(290,497)	-
Unrealized holding gains (losses)	(15,873)	7,825
Portion of other than temporary impairment losses recognized in other comprehensive income (loss)	(4)	(4)
Reclassification adjustment for gains included in net income	(2,465)	(38,140)
Unrealized foreign currency translation gains (losses)	140	(341)
Other comprehensive income (loss), net of tax	(308,699)	(30,660)
Comprehensive income (loss), net of tax	$ (259,747)	$ 37,540

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD

Consolidated Statements of Changes in Shareholder's Equity

(In thousands)

	Years Ended December 31, 2015	2014
Common shares:		
Balance at beginning and end of period	$ 120	$ 120
Additional paid-in capital:		
Balance at beginning of period	$ 463,500	$ 463,500
Capital contribution	100,000	-
Balance at end of period	$ 563,500	$ 463,500
Accumulated other comprehensive income, net of deferred income tax:		
Balance at beginning of period	$ 22,787	$ 53,447
Other comprehensive income (loss):		
Reduction of notes receivable from affilates	(290,497)	-
Change in unrealized holding losses	(18,332)	(30,315)
Change in other than temporary impairment losses recognized in other comprehensive income (loss)	(10)	(4)
Unrealized foreign currency translation gains (losses)	140	(341)
Other comprehensive income (loss), net of tax	(308,699)	(30,660)
Balance at end of period	$ (285,912)	$ 22,787
Retained earnings:		
Balance at beginning of period	$ 515,967	$ 447,767
Net income	48,952	68,200
Balance at end of period	$ 564,919	$ 515,967
Total shareholder's equity	$ 842,627	$ 1,002,374

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Years Ended December 31	
	2015	**2014**
Cash flows from operating activities:		
Net income	$ 48,952	$ 68,200
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Amortization and depreciation	5,252	3,426
Amortization of the value of business added	25,500	-
Deferred federal income taxes	(7,203)	(828)
Amortization of bond premium and discount, net	12,937	8,599
Net realized investment (gains) losses	3,568	(37,499)
Equity in the earnings of a partnership	(2,533)	-
Changes in:		
Premiums receivable, net	25,324	(6,698)
Reinsurance receivables, net	23,966	72,169
Funds held by ceding insurers	9,147	(6,514)
Unpaid losses and loss adjustment expenses	(84,915)	(103,994)
Unearned premiums	(6,763)	4,186
Ceded balances payable	(11,427)	(2,377)
Other assets and liabilities, net	(11,858)	(4,137)
Due from affiliates	6,063	598
Contingent commissions	(6,264)	308
Federal income tax receivable/payable	(1,673)	(4,738)
Deferred acquisition costs	(31,279)	(3,061)
Prepaid reinsurance premiums	3,869	474
Net cash provided by (used for) operating activities	663	(11,886)
Cash flows from investing activities:		
Cash released from escrow for purchase of American Reliable	113,696	-
Acquisition of business, net of cash acquired	(92,336)	-
Cash deposited in escrow for purchase of American Reliable	-	(113,696)
Proceeds from sale of fixed maturities	395,127	470,551
Proceeds from sale of equity securities	41,263	191,765
Proceeds from maturity of fixed maturities	133,553	102,441
Proceeds from sale of other invested assets	5,959	12
Amount paid in connection with derivatives	(6,604)	(20,550)
Purchases of fixed maturities	(568,275)	(498,552)
Purchases of equity securities	(38,451)	(45,077)
Purchases of other invested assets	(3,550)	(30,120)
Loans to affiliates	(79,000)	(54,999)
Net cash provided by (used for) investing activities	(98,618)	1,775
Cash flows from financing activities:		
Capital contribution	100,000	-
Borrowings / (repayments) under margin borrowing facility	3,000	(27,354)
Net cash provided by (used for) financing activities	103,000	(27,354)
Net change in cash and cash equivalents	5,045	(37,465)
Cash and cash equivalents at beginning of period	58,178	95,643
Cash and cash equivalents at end of period	$ 63,223	$ 58,178

See accompanying notes to consolidated financial statements.

1. Principles of Consolidation and Basis of Presentation

Global Indemnity Reinsurance Company, Ltd. ("Global Indemnity Reinsurance" or the "Company") was formed on September 30, 2006 through the amalgamation of Wind River Insurance Company (Barbados), Ltd. and Global Indemnity Reinsurance Company, Ltd, formerly known as Wind River Insurance Company, Ltd., into a single Bermuda domiciled company. Global Indemnity Reinsurance was incorporated under the laws of Bermuda on that date. On May 28, 2010, all shares of Global Indemnity Reinsurance were transferred from United America Indemnity, Ltd. ("UAIL") to Global Indemnity (Cayman) Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands. Global Indemnity (Cayman) Limited is a wholly owned subsidiary of UAIL. UAIL's A ordinary shares were publicly traded on the NASDAQ Global Select Market (trading symbol: INDM) until July, 2010 when UAIL became a wholly owned subsidiary of Global Indemnity plc ("Global Indemnity" or the "Parent Company"), an exempted company incorporated with limited liability under the laws of Ireland, through an exchange of shares. Global Indemnity's A ordinary shares are publicly traded on the NASDAQ Global Select Market (trading symbol: GBLI). Global Indemnity Reinsurance is registered as a Class 3B insurer by the Bermuda Monetary Authority under the Bermuda Insurance Act 1978 and related regulations, as amended.

Starting in the 1st quarter of 2015, the Company manages its business through three reportable business segments: Commercial Lines, Personal Lines, and Reinsurance Operations. The Personal Lines and Commercial Lines segments comprise the Company's U.S. Insurance Operations, which currently includes the operations of United National Insurance Company, Diamond State Insurance Company, United National Specialty 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, J.H. Ferguson & Associates, LLC, and U.S. Insurance Services, Inc. Reinsurance Operations includes the operations of Global Indemnity Reinsurance Company, Ltd.

The Company offers specialty property and casualty insurance products in the excess and surplus lines marketplace. The Company manages its Commercial Lines by differentiating them into three product classifications: 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; 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; and 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. These product classifications comprise the Company's Commercial Lines business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage. The Company's Personal Lines segment, via the American Reliable Insurance Company product classification, offers specialty personal lines and agricultural coverage through general and specialty agents with specific binding authority on an admitted basis and is managed in Scottsdale, AZ. Collectively, the Company's U.S. insurance subsidiaries are licensed in all 50 states and the District of Columbia. The Company's Reinsurance Operations consist solely of the operations of Global Indemnity Reinsurance Company, Ltd. and 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.

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

Certain other prior period amounts have been reclassified to conform to the current period presentation.

2. Summary of Significant Accounting Policies

Restricted Cash

At December 31, 2014, the Company had $113.7 million of cash in escrow to fund the acquisition of American Reliable Insurance Company (“American Reliable”) on January 1, 2015. The funds were released from escrow when the transaction settled on January 1, 2015. See Note 3 for further information on the acquisition of American Reliable.

Investments

The Company’s investments in fixed maturities and equity securities are classified as available for sale and are carried at their fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the Company's available for sale portfolio, excluding limited partnership interests, 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 available for sale investments, net of the effect of deferred income taxes, is reflected in accumulated other comprehensive income in shareholder’s equity and, accordingly, has no effect on net income other than for the credit loss component of impairments deemed to be other than temporary.

For investments in limited liability 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 shareholder’s 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 an investment in a limited partnership 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 partnerships is reflected in the statement of operations, and the adjusted cost basis approximates fair value.

The Company’s investments in other invested assets were valued at $33.4 million and $33.7 million as of December 31, 2015 and 2014, respectively. Both of 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.

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

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

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

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

For an analysis of other than temporary losses that were recorded for the years ended December 31, 2015 and 2014, please see Note 4 below.

Variable Interest Entities

The Company has variable interest in a Variable Interest Entity ('VIE") for which it is not the primary beneficiary and accounts for this VIE under the equity method since its ownership interest exceeds 3%. This partnership is deemed to be a VIE because the equity holders invest as passive limited partners and as a group lack power to direct the activities that most significantly impact the respective entity's economic performance. The VIE generates variability from investment portfolio performance and that variability is passed to the equity holders. For this VIE, the Company absorbs a portion, but not the majority of this variability, based on its proportional equity interest. The fair value of the non-consolidated VIE, in which the Company has a significant variable interest, was $32.6 million and $30.3 million as of December 31, 2015 and 2014, respectively. The Company's maximum exposure to loss was $52.6 million and $50.3 million as of December 31, 2015 and 2014, respectively. Maximum exposure to loss includes the fair value of the Company's investment in this VIE and its unfunded commitment to the VIE. The Company's investment in this VIE is included in other invested assets on the consolidated balance sheet with changes in fair value recorded in the statement of operations.

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, 2015, the Company had approximately $58.3 million 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 $1.6 million and $1.5 million as of December 31, 2015 and 2014, 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, 2015.

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, 2015.

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, 2015, there were no triggering events that occurred during the year that would result in an impairment of definite lived intangible assets.

See Note 7 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 statement of operations during the period in which the determination is made. The allowance for uncollectible reinsurance was $9.7 million and $9.4 million as of December 31, 2015 and 2014, 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 will 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, 2015 and 2014 was $86.2 million and $57.1 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 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.

For the years ended December 31, 2015 and 2014, the total premium deficiency charges were $0.2 million and $0.4 million, respectively, comprised solely of reductions to unamortized deferred acquisition costs within the commercial automobile lines in the Commercial Lines Segment. Based on the Company's analysis, the Company expensed acquisition cost as incurred for the remainder of 2014 and 2015 for the commercial automobile lines in the Commercial Lines Segment. As the charges were a reduction of unamortized deferred acquisition costs in each respective period, no premium deficiency reserve existed as of December 31, 2015 or 2014.

Derivative Instruments

The Company uses derivative instruments to manage its exposure to cash flow variability from interest rate risk. The derivative instruments are carried on the balance sheet at fair value and included in other assets or other liabilities. Changes in the fair value of the derivative instruments and the periodic net interest settlements under the derivative instruments are recognized as net realized investment gains on the consolidated statement 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 statement of cash flows.

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 the statement of operations during the period in which the determination is made.

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.

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.

Foreign Currency

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 investments is reflected in accumulated other comprehensive income in shareholder's equity; whereas, the 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. Net transaction gains, primarily comprised of re-measurement of known losses on claims to be paid in foreign currencies, were $0.3 million and $0.4 million for the years ended December 31, 2015 and 2014, respectively.

Other income

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. Acquisition

On January 1, 2015, Global Indemnity Group, Inc., a subsidiary of the Company, acquired 100% of the voting equity interest of American Reliable from American Bankers Insurance Group, Inc. by paying $113.7 million in cash and assuming $283.9 million of customary insurance related liabilities, obligations, and mandates. Per the American Reliable Stock Purchase Agreement ("American Reliable SPA"), the ultimate purchase price is subject to (i) accounting procedures that were performed in 2015 to determine GAAP book value and (ii) indemnification on future development on recorded loss and loss adjustment expenses as of December 31, 2014. In accordance with the American Reliable SPA, on the third calendar year following the calendar year of the closing, if loss and loss adjustment expenses for accident years 2014 and prior are lower than recorded unpaid loss and loss adjustment expenses as of December 31, 2014, Global Indemnity Group, Inc. will pay the variance to American Bankers Group, Inc. Conversely, if loss and loss adjustment expenses for accident years 2014 and prior exceed recorded unpaid loss and loss adjustment expenses as of December 31, 2014, American Bankers Group, Inc. will pay the variance to Global Indemnity Group, Inc. In accordance with a dispute resolution agreement between Global Indemnity Group, Inc. and American Bankers Group, Inc., any variance paid related to the loss indemnification will be subject to interest of 5% compounded semi-annually. The Company's current estimate of the purchase price, based on available financial information, is approximately $99.8 million.

The results of American Reliable's operations have been included in the Company's consolidated financial statements since the date of the acquisition on January 1, 2015.

The purchase of American Reliable expanded Global Indemnity's product offerings. American Reliable is a specialty company that distributes personal lines products written on an admitted basis that are unusual and harder to place. It complements Global Indemnity's existing US Insurance Operations that primarily distribute commercial lines products on an excess and surplus lines basis.

American Reliable is domiciled in Arizona and as such is subject to its state insurance department regulations.

For the year ended December 31, 2015, American Reliable had total revenues of $259.0 million and pre-tax loss of $4.2 million. These amounts are included in the Company's results of operations for the year ended December 31, 2015.

The following table presents the Company's unaudited pro forma consolidated results of operations for the years December 31, 2015 and 2014 as if the acquisition had occurred on January 1, 2014 instead of January 1, 2015.

	Pro Forma	
	Years Ended December 31,	
(Dollars in thousands except per share data)	**2015**	**2014**
Total Revenue	$ 536,920	$ 598,308
Net Income (Loss)	$ 54,347	$ 68,397

The pro forma results were calculated by applying the Company's accounting policies and adjusting the result of American Reliable to reflect (i) the impact of intercompany reinsurance with Global Indemnity Reinsurance, (ii) the impact on interest expense resulting from changes to the Company's capital structure in connection with the acquisition, (iii) the impact on investment income from the acquisition date adjustments to fair value of investments, (iv) the impact on underwriting expenses from the acquisition date adjustments to fair value of deferred acquisition costs and intangible assets, (v) the impact of excluding transaction costs related to the acquisition and (vi) the tax effects of the above adjustments.

The pro forma results do not include any anticipated cost synergies or other effects of the integration of American Reliable. Such pro forma amounts are not indicative of the results that actually would have occurred had the acquisition been completed on January 1, 2014, nor are they indicative of the future operating results of the combined company.

The Company has finalized its process of valuing the assets acquired and liabilities assumed. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of the acquisition as of December 31, 2015.

(Dollars in thousands)	**December 31, 2015**
ASSETS:	
Investments	$ 226,458
Cash and cash equivalents	21,360
Premiums receivables, net	26,102
Accounts receivable	11,311
Reinsurance receivables	13,842
Prepaid reinsurance premiums	43,506
Intangible assets	32,000
Deferred federal income taxes	915
Other assets	6,473
Total assets	381,967
LIABILITIES:	
Unearned premiums	172,234
Unpaid losses and loss adjustment expenses	89,489
Reinsurance balances payable	13,219
Contingent commissions	3,903
Other liabilities	5,026
Total liabilities	283,871
Estimated fair value of net assets acquired	98,096
Purchase price	99,797
Goodwill	$ 1,701

The transaction is being accounted for using the purchase method of accounting. The assets and liabilities acquired by the Company were adjusted to estimated fair value. The $1.7 million excess of cash and acquisition cost over the estimated fair value of assets acquired was recognized as goodwill. Under the purchase method of accounting, goodwill is not amortized but is tested for impairment at least annually.

Goodwill of $1.7 million, arising from the acquisition, consists largely of the synergies and economies of scales expected from combining the operations of Global Indemnity and American Reliable. The Company has determined that the goodwill of $1.7million will be assigned to the Personal Lines segment. There is no tax goodwill.

An identification and valuation of intangible assets was performed that resulted in the recognition of intangible assets of $32.0 million with values assigned as follows:

(Dollars in thousands) **Description**	**Useful Life**	**Amount**
State insurance licenses	Indefinite	$ 5,000
Value of business acquired	< 1 year	25,500
Agent relationships	10 years	900
Trade name	7 years	600
		$ 32,000

Intangible assets arising from the acquisition will be deductible for income tax purposes over 15 years.

The following table presents details of the Company's intangible assets arising from the American Reliable acquisition as of December 31, 2015:

(Dollars in thousands) Description	Useful Life	Cost	Accumulated Amortization	Net Value
State insurance licenses	Indefinite	$ 5,000	$ -	$ 5,000
Value of business acquired	< 1 year	25,500	25,500	0
Agent relationships	10 years	900	90	810
Trade name	7 years	600	86	514
		$ 32,000	$ 25,676	$ 6,324

Amortization related to the Company's definite lived intangible assets resulting from American Reliable acquisition was $25.7 million for the year ended December 31, 2015.

The Company expects that amortization expense for the next five years related to the American Reliable acquisition will be as follows:

(Dollars in thousands)	
2016	$ 176
2017	176
2018	176
2019	176
2020	176

The fair value, gross contractual amounts due, and contractual cash flows not expected to be collected of acquired receivables are as follows:

(Dollars in thousands)	Fair Value	Gross Contractual Amounts Due	Contractual cash flows not expected to be collected
Premium receivables	$ 26,102	$ 26,896	$ 794
Accounts receivable	11,311	11,311	-
Reinsurance receivables	13,842	13,842	-

In connection with the acquisition, the Company agreed to pay to Fox Paine & Company, LLC ("Fox Paine") an investment banking fee of 3% of the amount paid plus the additional capital required to operate American Reliable on a standalone basis and a $1.5 million investment advisory fee, which in the aggregate, totaled $6.5 million. This amount is included in corporate and other operating expenses on the Company's Consolidated Statements of Operations during the year ended December 31, 2015. As payment for these fees, 267,702 A ordinary shares of Global Indemnity were issued under the Global Indemnity plc Share Incentive Plan in May, 2015. These shares will be registered but cannot be sold until the earlier of five years or a change of control.

Additional costs, mainly professional fees, of $5.1 million were incurred in connection with the acquisition of American Reliable. Of this amount, $1.8 million and $3.3 million was recorded as corporate and other operating expenses on the Company's Consolidated Statements of Operations during the years ended December 31, 2015 and 2014, respectively.

During the year ended December 31, 2015, the Company paid approximately $1.6 million in employee compensation related cost, which were related to periods prior to the Acquisition. These costs were accrued by American Reliable and were included in the fair value of net assets acquired by Global Indemnity Group, Inc. on January 1, 2015.

4. Investments

The amortized cost and estimated fair value of investments were as follows as of December 31, 2015 and 2014:

(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, 2015					
Fixed maturities:					
U.S. treasury and agency obligations	$ 104,178	$ 1,140	$ (304)	$ 105,014	$ -
Obligations of states and political subdivisions	202,993	2,638	(391)	205,240	-
Mortgage-backed securities	157,753	2,113	(743)	159,123	-
Asset-backed securities	260,149	436	(1,410)	259,175	(9)
Commercial mortgage-backed securities	142,699	3	(2,312)	140,390	-
Corporate bonds	334,491	675	(3,055)	332,111	-
Foreign corporate bonds	102,686	194	(739)	102,141	-
Total fixed maturities	1,304,949	7,199	(8,954)	1,303,194	(9)
Common stock	100,157	16,118	(5,960)	110,315	-
Other invested assets	33,298	78	-	33,376	-
Total	$ 1,438,404	$ 23,395	$ (14,914)	$ 1,446,885	$ (9)

(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, 2014					
Fixed maturities:					
U.S. treasury and agency obligations	$ 74,569	$ 2,281	$ (81)	$ 76,769	$ -
Obligations of states and political subdivisions	158,347	3,556	(618)	161,285	-
Mortgage-backed securities	200,213	3,685	(764)	203,134	(4)
Asset-backed securities	137,828	684	(222)	138,290	(13)
Commercial mortgage-backed securities	122,236	18	(804)	121,450	-
Corporate bonds	281,907	2,509	(504)	283,912	-
Foreign corporate bonds	77,085	405	(210)	77,280	-
Total fixed maturities	1,052,185	13,138	(3,203)	1,062,120	(17)
Common stock	99,297	25,689	(2,938)	122,048	-
Other invested assets	33,174	489	-	33,663	-
Total	$ 1,184,656	$ 39,316	$ (6,141)	$ 1,217,831	$ (17)

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

Excluding U.S. treasuries and agency bonds, the Company did not hold any debt or equity investments in a single issuer that was in excess of 4% and 3% of shareholder's equity at December 31, 2015 or 2014, respectively.

The amortized cost and estimated fair value of the Company's fixed maturities portfolio classified as available for sale at December 31, 2015, 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	$ 107,010	$ 107,582
Due in one year through five years	593,596	592,751
Due in five years through ten years	37,947	38,016
Due in ten years through fifteen years	1,738	2,137
Due after fifteen years	4,057	4,020
Mortgage-backed securities	157,753	159,123
Asset-backed securities	260,149	259,175
Commercial mortgage-backed securities	142,699	140,390
Total	$ 1,304,949	$ 1,303,194

The following table contains an analysis of the Company's securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of December 31, 2015:

(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	$ 77,388	$ (304)	$ -	$ -	$ 77,388	$ (304)
Obligations of states and political subdivisions	46,468	(307)	7,732	(84)	54,200	(391)
Mortgage-backed securities	63,759	(743)	-	-	63,759	(743)
Asset-backed securities	201,271	(1,393)	4,843	(17)	206,114	(1,410)
Commercial mortgage-backed securities	117,563	(1,965)	21,577	(347)	139,140	(2,312)
Corporate bonds	208,696	(3,030)	2,120	(25)	210,816	(3,055)
Foreign corporate bonds	63,860	(697)	5,129	(42)	68,989	(739)
Total fixed maturities	779,005	(8,439)	41,401	(515)	820,406	(8,954)
Common stock	36,798	(5,960)	-	-	36,798	(5,960)
Total	$ 815,803	$ (14,399)	$ 41,401	$ (515)	$ 857,204	$ (14,914)

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

The following table contains an analysis of the Company's securities with gross unrealized losses, categorized by the period that the securities were in a continuous loss position as of December 31, 2014:

(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	$ 7,730	$ (7)	$ 3,343	$ (74)	$ 11,073	$ (81)
Obligations of states and political subdivisions	18,378	(235)	28,061	(383)	46,439	(618)
Mortgage-backed securities	2,818	(7)	51,203	(757)	54,021	(764)
Asset-backed securities	65,957	(202)	1,683	(20)	67,640	(222)
Commercial mortgage-backed securities	86,776	(482)	26,280	(322)	113,056	(804)
Corporate bonds	109,479	(475)	1,711	(29)	111,190	(504)
Foreign corporate bonds	49,395	(210)	-	-	49,395	(210)
Total fixed maturities	340,533	(1,618)	112,281	(1,585)	452,814	(3,203)
Common stock	20,002	(2,808)	1,577	(130)	21,579	(2,938)
Total	$ 360,535	$ (4,426)	$ 113,858	$ (1,715)	$ 474,393	$ (6,141)

(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, 2015 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, 2015, gross unrealized losses related to U.S. treasury and agency obligations were $0.304 million. All unrealized losses have been in an unrealized loss position for less than twelve months and are rated AA+ or better. Macroeconomic and market analysis is conducted in evaluating these securities. The analysis is driven by moderate interest rate anticipation, yield curve management, and security selection.

Obligations of states and political subdivisions – As of December 31, 2015, gross unrealized losses related to obligations of states and political subdivisions were $0.391 million. Of this amount, $0.084 million have been in an unrealized loss position for twelve months or greater and are rated A or better. 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, 2015, gross unrealized losses related to mortgage-backed securities were $0.743 million. All unrealized losses have been in an unrealized loss position for less than twelve months or greater and are rated investment grade. 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. The model first projects HPI at the national level, then at the zip-code level based on the historical relationship between the individual zip code HPI and the national HPI. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and current loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs. The model also includes the explicit treatment of silent second liens, utilization of loan modification history, and the application of roll rate adjustments.

Asset backed securities ("ABS") - As of December 31, 2015, gross unrealized losses related to asset backed securities were $1.410 million. Of this amount, $0.017 million have been in an unrealized loss position for twelve months or greater and are rated AAA. The weighted average credit enhancement for the Company's asset backed portfolio is 23.4. 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, 2015, gross unrealized losses related to the CMBS portfolio were $2.312 million. Of this amount, $0.347 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 35.6. 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. In the analysis, the focus is centered on stressing the significant variables that influence commercial loan defaults and collateral losses in CMBS deals. These variables include: (1) a projected drop in occupancies; (2) capitalization rates that vary by property type and are forecasted to return to more normalized levels as the capital markets repair and capital begins to flow again; and (3) property value stress testing using projected property performance and projected capitalization rates. Term risk is triggered if the projected debt service coverage rate falls below 1x. Balloon risk is triggered if a property's projected performance does not satisfy new, tighter mortgage standards.

Corporate bonds - As of December 31, 2015, gross unrealized losses related to corporate bonds were $3.055 million. Of this amount, $0.025 million have been in an unrealized loss position for twelve months or greater and are rated BBB or better. The analysis for this sector includes maintaining detailed financial models that include a projection of each issuer's future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, 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, 2015, gross unrealized losses related to foreign bonds were $0.739 million. Of this amount, $0.042 million have been in an unrealized loss position for twelve months or greater and are rated A. For this sector, 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.

Common stock – As of December 31, 2015, gross unrealized losses related to common stock were $5.960 million. All unrealized losses have been in an unrealized loss position for less than twelve months. To determine if an other than temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

The Company recorded the following other than temporary impairments ("OTTI") on its investment portfolio for the years ended December 31, 2015 and 2014:

	Years Ended December 31,	
(Dollars in thousands)	**2015**	**2014**
Fixed maturities:		
OTTI losses, gross	$ (24)	$ -
Portion of loss recognized in other comprehensive income (pre-tax)	-	-
Net impairment losses on fixed maturities recognized in earnings	(24)	-
Equity securities	(7,311)	(470)
Total	$ (7,335)	$ (470)

The following table is an analysis of the credit losses recognized in earnings on fixed maturities held by the Company as of December 31, 2015 and 2014 for which a portion of the OTTI loss was recognized in other comprehensive income (loss).

	Years Ended December 31,	
(Dollars in thousands)	**2015**	**2014**
Balance at beginning of period	$ 50	$ 54
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	(19)	(4)
Balance at end of period	$ 31	$ 50

Accumulated Other Comprehensive Income, Net of Tax

Accumulated other comprehensive income, net of tax, as of December 31, 2015 and 2014 was as follows:

(Dollars in thousands)	December 31, 2015	December 31, 2014
Net unrealized gains (losses) from:		
Notes receivable from affiliates	$ (290,497)	$ -
Fixed maturities	(1,755)	9,935
Common stock	10,158	22,751
Other	78	364
Deferred taxes	(3,896)	(10,263)
Accumulated other comprehensive income, net of tax	$ (285,912)	$ 22,787

The following tables present the changes in accumulated other comprehensive income, net of tax, by component for the years ended December 31, 2015 and 2014:

Year Ended December 31, 2015 (Dollars in thousands)	Unrealized Gains and Losses on Available for Sale Securities, Net of Tax	Notes Receivable from Affiliates	Foreign Currency Items, Net of Tax	Accumulated Other Comprehensive Income, Net of Tax
Beginning balance	$ 23,050	$ -	$ (263)	$ 22,787
Other comprehensive income (loss) before reclassification	(15,481)	(290,497)	(256)	(306,234)
Amounts reclassified from accumulated other comprehensive income (loss)	(2,862)	-	397	(2,465)
Other comprehensive income (loss)	(18,343)	(290,497)	141	(308,699)
Ending balance	$ 4,707	$ (290,497)	$ (122)	$ (285,912)

Year Ended December 31, 2014 (Dollars in thousands)	Unrealized Gains and Losses on Available for Sale Securities, Net of Tax	Foreign Currency Items, Net of Tax	Accumulated Other Comprehensive Income, Net of Tax
Beginning balance	$ 53,369	$ 78	$ 53,447
Other comprehensive income (loss) before reclassification	7,767	(287)	7,480
Amounts reclassified from accumulated other comprehensive income (loss)	(38,086)	(54)	(38,140)
Other comprehensive income (loss)	(30,319)	(341)	(30,660)
Ending balance	$ 23,050	$ (263)	$ 22,787

The reclassifications out of accumulated other comprehensive income for the years ended December 31, 2015 and 2014 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, 2015	2014
Unrealized gains and losses on available for sale securities	Other net realized investment gains	$ (11,365)	$ (58,722)
	Other than temporary impairment losses on investments	7,335	470
	Total before tax	(4,030)	(58,252)
	Income tax expense	1,168	20,166
	Unrealized gains and losses on available for sale securities, net of tax	$ (2,862)	$ (38,086)
Foreign currency items	Other net realized investment (gains) losses	$ 610	$ (83)
	Income tax expense (benefit)	(213)	29
	Foreign currency items, net of tax	$ 397	$ (54)
Total reclassifications	Total reclassifications, net of tax	$ (2,465)	$ (38,140)

Net Realized Investment Gains (Losses)

The components of net realized investment gains (losses) for the years ended December 31, 2015 and 2014 were as follows:

(Dollars in thousands)	Years Ended December 31, 2015	2014
Fixed maturities:		
Gross realized gains	$ 2,275	$ 4,382
Gross realized losses	(1,084)	(603)
Net realized gains	1,191	3,779
Common stock:		
Gross realized gains	10,379	55,907
Gross realized losses	(8,246)	(1,351)
Net realized gains	2,133	54,556
Preferred stock:		
Gross realized gains	96	-
Gross realized losses	-	-
Net realized gains	96	-
Derivatives:		
Gross realized gains	-	-
Gross realized losses	(6,988)	(20,836)
Net realized gains (losses)	(6,988)	(20,836)
Total net realized investment gains (losses)	$ (3,568)	$ 37,499

The proceeds from sales of available for sale securities resulting in net realized investment gains (losses) for the years ended December 31, 2015 and 2014 were as follows:

	Years Ended December 31,	
(Dollars in thousands)	2015	2014
Fixed maturities	$ 395,127	$ 470,551
Common stock	39,723	191,765
Preferred stock	1,540	-

Net Investment Income

The sources of net investment income for the years ended December 31, 2015 and 2014 were as follows:

	Years Ended December 31,	
(Dollars in thousands)	2015	2014
Fixed maturities	$ 28,284	$ 23,732
Equity securities	3,125	5,484
Cash and cash equivalents	75	53
Other invested assets	2,854	87
Notes from affiliates	1,644	1,632
Total investment income	35,982	30,988
Investment expense	(3,077)	(3,123)
Net investment income	$ 32,905	$ 27,865

The Company's total investment return on a pre-tax basis for the years ended December 31, 2015 and 2014 were as follows:

	Years Ended December 31,	
(Dollars in thousands)	2015	2014
Net investment income	$ 32,905	$ 27,865
Net realized investment gains (losses)	(3,568)	37,499
Changes in unrealized holding gains and losses	(25,214)	(45,871)
Net realized and unrealized investment returns	(28,782)	(8,372)
Total investment return	$ 4,123	$ 19,493
Total investment return %	0.3%	1.4%
Average investment portfolio	$ 1,393,175	$ 1,388,442

Insurance Enhanced Asset Backed and Credit Securities

As of December 31, 2015, the Company held insurance enhanced asset-backed and credit securities with a market value of approximately $39.3 million. Approximately $18.6 million of these securities were tax-free municipal bonds, which represented approximately 1.2% of the Company's total cash and invested assets, net of payable/ receivable for securities purchased and sold. These securities had an average rating of "A+." Approximately $8.5 million of these bonds are pre-refunded with U.S. treasury securities, of which $0.5 million are backed by financial guarantors, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond. Of the remaining $10.1 million of insurance enhanced municipal bonds, $0.5 million would have carried a lower credit rating had they not been insured. The following table provides a breakdown of the ratings for these municipal bonds with and without insurance.

(Dollars in thousands) Rating	Ratings with Insurance	Ratings without Insurance
AA	$ 507	$ -
BB	-	507
Total	$ 507	$ 507

A summary of the Company's insurance enhanced municipal bonds that are backed by financial guarantors, including the pre-refunded bonds that are escrowed in U.S. government obligations, as of December 31, 2015, is as follows:

(Dollars in thousands) Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	Exposure Net of Pre-refunded & Government Guaranteed Securities
Ambac Financial Group	$ 1,541	$ 469	$ -	$ 1,072
Assured Guaranty Corporation	3,616	-	-	3,616
Municipal Bond Insurance Association	4,865	-	-	4,865
Gov't National Housing Association	551	-	551	-
Total backed by financial guarantors	10,573	469	551	9,553
Other credit enhanced municipal bonds	7,982	7,982	-	-
Total	$ 18,555	$ 8,451	$ 551	$ 9,553

In addition to the tax-free municipal bonds, the Company held $20.7 million of insurance enhanced asset-backed and taxable municipal bonds, which represented approximately 1.4% of the Company's total invested assets, net of receivable/payable for securities purchased and sold. The financial guarantors of the Company's $20.7 million of insurance enhanced asset-backed and taxable municipal securities include Municipal Bond Insurance Association ($5.0 million), Ambac Financial Group ($1.3 million), Assured Guaranty Corporation ($14.2 million), and Financial Guaranty Insurance Group ($0.2 million).

The Company had no direct investments in the entities that have provided financial guarantees or other credit support to any security held by the Company at December 31, 2015.

Bonds Held on Deposit

Certain cash balances, cash equivalents, equity securities, and bonds available for sale were deposited with various governmental authorities in accordance with statutory requirements, were held as collateral pursuant to a borrowing arrangement, or were held in trust pursuant to intercompany reinsurance agreements. The fair values were as follows as of December 31, 2015 and 2014:

	Estimated Fair Value	
(Dollars in thousands)	December 31, 2015	December 31, 2014
On deposit with governmental authorities	$ 38,815	$ 32,790
Intercompany trusts held for the benefit of U.S. policyholders	643,216	495,301
Held in trust pursuant to third party requirements	66,544	95,828
Letter of credit held for third party requirements	5,598	9,340
Securities held as collateral for borrowing arrangement (1)	95,647	92,302
Total	$ 849,820	$ 725,561

(1) Amount required to collateralize margin borrowing facility.

5. Derivative Instruments

Interest rate swaps are used by the Company primarily to reduce risks from changes in interest rates. Under the terms of the interest rate swaps, the Company agrees with another party to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts as calculated by reference to an agreed notional amount.

The Company accounts for the interest rate swaps 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 in the consolidated statement 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' fair value on the consolidated balance sheets as of December 31, 2015 and 2014:

(Dollars in thousands)		December 31, 2015		December 31, 2014	
Derivatives Not Designated as Hedging Instruments under ASC 815	Balance Sheet Location	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swap agreements	Other liabilities	$ 200,000	$ (15,256)	$ 200,000	$ (13,675)

The following table summarizes the net gains (losses) included in the consolidated statement 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, 2015 and 2014:

		Years Ended December 31,	
(Dollars in thousands)	Statement of Operations Line	2015	2014
Interest rate swap agreements	Net realized investment losses	$ (6,988)	$ (20,836)

As of December 31, 2015 and 2014, the Company is due $4.5 million and $5.4 million, respectively, for funds it needed to post to execute the swap transaction and $17.3 million and $15.3 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.

6. 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.

Effective October 1, 2015, the Company retrospectively adopted new accounting guidance that no longer requires investments measured at fair value using the net asset value per share practical expedient to be categorized within the fair value hierarchy. Therefore, the Company no longer includes its investments in limited partnerships within the fair value hierarchy disclosed below. Prior period amounts within the fair value hierarchy disclosures contained in this section have been revised to conform to the current period presentation.

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, 2015 and 2014, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of December 31, 2015	**Fair Value Measurements**			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$ 99,156	$ 5,858	$ -	$ 105,014
Obligations of states and political subdivisions	-	205,240	-	205,240
Mortgage-backed securities	-	159,123	-	159,123
Commercial mortgage-backed securities	-	140,390	-	140,390
Asset-backed securities	-	259,175	-	259,175
Corporate bonds	-	332,111	-	332,111
Foreign corporate bonds	-	102,141	-	102,141
Total fixed maturities	99,156	1,204,038	-	1,303,194
Common stock	110,315	-	-	110,315
Total assets measured at fair value (1)	$ 209,471	$ 1,204,038	$ -	$ 1,413,509
Liabilities:				
Derivative instruments	$ -	$ 15,256	$ -	$ 15,256
Total liabilities measured at fair value	$ -	$ 15,256	$ -	$ 15,256

(1) Excluded from the table above are limited partnerships of $33.4 million at December 31, 2015 whose fair value is based on net asset value as a practical expedient. Based on new accounting guidance adopted this quarter, these investments are excluded from the hierarchy table.

As of December 31, 2014	**Fair Value Measurements**			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$ 70,767	$ 6,002	$ -	$ 76,769
Obligations of states and political subdivisions	-	161,285	-	161,285
Mortgage-backed securities	-	203,134	-	203,134
Commercial mortgage-backed securities	-	121,450	-	121,450
Asset-backed securities	-	138,290	-	138,290
Corporate bonds	-	283,912	-	283,912
Foreign corporate bonds	-	77,280	-	77,280
Total fixed maturities	70,767	991,353	-	1,062,120
Common stock	122,048	-	-	122,048
Total assets measured at fair value	$ 192,815	$ 991,353	$ -	$ 1,184,168
Liabilities:				
Derivative instruments	$ -	$ 13,675	$ -	$ 13,675
Total liabilities measured at fair value	$ -	$ 13,675	$ -	$ 13,675

(1) Excluded from the table above are limited partnerships of $33.7 million at December 31, 2014 whose fair value is based on net asset value as a practical expedient. Based on new accounting guidance adopted this quarter, these investments are excluded from the hierarchy table.

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 interest rate swaps is obtained from a third party financial institution who utilizes observable inputs such as the forward interest rate curve.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2015, and 2014.

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. In accordance with the accounting guidance adopted this quarter, these investments have been excluded from the fair value hierarchy listed above. The following table provides the fair value and future funding commitments related to these investments at December 31, 2015 and 2014.

	December 31, 2015		December 31, 2014	
(Dollars in thousands)	Fair Value	Future Funding Commitment	Fair Value	Future Funding Commitment
Equity Fund, LP (1)	$ -	$ -	$ 3,401	$ 2,436
Cayman Islands Exempted LP (2)	784	-	-	-
Real Estate Fund, LP (3)	-	-	-	-
European Non-Performing Loan Fund, LP (4)	32,592	20,014	30,262	20,064
Total	$ 33,376	$ 20,014	$ 33,663	$ 22,500

(1) Prior to November 9, 2015, this limited partnership invested in companies, from various business sectors, whereby the partnership had acquired control of the operating business as a lead or organizing investor. The Company did not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company did not have the contractual option to redeem its limited partnership interest but received distributions based on the liquidation of the underlying assets. As of November 10, 2015, the Company no longer holds an interest in this limited partnership. In connection with the Parent Company's share redemption, Global Indemnity Reinsurance elected to redeem its shares and all of Global Indemnity Reinsurance's allocable Global Indemnity plc shares that were held within this fund were transferred to the Cayman Island Exempted LP. See Note 12 for further information regarding the redemption.

(2) This limited partnership is organized for the sole purpose of holding and disposing of ordinary shares of Global Indemnity plc held directly or indirectly by the partnership ("portfolio investment"). The partnership shall continue until the earlier of (a) the distribution of all sales proceeds or securities attributable to the portfolio investment or (b) December 31, 2019, unless the partnership is wound up earlier due to certain dissolution events occurring as defined in the partnership agreement. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner.

(3) 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.

(4) 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 in 2020.

Limited Partnerships with ownership interest exceeding 3%

The Company uses the equity method to account for an investment in a limited partnership 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 partnership is reflected in the statement of operations, and the adjusted cost basis approximates fair value.
The income or loss associated with this limited partnership, which was included in investment income, was $2.5 million during the year end December 31, 2015. No income or loss associated with this limited partnership was recorded during the year ended December 31, 2014.

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 vendors 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:

- Common stock prices are received from all primary and secondary exchanges.

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

- Data from commercial vendors is aggregated with market information, then converted into a prepayment/spread/LIBOR curve model used for commercial mortgage obligations ("CMO"). CMOs are categorized with mortgage-backed securities in the tables listed above. For asset-backed securities, data derived from market information along with trustee and servicer reports is converted into spreads to interpolated swap yield curve. For both asset classes, evaluations utilize standard inputs plus new issue data, monthly payment information, and collateral performance. The evaluated pricing models incorporate discount rates, loan level information, prepayment speeds, treasury benchmarks, and LIBOR and swap curves.

- For obligations of state and political subdivisions, a multi-dimensional relational model is used to evaluate securities. The pricing models incorporate security set-up, benchmark yields, apply base spreads, yield to worst or market convention, ratings updates, prepayment schedules and adjustments for material events notices.

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

- For mortgage-backed securities, a matrix model correlation to TBA (a forward MBS trade) or benchmarking is utilized to value a security.

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 provide 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 should 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 2015 or 2014, the Company has not adjusted quotes or prices obtained from the pricing vendors.

7. Goodwill and Intangible Assets

Goodwill

As a result of acquisitions in 2015 and 2010, the Company has goodwill of $6.5 million and $4.8 million as of December 31, 2015 and 2014, respectively, which represents the excess purchase price over the Company's best estimate of the fair value of the assets acquired. Impairment testing performed in 2015 and 2014 did not result in impairment of the goodwill acquired.

The changes in the carrying amount of goodwill, by segment, for the years ended December 31, 2014 and 2015 are as follows:

(Dollars in thousands)	Commercial Lines	Personal Lines	Total
Balance at January 1, 2014	$ 4,820	$ -	$ 4,820
Acquisitions	-	-	-
Balance at December 31, 2014	4,820	-	4,820
Acquisition of American Reliable	-	1,701	1,701
Balance at December 31, 2015	$ 4,820	$ 1,701	$ 6,521

Intangible assets

The following table presents details of the Company's intangible assets as of December 31, 2015:

(Dollars in thousands) Description	Useful Life	Cost	Accumulated Amortization	Net Value
Trademarks	Indefinite	$ 4,800	$ -	$ 4,800
Trade names	Indefinite	4,200	-	4,200
State insurance licenses	Indefinite	10,000	-	10,000
Customer relationships	15 years	5,300	2,017	3,283
Agent relationships	10 years	900	90	810
Trade names	7 years	600	86	514
Value of business added ("VOBA")	< 1 year	25,500	25,500	-
		$ 51,300	$ 27,693	$ 23,607

The following table presents details of the Company's intangible assets as of December 31, 2014:

(Dollars in thousands) Description	Useful Life	Cost	Accumulated Amortization	Net Value
Trademarks	Indefinite	$ 4,800	$ -	$ 4,800
Trade names	Indefinite	4,200	-	4,200
State insurance licenses	Indefinite	5,000	-	5,000
Customer relationships	15 years	5,300	1,664	3,636
Non-compete agreements	2 years	50	50	-
		$ 19,350	$ 1,714	$ 17,636

As a result of the acquisition of American Reliable, the cost basis of intangible assets increased from $19.4 million at December 31, 2014 to $51.3 million at December 31, 2015.

Amortization related to the Company's definite lived intangible assets, other than VOBA, was $0.5 million and $0.4 million for the years ended December 31, 2015 and 2014, respectively. Amortization related to VOBA was $25.5 million for the year ended December 31, 2015.

The Company expects that amortization expense for the next five years will be as follows:

(Dollars in thousands)

2016	$ 529
2017	529
2018	529
2019	529
2020	529

Intangible assets with indefinite lives

As of December 31, 2015 and 2014, indefinite lived intangible assets, which are comprised of trade names, trademarks, and state insurance licenses, were $19.0 million and $14.0 million, respectively. The Company reviewed internal business unit results, the growth of competitors and the overall property and casualty insurance market for indicators of impairment of its indefinite lived intangible assets. Impairment testing performed in 2015 and 2014 indicated that there was no impairment of these assets.

Intangible assets with definite lives

As of December 31, 2015 and 2014, definite lived intangible assets were $4.6 million and $3.6 million, net of accumulated amortization, and were comprised of customer relationships, agent relationships, trade names, and non-compete agreements. VOBA of $25.5 million, which was related to the American Reliable acquisition, was fully amortized in 2015. The Company reviewed internal business unit results, the growth of competitors and the overall property and casualty insurance market for indicators of impairment of its definite lived intangible assets. There was no impairment of these assets in 2015 or 2014.

8. 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, 2015 and 2014:

(Dollars in thousands)	December 31, 2015	December 31, 2014
Reinsurance receivables, net	$ 115,594	$ 125,718
Collateral securing reinsurance receivables	(6,445)	(8,701)
Reinsurance receivables, net of collateral	$ 109,149	$ 117,017
Allowance for uncollectible reinsurance receivables	$ 9,675	$ 9,350
Prepaid reinsurance premiums	44,363	4,725

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 $3.0 million and $4.0 million at December 31, 2015 and 2014, respectively.

As of December 31, 2015, the Company had one aggregate unsecured reinsurance receivable that exceeded 3% of shareholder's 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)	Reinsurance Receivables	A.M. Best Ratings (As of December 31, 2015)
Munich Re America Corporation	$ 53,381	A+

The effect of reinsurance on premiums written and earned is as follows:

(Dollars in thousands)	Written	Earned
For the year ended December 31, 2015:		
Direct business	$ 458,185	$ 452,441
Reinsurance assumed	132,048	144,554
Reinsurance ceded (1)	(88,989)	(92,852)
Net premiums	$ 501,244	$ 504,143
For the year ended December 31, 2014:		
Direct business	$ 229,978	$ 228,652
Reinsurance assumed	61,275	58,414
Reinsurance ceded	(18,072)	(18,547)
Net premiums	$ 273,181	$ 268,519

(1) Includes ceded written premiums and ceded earned premiums of $55.8 million and $59.5 million, respectively, to American Bankers Insurance Company.

9. Income Taxes

The statutory income tax rates of the countries where the Company does business are 35% in the United States, 0.0% in Bermuda, 29.22% in the Duchy of Luxembourg, 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 annual taxable income of each country to calculate the annual income tax expense.

The Company's income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, including the results of the quota share and stop-loss agreements between the Reinsurance and Insurance Operations, for the years ended December 31, 2015 and 2014 were as follows:

Year Ended December 31, 2015: (Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 345,392	$ 540,500	$ (295,659)	$ 590,233
Net premiums written	$ 345,342	$ 155,902	$ -	$ 501,244
Net premiums earned	$ 283,448	$ 220,695	$ -	$ 504,143
Net investment income	42,617	18,011	(27,723)	32,905
Net realized investment gains	690	(4,258)		(3,568)
Other income (loss)	(53)	3,493	0	3,440
Total revenues	326,702	237,941	(27,723)	536,920
Losses and Expenses:				
Net losses and loss adjustment expenses	141,444	133,924	-	275,368
Acquisition costs and other underwriting expenses	122,999	78,304	-	201,303
Corporate and other operating expenses	682	18,520	-	19,202
Interest expense	203	28,357	(27,723)	837
Income before income taxes	$ 61,374	$ (21,164)	$ -	$ 40,210

Year Ended December 31, 2014: **(Dollars in thousands)**	**Non-U.S. Subsidiaries**	**U.S. Subsidiaries**	**Eliminations**	**Total**
Revenues:				
Gross premiums written	$ 173,563	$ 229,979	$ (112,289)	$ 291,253
Net premiums written	$ 172,504	$ 100,677	$ -	$ 273,181
Net premiums earned	$ 168,743	$ 99,776	$ -	$ 268,519
Net investment income	30,105	16,715	(18,955)	27,865
Net realized investment gains	634	36,865	-	37,499
Other income (loss)	(23)	620	-	597
Total revenues	199,459	153,976	(18,955)	334,480
Losses and Expenses:				
Net losses and loss adjustment expenses	62,669	74,892	-	137,561
Acquisition costs and other underwriting expenses	70,479	39,140	-	109,619
Corporate and other operating expenses	629	9,316	-	9,945
Interest expense	475	19,284	(18,955)	804
Income before income taxes	$ 65,207	$ 11,344	$ -	$ 76,551

The following table summarizes the components of income tax expense (benefit):

(Dollars in thousands)	**Years Ended December 31,**	
	2015	**2014**
Current income tax expense (benefit):		
Non-resident withholding	$ -	$ 6,250
Foreign	247	142
U.S. Federal	(1,786)	2,787
Total current income tax expense (benefit)	(1,539)	9,179
Deferred income tax benefit:		
U.S. Federal	(7,203)	(828)
Total deferred income tax benefit	(7,203)	(828)
Total income tax expense (benefit)	$ (8,742)	$ 8,351

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

The following 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,**			
	2015		**2014**	
	Amount	**% of Pre-Tax Income**	**Amount**	**% of Pre-Tax Income**
Expected tax provision at weighted average	$ (6,450)	(16.0%)	$ 4,154	5.4%
Adjustments:				
Non-resident withholding	-	-	6,250	8.2
Tax exempt interest	(441)	(1.1)	(472)	(0.6)
Dividend exclusion	(784)	(1.9)	(1,340)	(1.8)
Other	(1,067)	(2.7)	(241)	(0.3)
Actual taxes on continuing operations	$ (8,742)	(21.7%)	$ 8,351	10.9%

The effective income tax benefit rate for 2015 was 21.7%, compared with an effective income tax rate of 10.9%, for 2014. The decrease in the effective income tax rate in 2015 compared with 2014 is primarily due to incurring acquisition expenses related to American Reliable, a decrease in capital gains in 2015, and a $6.3 million withholding tax paid in 2014 in connection with the $125 million dividend from Global Indemnity Group Inc. to U.A.I. Luxembourg S.a.r.l..

The tax effects of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2015 and 2014 are presented below:

(Dollars in thousands)	2015	2014
Deferred tax assets:		
Discounted unpaid losses and loss adjustment expenses	$ 8,222	$ 7,492
Unearned premiums	7,884	3,409
Section 163(j) carryforward	3,135	-
Alternative minimum tax credit carryover	10,868	10,473
Net operating loss carryforward	1,934	-
Partnership K1 basis differences	245	145
Capital gain on derivative instruments	5,340	4,786
Investment impairments	2,635	379
Stock options	2,635	2,048
Deferred acquisition costs	-	187
Stat-to-GAAP reinsurance reserve	1,364	1,424
Intercompany transfers	1,612	1,919
Depreciation and amortization	36	-
Other	4,546	3,050
Total deferred tax assets	50,456	35,312
Deferred tax liabilities:		
Purchase accounting adjustment for American Reliable	6,095	-
Intangible assets	3,893	3,220
Unrealized gain on securities available-for-sale and investments in limited partnerships included in accumulated other comprehensive income	3,896	10,263
Investment basis differences	1,034	692
Deferred acquisition costs	642	-
Depreciation and amortization	-	16
Other	208	871
Total deferred tax liabilities	15,768	15,062
Total net deferred tax assets	$ 34,688	$ 20,250

Management believes it is more likely than not that the deferred tax assets will be completely utilized in future years. As a result, the Company has not recorded a valuation allowance at December 31, 2015 and 2014.

The Company has an alternative minimum tax ("AMT") credit carryforward of $10.9 million and $10.5 million as of December 31, 2015 and 2014, respectively, which can be carried forward indefinitely. As of December 31, 2015, the Company has a net operating loss ("NOL") carryforward of $1.9 million which will expire in 2035. The Company had no NOL carryforward as of December 31, 2014. The Company has a Section 163(j)("163(j)") carryforward of $3.1 million as of December 31, 2015 which can be carried forward indefinitely. The Company had no 163(j) carryforward as of December 31, 2014. The 163(j) carryforward is disqualified interest paid or accrued to a related entity that is not subject to U.S. tax.

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 2010.

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. In December, 2014, Global Indemnity Group, Inc. paid a dividend of $125 million to U.A.I. (Luxembourg) S.à.r.l. and paid a 5% withholding tax amounting to $6.3 million. The Company did not pay any dividends from a U.S. subsidiary to a foreign affiliate during 2015.

The Company applies a more-likely-than-not recognition threshold for all tax uncertainties whereby it only recognizes those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. The Company had no unrecognized tax benefits during 2015 or 2014.

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, 2015 and 2014. As of December 31, 2015, the Company did not record any liabilities for tax-related interest and penalties on its consolidated balance sheets.

10. Liability for Unpaid Losses and Loss Adjustment Expenses

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

	Years Ended December 31,	
(Dollars in thousands)	**2015**	**2014**
Balance at beginning of period	$ 675,472	$ 779,466
Less: Ceded reinsurance receivables	123,201	192,491
Net balance at beginning of period	552,271	586,975
Purchased reserves, gross	89,489	-
Less: Purchased reserves ceded	12,800	-
Purchase reserves, net	76,689	-
Incurred losses and loss adjustment expenses related to:		
Current year	310,066	153,994
Prior years	(34,698)	(16,433)
Total incurred losses and loss adjustment expenses	275,368	137,561
Paid losses and loss adjustment expenses related to:		
Current year	164,058	55,485
Prior years	168,353	116,780
Total paid losses and loss adjustment expenses	332,411	172,265
Net balance at end of period	571,917	552,271
Plus: Ceded reinsurance receivables	108,130	123,201
Balance at end of period	$ 680,047	$ 675,472

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 2015, the Company reduced its prior accident year loss reserves by $34.7 million, which consisted of a $25.6 million decrease related to Commercial Lines and a $9.1 million decrease related to Reinsurance Operations.

The $25.6 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

- **General Liability:** A $20.4 million reduction in aggregate with $5.9 million of favorable development in the construction defect reserve category and $14.5 million of favorable development in the other general liability reserve categories. In the construction defect reserve category, a reduction in both claims frequency and severity was observed across several accident years which contributed to the recognition of favorable development primarily in accident years 2008 through 2014. For general liability excluding construction defect, lower than expected claims severity was experienced across multiple accident years leading to the recognition of favorable development in accident years 2004 through 2014.

- **Professional:** A $6.2 million decrease in aggregate primarily related to better than anticipated claims frequency and severity in accident years 2006 through 2011.

The $9.1 million reduction of prior accident year loss reserves related to Reinsurance Operations was primarily driven by $6.8 million of favorable development in property mainly due to accident years 2011 through 2014 and $2.8 million of favorable development in the marine product mainly due to accident years 2010 and 2011, partially offset by adverse development of $1.0 million in workers compensation mainly due to accident year 2010. Ultimate losses from quota share underwriting years 2013 and prior were booked to the amount reported from cedants and reserve releases on legacy contracts due to better than anticipated case incurred emergence led to the recognition of favorable development.

During 2014, the Company reduced its prior accident year loss reserves by $16.4 million, which consisted of a $12.5 million decrease related to Commercial Lines and a $3.9 million decrease related to Reinsurance Operations. The $12.5 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

- **Property:** A $2.1 million increase due to higher than expected emergence on non-catastrophe claims primarily in accident years 2007, 2012, and 2013.

- **General Liability:** A $3.1 million reduction due to less than anticipated frequency in accident year 2001 and less than anticipated frequency and severity on claims from accident years 2007 through 2010 partially offset by greater than anticipated loss emergence in accident year 2013.

- **Asbestos and Environmental:** A $7.1 million increase related to policies written prior to 1990 as a result of recent severity being higher than expected due to faster erosion of underlying policy limits.

- **Professional:** A $19.4 million reduction primarily due to expected loss emergence being much less than anticipated for accident years 2007 through 2011.

- **Umbrella:** A $2.7 million decrease primarily driven by less than anticipated frequency in accident years 2002 through 2007.

- **Commercial Auto:** A $3.6 million increase primarily related to accident years 2011 through 2013. Larger vehicles were written prior to 2014 and industry loss development factors were used to project losses.

The $3.9 million reduction of prior accident year loss reserves related to Reinsurance Operations was primarily due to better than anticipated loss emergence on property lines partially offset by adverse development related to commercial auto and higher than anticipated severity on the Company's marine product.

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 ($62.2 million and $69.8 million as of December 31, 2015 and 2014, net of reinsurance, respectively) 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.

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, 2015 and 2014 were IBNR reserves of $26.0 million and $26.4 million, respectively, and case reserves of approximately $4.5 million and $4.8 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, 2015	2014
Gross reserve for A&E losses and loss adjustment expenses – beginning of period	$ 56,535	$ 50,155
Plus: Incurred losses and loss adjustment expenses – case reserves	2,666	4,333
Plus: Incurred losses and loss adjustment expenses – IBNR	(2,663)	7,340
Less: Payments	2,714	5,293
Gross reserves for A&E losses and loss adjustment expenses – end of period	$ 53,824	$ 56,535

The following table shows the Company's net reserves for A&E losses:

(Dollars in thousands)	Years Ended December 31, 2015	2014
Net reserve for A&E losses and loss adjustment expenses – beginning of period	$ 31,185	$ 23,038
Plus: Incurred losses and loss adjustment expenses – case reserves	395	2,754
Plus: Incurred losses and loss adjustment expenses – IBNR	(394)	8,241
Less: Payments	657	2,848
Net reserves for A&E losses and loss adjustment expenses – end of period	$ 30,529	$ 31,185

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.

In 2009, one of the Company's insurance companies entered into a settlement agreement to resolve asbestos related coverage litigation related to approximately 3,900 existing asbestos-related bodily injury claims and future claims. The settlement was approved by the Court and a final order was issued in September 2014. As of December 31, 2015, the Company has no outstanding obligations as it relates to this settlement agreement.

As of December 31, 2015 and 2014, the survival ratio on a gross basis for the Company's open A&E claims was 15.0 years and 10.8 years, respectively. As of December 31, 2015 and 2014, the survival ratio on a net basis for the Company's open A&E claims was 16.8 years and 8.4 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.

11. Debt

Margin Borrowing Facility

The Company has available a margin borrowing facility. The borrowing rate for the facility is tied to LIBOR and was approximately 1.3% and 1% at December 31, 2015 and 2014, 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, 2015, approximately $95.6 million in securities were deposited as collateral to support borrowings. The amount borrowed against the margin accounts 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 $75.6 million and $72.6 million as of December 31, 2015 and 2014, respectively.

The Company recorded interest expense related to the Margin Borrowing Facility of approximately $0.8 million and $0.7 million for the years ended December 31, 2015 and 2014, respectively.

12. Related Party Transactions

Fox Paine & Company

Global Indemnity Reinsurance was a limited partner in Fox Paine Capital Fund, II, which was managed by Fox Paine, the Parent Company's controlling shareholder. This investment was originally made by United National Insurance Company in June 2000 and pre-dates the September 5, 2003 acquisition by Fox Paine of Wind River Investment Corporation, which was the predecessor holding company for United National Insurance Company. The Company's investment in Fox Paine Capital Fund, II was valued at $3.4 million at December 31, 2014. In connection with the Parent Company's share redemption, Global Indemnity Reinsurance elected to redeem its shares in Fox Paine Capital Fund II, and as a result, the Company no longer held an interest in Fox Paine Capital Fund II as of November 10, 2015. All of Global Indemnity Reinsurance's allocable Global Indemnity plc shares that were held by Fox Paine Capital Fund, II were transferred into a new liquidating partnership. Global Indemnity Reinsurance's allocation of these shares totaled 116,973 shares. Of these shares, 82,888 shares were redeemed for $1.9 million and the Company recorded $0.2 million as net investment income on the Consolidated Statements of Operations. The remaining 34,085 shares are still being held by the new partnership, which also holds shares on behalf of other limited partners who elected to participate in the redemption.

During the year ended December 31, 2015, the Company received a distribution of $0.8 million from Fox Paine Capital Fund II. There were no distributions received from Fox Paine Capital Fund II during 2014.

The Company relies on Fox Paine 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 consumer price index published by the US Department of Labor Bureau of Labor Statistics. In addition, the payment of the annual management fee will be deferred until a change of control or September, 2018, whichever occurs first, and is subject to an annual adjustment equal to the percentage rate of return the Company earns on its investment portfolio. Management fee expense of $1.8 million and $1.5 million was incurred during the years ended December 31, 2015 and 2014.

In connection with the acquisition of American Reliable, the Company agreed to pay to Fox Paine an investment banking fee of 3% of the amount paid plus the additional capital required to operate American Reliable on a standalone basis and a $1.5 million investment advisory fee, which in the aggregate, totaled $6.5 million. This amount is included in corporate and other operating expenses on the Company's Consolidated Statements of Operations during the year ended December 31, 2015. As payment for these fees, 267,702 A ordinary shares of Global Indemnity were issued under the Global Indemnity plc Share Incentive Plan in May, 2015. These shares will be registered but cannot be sold until the earlier of five years or a change of control.

Cozen O'Connor

The Company incurred $0.7 million and $0.2 million for legal services rendered by Cozen O'Connor during the years ended December 31, 2015 and 2014, respectively. Stephen A. Cozen, the chairman of Cozen O'Connor, was a member of the Company's Board of Directors until he resigned on December 31, 2015.

Crystal & Company

During each of the years ended December 31, 2015 and 2014, the Company incurred $0.2 million in brokerage fees to Crystal & Company, an insurance broker. In January of 2016, a subsidiary of the Company entered into an agency relationship with Crystal & Company in which Crystal & Company will be paid a commission on net premiums written and collected consistent with those paid to other agencies in the Company's ordinary course of business. James W. Crystal, the chairman and chief executive officer of Crystal & Company, is a member of the Company's Board of Directors.

Hiscox Insurance Company (Bermuda) Ltd.

Global Indemnity Reinsurance is a participant in two reinsurance agreements with Hiscox Insurance Company (Bermuda) Ltd. ("Hiscox Bermuda") while Steve Green, the President of Global Indemnity Reinsurance, was a member of Hiscox Bermuda's Board of Directors. Steve Green was a member of the Hiscox Bermuda's Board of Directors until May, 2014. The Company estimated that the following earned premium and incurred losses related to these agreements have been assumed by Global Indemnity Reinsurance from Hiscox Bermuda:

(Dollars in thousands)	**Years Ended December 31,**	
	2015	**2014**
Assumed earned premium	$ 2,266	$ 6,383
Assumed losses and loss adjustment expenses	509	763

Net balances due to Global Indemnity Reinsurance under this agreement are as follows:

(Dollars in thousands)	**As of December 31.**	
	2015	**2014**
Net receivable (payable) balance	$ (110)	$ 2,897

Parent Company

The Company performs certain administrative services on behalf of the Parent Company, and the Parent Company and its wholly-owned subsidiaries perform certain administrative services on behalf of the Company. Services performed are charged on a cost-plus basis. Services provided and billed to the Parent Company and its wholly-owned subsidiaries were $0.6 million for each of the years ended December 31, 2015 and 2014. Services provided and billed to the Company from the Parent Company and its wholly-owned subsidiaries were $1.1 million and $1.5 million for the years ended December 31, 2015 and 2014, respectively.

In January, 2006, U.A.I. (Luxembourg) Investment S.à r.l. ("UAI Luxembourg Investment"), one of the Company's wholly-owned subsidiaries, loaned $6.0 million to United America Indemnity, Ltd., a wholly-owned subsidiary of the Parent Company. The loan was used to pay operating expenses that arise in the normal course of business. The loan is a demand loan and bears interest at 4.38%. As of December 31, 2015 and 2014, there was $1.0 million outstanding on this loan. Accrued interest was $1.9 million and $1.8 million as of December 31, 2015 and 2014, respectively.

In February, 2010, a line of credit outstanding from Global Indemnity Reinsurance Company, Ltd. to United America Indemnity, Ltd. was converted to a non-interest bearing note payable for the full amount of principal and accrued interest to date. There was $33.0 million outstanding on this note as of December 31, 2015 and 2014.

In November, 2011, UAI Luxembourg Investment issued a $100.0 million demand line of credit to Global Indemnity (Cayman) Ltd., a wholly-owned subsidiary of the Parent Company, which bears interest at 1.2%. The proceeds of the line are being loaned from Global Indemnity (Cayman) Ltd. to the Parent Company, bearing interest at 1.2%, to fund purchases of the Parent Company's A ordinary shares as part of a $100.0 million share repurchase program announced in September, 2011. In August, 2012, the demand line of credit was increased to $125.0 million to fund additional purchases under the Parent Company's $25.0 million share repurchase authorization. In September, 2015, U.A.I. (Luxembourg) Investment S.à.r.l. increased the demand line of credit that it previously issued to Global Indemnity (Cayman) Limited from $125.0 million to $225.0 million. As of December 31, 2015 and

2014, there was $181.5 million and $102.5 million, respectively, outstanding on the line of credit with accrued interest of $4.8 million and $3.4 million, respectively.

On May 12, 2014, Global Indemnity Group, Inc., one of the Company's wholly-owned subsidiaries, entered into an agreement to loan $200 million to Global Indemnity (Cayman) Limited which bears interest at 0.28% and matures in 2017. In December, 2014, Global Indemnity (Cayman) Limited repaid $125.0 million of the outstanding principal. As of December 31, 2015 and 2014, Global Indemnity (Cayman) Limited owed $75.0 million under this loan agreement with accrued interest of $0.6 million and $0.4 million, respectively.

During 2015, Global Indemnity, the ultimate parent company of Global Indemnity Reinsurance, redeemed $190 million of its common stock. Also, during 2015, Global Indemnity (Cayman) Limited, Global Indemnity Reinsurance's direct parent, paid back approximately $100 million of margin debt that was due to a third party lender. As a result of the share redemption and margin debt repayment, the liquidity of Global Indemnity Reinsurance's parent companies was reduced and these companies currently do not have the ability to pay $290.5 million of intercompany notes due on demand to Global Indemnity Reinsurance and its subsidiaries. It is the current inability of Global Indemnity Reinsurance's parent companies to repay these notes on demand, which is believed to be temporary, that resulted in the Company recognizing a reduction in notes receivable from affiliates and accumulated other comprehensive income in the amount of $290.5 million.

The Company and its subsidiaries expect the outstanding intercompany notes to be paid in full. Global Indemnity plc has the ability to raise funds in the public market. The parent companies of Global Indemnity Reinsurance Company, Ltd. may also receive funding prospectively from dividends or borrowing from external sources.

Global Indemnity (Cayman) Limited, the Parent Company, made a capital contribution in the amount of $100.0 million during the fourth quarter of 2015. Through a series of capital contributions, the ultimate recipient of this capital contribution of $100.0 million was U.A.I. (Luxembourg) IV S.à.r.l. who loaned $100.0 million to U.A.I. (Luxembourg) Investment S.à.r.l. who loaned $100.0 million to Global Indemnity Group, Inc. These transactions were performed to provide liquidity to the Company's U.S. Holding Companies.

13. Commitments and Contingencies

Lease Commitments

Total rental expense under operating leases for the years ended December 31, 2015 and 2014 were $3.5 million and $2.6 million, respectively. Rent expense was net of sublease income of $0.07 million and $0.04 million for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015, future minimum cash payments under non-cancelable operating leases were as follows:

(Dollars in thousands)	
2016	$ 3,164
2017	3,082
2018	3,051
2019	2,023
2020 and thereafter	40
Total (1)	$ 11,360

(1) Minimum payments have not been reduced by minimum sublease rentals of $24 due in the future under non-cancelable subleases.

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.

Other Commitments

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, 2015, the Company has funded $30.0 million of this commitment leaving $20.0 million as unfunded.

The Company is party to a Management Agreement, as amended, with Fox Paine, whereby in connection with certain management services provided to it by Fox Paine, the Company agreed to pay an annual management fee to Fox Paine. See Note 12 above for additional information pertaining to this management agreement.

14. Share-Based Compensation Plans

The Company does not sponsor a share-based compensation plan; it participates in the plan of the Parent Company.

In 2015, the Company accounted for $0.3 million of the Parent Company's $0.4 million of compensation expense related to stock options. In 2014, the Company accounted for $0.2 million of the Parent Company's $0.3 million of compensation expense related to stock options.

In 2015, the Company accounted for $2.4 million of the Parent Company's $2.5 million of compensation expense related to restricted stock granted to key employees. In 2014, the Company accounted for $1.6 million of the Parent Company's $1.7 million of compensation expense related to restricted stock granted to key employees

15. 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 $2.0 million and $1.2 million for the years ended December 31, 2015 and 2014, respectively.

16. 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.

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, 2015, the maximum amount of distributions that could be paid in 2016 by the United National insurance companies, the Penn-America insurance companies, and American Reliable as dividends under applicable laws and regulations without regulatory approval is approximately $17.3 million, $8.3 million and $7.8 million, respectively. The Penn-America insurance companies limitation includes $2.7 million that would be distributed to United National Insurance Company or its subsidiary Penn Independent Corporation based on the December 31, 2015 ownership percentages. For 2015, the Penn-America insurance companies declared and paid dividends of $8.4 million, the United National insurance companies declared dividends of $35.0 million and American Reliable did not declare or pay any dividends.

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 2015 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:

	Years Ended December 31,	
(Dollars in thousands)	**2015**	**2014**
Statutory capital and surplus, as of end of period	$ 318,101	$ 253,362
Statutory net income	48,633	36,003

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 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 2015 statutory financial statements that will be filed in 2016, Global Indemnity Reinsurance could pay a dividend of up to $234.8 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.

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:

	Years Ended December 31,	
(Dollars in thousands)	**2015**	**2014**
Statutory capital and surplus, as of end of period	$ 713,842	$ 923,862
Statutory net income	864	44,593

17. Segment Information

The acquisition of American Reliable has impacted the way the Company manages and analyzes its operating results. The business acquired from American Reliable is considered to be a separate segment, Personal Lines. The Company now manages its business through three reportable business segments: Commercial Lines, managed in Bala Cynwyd, PA, offers specialty property and casualty products designed for product lines such as Small Business Binding Authority, Property Brokerage, and Programs; Personal Lines, managed in Scottsdale, AZ, offers specialty personal lines and agricultural coverage; and Reinsurance Operations, managed in Bermuda, provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.

All three 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.

Prior to 2015, the Commercial Lines segment was known as Insurance Operations segment. With the acquisition of American Reliable, the Insurance Operations segment was renamed to Commercial Lines segment. The newly acquired American Reliable became the Company's Personal Lines segment. For segment reporting, the values for 2014 did not change for Commercial Lines and Reinsurance Operations.

The following are tabulations of business segment information for the years ended December 31, 2015 and 2014. Corporate information is included to reconcile segment data to the consolidated financial statements.

2015: **(Dollars in thousands)**	**Commercial Lines (1)**	**Personal Lines (1)**	**Reinsurance Operations (2)**	**Total**
Revenues:				
Gross premiums written	$ 214,218	$ 326,282	$ 49,733	$ 590,233
Net premiums written	$ 197,526	$ 254,035	$ 49,683	$ 501,244
Net premiums earned	$ 199,304	$ 253,048	$ 51,791	$ 504,143
Other income (loss)	621	2,872	(53)	3,440
Total revenues	199,925	255,920	51,738	507,583
Losses and Expenses:				
Net losses and loss adjustment expenses	97,530	163,986	13,852	275,368
Acquisition costs and other underwriting expenses	83,170 **(3)**	99,140 **(4)**	18,993	201,303
Income (loss) from segments	$ 19,225	$ (7,206)	$ 18,893	$ 30,912
Unallocated Items:				
Net investment income				32,905
Net realized investment losses				(3,568)
Corporate and other operating expenses				(19,202)
Interest expense				(837)
Income before income taxes				40,210
Income tax benefit				8,742
Net income				48,952
Total assets	$ 756,098	$ 510,503	$ 684,696 **(5)**	$ 1,951,297

(1) Includes business ceded to the Company's Reinsurance Operations.
(2) External business only, excluding business assumed from affiliates.
(3) Includes federal excise tax of $1,051 relating to cessions from Commercial Lines to Reinsurance Operations.
(4) Includes federal excise tax of $1,265 relating to cessions from Personal Lines to Reinsurance Operations.
(5) Comprised of Global Indemnity Reinsurance's total assets less its investment in subsidiaries

2014: (Dollars in thousands)	Commercial Lines (1)	Reinsurance Operations (2)	Total
Revenues:			
Gross premiums written	$ 229,978	$ 61,275	$ 291,253
Net premiums written	$ 212,965	$ 60,216	$ 273,181
Net premiums earned	$ 211,165	$ 57,354	$ 268,519
Other income (loss)	620	(23)	597
Total revenue	211,785	57,331	269,116
Losses and Expenses:			
Net losses and loss adjustment expenses	117,586	19,975	137,561
Acquisition costs and other underwriting expenses	88,983 (3)	20,636	109,619
Income from segments	$ 5,216	$ 16,720	21,936
Unallocated items:			
Net investment income			27,865
Net realized investment gains			37,499
Corporate and other operating expenses			(9,945)
Interest expense			(804)
Income before income taxes			76,551
Income tax expense			8,351
Net income			$ 68,200
Total assets	$ 1,278,712	$ 641,270 (4)	$ 1,919,982

(1) Includes business ceded to the Company's Reinsurance Operations.
(2) External business only, excluding business assumed from affiliates.
(3) Includes excise tax of $1,114 related to cessions from Commercial Lines to Reinsurance Operations.
(4) Comprised of Global Indemnity Reinsurance's total assets less its investment in subsidiaries.

18. Supplemental Cash Flow Information

Taxes and Interest Paid

The Company paid the following net federal income taxes and cash interest for 2015 and 2014:

(Dollars in thousands)	Years Ended December 31, 2015	2014
Federal income taxes paid	$ 77	$ 14,016
Federal income taxes recovered	2	136
Interest paid	822	805

Non-Cash Activities

On January 1, 2015, Global Indemnity Group, Inc. acquired 100% of the voting equity interest of American Reliable. In conjunction with the acquisition, fair value of assets acquired and liabilities assumed by the Company were as follows:

(Dollars in thousands)	
Fair value of assets acquired (including goodwill)	$ 383,668
Liabilities assumed	283,871

19. New Accounting Pronouncements

In September, 2015, the Financial Accounting Standards Board ("FASB") issued new accounting guidance surrounding business combinations. The new guidance requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment is determined. It also requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This guidance is effective for public entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. This guidance should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this guidance with earlier application permitted for financial statements that have not been issued. This guidance will be applicable to the Company if there is any material adjustments to amounts previously recorded during the measurement period related to the American Reliable acquisition. This guidance may also be applicable to future acquisitions. The Company plans to adopt this guidance in the first quarter of 2016.

In May, 2015, the FASB issued new accounting guidance surrounding investments in certain entities that calculate net asset value per share. The new guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. This guidance is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company adopted this guidance in the fourth quarter of 2015 which resulted in the Company's other invested assets, that are measured utilizing net asset value, being removed from the fair value hierarchy. The adoption of this guidance only impacted the Company's fair value disclosures and had no impact on the Company's financial condition, results of operations, or cash flows.

In May, 2015, the FASB issued new accounting guidance regarding short-duration contracts. The new guidance requires additional disclosure regarding the liability for unpaid claims and claim adjustment expenses. This guidance is effective for public business entities for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The Company plans to include these disclosures in its year ended December 31, 2016 financial statements.

In May, 2014, the FASB issued new accounting guidance regarding the recognition of revenue from customers arising from the transfer of goods and services. New and enhanced disclosures will also be required. Long and short duration insurance contracts, which comprise the majority of the Company's revenues, are excluded from this accounting guidance. This guidance is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. Although the Company is still evaluating the impact of this new guidance, the Company does not anticipate it will have a material impact on its financial condition, results of operations, and cash flows.

The Company does not expect any of these new accounting pronouncements to have a material impact on the Company's consolidated statements of financial position or results of operations.