GLOBAL INDEMNITY REINSURANCE COMPANY, LTD.

Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD.

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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 sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the years 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 audits. We conducted our audits 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.

Building a better working world

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, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred and paid claims development prior to the most recent year and the average annual percentage payout of incurred claims disclosed on pages 35 through 41 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

April 24, 2018

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD

Consolidated Balance Sheets

(Dollars in thousands)

ASSETS	December 31, 2017	December 31, 2016
Fixed maturities:		
Available for sale, at fair value (amortized cost: $1,230,022 and $1,237,312)	$ 1,228,319	$ 1,236,261
Equity securities:		
Available for sale, at fair value (cost: $124,915 and $119,515)	140,229	120,557
Other invested assets	77,820	66,918
Total investments	1,446,368	1,423,736
Cash and cash equivalents	62,742	74,850
Premiums receivable, net	84,386	92,094
Reinsurance receivables, net	105,060	143,774
Funds held by ceding insurers	45,300	13,114
Accrued investment income	14,213	9,005
Federal income taxes receivable	10,332	-
Deferred federal income taxes	26,196	40,957
Deferred acquisition costs	61,647	57,901
Intangible assets	22,549	23,079
Goodwill	6,521	6,521
Prepaid reinsurance premiums	28,851	42,583
Receivable for securities sold	1,543	-
Due from affiliates	7,411	8,098
Other assets	60,503	42,007
Total assets	$ 1,983,622	$ 1,977,719
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 634,664	$ 651,042
Unearned premiums	285,397	286,984
Accrued dividend payable	20,000	-
Federal income taxes payable	-	235
Amounts held for the accounts of others	4,474	4,859
Ceded balances payable	10,851	14,675
Contingent commissions	7,984	9,454
Payable for securities purchased	-	3,718
Margin borrowing facility	72,230	66,646
Other liabilities	31,735	33,462
Total liabilities	1,067,335	1,071,075
Shareholder's equity:		
Common shares, $1 par value, 120,000 shares authorized, issued, and outstanding	120	120
Additional paid-in capital	658,000	563,500
Accumulated other comprehensive income, net of taxes	(281,510)	(290,767)
Retained earnings	539,677	633,791
Total shareholder's equity	916,287	906,644
Total liabilities and shareholder's equity	$ 1,983,622	$ 1,977,719

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD

Consolidated Statements of Operations
(Dollars in thousands)

	Years Ended December 31,	
	2017	**2016**
Revenues:		
Gross premiums written	$ 516,334	$ 565,845
Net premiums written	$ 450,180	$ 470,940
Net premiums earned	$ 438,034	$ 468,465
Net investment income	41,919	36,341
Net realized investment gains:		
Other than temporary impairment losses on investments	(2,606)	(6,733)
Other net realized investment gains	4,574	28,626
Total net realized investment gains	1,968	21,893
Other income	6,561	10,387
Total revenues	488,482	537,086
Losses and Expenses:		
Net losses and loss adjustment expenses	269,212	264,003
Acquisition costs and other underwriting expenses	183,733	196,650
Corporate and other operating expenses	9,127	8,795
Interest expense	1,034	1,032
Income before income taxes	25,376	66,606
Income tax benefit	(510)	(2,266)
Net income	$ 25,886	$ 68,872

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD

Consolidated Statements of Comprehensive Income
(Dollars in thousands)

	Years Ended December 31,	
	2017	**2016**
Net income	$ 25,886	$ 68,872
Other comprehensive income (loss), net of tax:		
Unrealized holding gains	9,725	10,087
Portion of other than temporary impairment losses recognized in other comprehensive income (loss)	(3)	(3)
Reclassification adjustment for gains included in net income	(1,240)	(14,997)
Unrealized foreign currency translation gains	775	58
Other comprehensive income (loss), net of tax	9,257	(4,855)
Comprehensive income, net of tax	$ 35,143	$ 64,017

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, 2017	2016
Common shares:		
Balance at beginning and end of period	$ 120	$ 120
Additional paid-in capital:		
Balance at beginning of period	$ 563,500	$ 563,500
Capital contribution	94,500	-
Balance at end of period	$ 658,000	$ 563,500
Accumulated other comprehensive income, net of deferred income tax:		
Balance at beginning of period	$ (290,767)	$ (285,912)
Other comprehensive income (loss):		
Change in unrealized holding gains (losses)	8,485	(4,910)
Change in other than temporary impairment losses recognized in other comprehensive income (loss)	(3)	(3)
Unrealized foreign currency translation gains	775	58
Other comprehensive income (loss), net of tax	9,257	(4,855)
Balance at end of period	$ (281,510)	$ (290,767)
Retained earnings:		
Balance at beginning of period	$ 633,791	$ 564,919
Net income	25,886	68,872
Dividend	(120,000)	-
Balance at end of period	$ 539,677	$ 633,791
Total shareholder's equity	$ 916,287	$ 906,644

See accompanying notes to consolidated financial statements.

GLOBAL INDEMNITY REINSURANCE COMPANY, LTD

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Years Ended December 31	
	2017	**2016**
Cash flows from operating activities:		
Net income	$ 25,886	$ 68,872
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Amortization and depreciation	6,498	6,306
Deferred federal income taxes	(1,018)	(2,727)
Amortization of bond premium and discount, net	7,736	9,827
Net realized investment gains	(1,968)	(21,893)
Gain on the disposition of subsidiary	-	(6,857)
Equity in the earnings of equity method limited liability investments	(4,741)	(5,190)
Changes in:		
Premiums receivable, net	7,708	(2,848)
Reinsurance receivables, net	38,714	(28,180)
Funds held by ceding insurers	(31,635)	2,923
Unpaid losses and loss adjustment expenses	(16,378)	(29,004)
Unearned premiums	(1,587)	698
Ceded balances payable	(3,824)	10,083
Other assets and liabilities, net	(33,327)	(16,368)
Due from affiliates	687	(11,816)
Contingent commissions	(1,470)	(1,615)
Federal income tax receivable/payable	390	5,050
Deferred acquisition costs	(3,746)	(1,384)
Prepaid reinsurance premiums	13,732	1,779
Net cash provided by (used for) operating activities	1,657	(22,344)
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	906,028	381,304
Proceeds from sale of equity securities	32,218	111,156
Proceeds from maturity of fixed maturities	135,497	86,009
Proceeds from limited partnership distribution	17,746	9,450
Proceeds from disposition of subsidiary, net of cash and cash equivalents disposed of $1,269	-	16,922
Amount received (paid) in connection with derivatives	1,464	(1,010)
Purchases of fixed maturities	(1,046,155)	(436,795)
Purchases of equity securities	(36,647)	(109,940)
Purchases of other invested assets	(24,000)	(14,125)
Net cash provided by (used for) investing activities	(13,849)	42,971
Cash flows from financing activities:		
Dividend paid to parent company	(100,000)	-
Capital contribution to a subsidiary	94,500	-
Borrowings / (repayments) under margin borrowing facility	5,584	(9,000)
Net cash provided by (used for) financing activities	84	(9,000)
Net change in cash and cash equivalents	(12,108)	11,627
Cash and cash equivalents at beginning of period	74,850	63,223
Cash and cash equivalents at end of period	$ 62,742	$ 74,850

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. Prior to November, 2016, Global Indemnity (Cayman) Limited was a wholly owned subsidiary of UAIL. In November, 2016, UAIL was merged into Global Indemnity Limited and Global Indemnity (Cayman) Limited became a wholly owned subsidiary of Global Indemnity (Gibraltar) Limited. On November 7, 2016, Global Indemnity Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands, replaced Global Indemnity plc as the ultimate parent company. In 2017, Global Indemnity (Cayman) Limited was merged into Global Indemnity Limited and Global Indemnity (Gibraltar) Limited was liquidated. This resulted in Global Indemnity Reinsurance becoming a wholly owned subsidiary of Global Indemnity Limited. Global Indemnity Limited's A ordinary shares are publicly traded on the NASDAQ Global Select Market (trading symbol: GBLI). References to the Parent Company refer to Global Indemnity Limited or prior to November 7, 2016 to Global Indemnity plc. 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.

The Company manages its business through three 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, 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's Commercial Lines offers specialty property and casualty insurance products in the excess and surplus lines marketplace. The Company manages its Commercial Lines by differentiating them into four 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; Diamond State, which markets property, casualty, and professional lines products, which are developed by the Company's underwriting department by individuals with expertise in those lines of business, through wholesale brokers and also markets through program administrators having specific binding authority; and Vacant Express, which primarily insures dwellings which are currently vacant, undergoing renovation, or are under construction and is distributed through aggregators, brokers, and retail agents. . 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. Collectively, the Company's U.S. insurance subsidiaries are licensed in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The Company's Reinsurance Operations consist solely of the operations of Global Indemnity Reinsurance Company, Ltd. and provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.

During the 1st quarter of 2017, the Company re-evaluated its Commercial Lines and Personal Lines segments and determined that certain portions of business will be managed, operated and reported by including them in the other segment. As a result, the composition of the Company's reportable segments changed slightly. Premium that is written through a wholly owned agency that mainly sells to individuals, which was previously included as part of the Commercial Lines segment, is now included within the Personal Lines segment. In addition, one of the small commercial programs written by American Reliable Insurance Company ("American Reliable"), which was previously included within the Personal Lines segment, is now aggregated within the Commercial Lines segment. Accordingly, the segment results for 2016 have been revised to reflect these changes. See Note 16 for additional information regarding segments.

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.

2. Summary of Significant Accounting Policies

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

The Company's investments in other invested assets were valued at $77.8 million and $66.9 million as of December 31, 2017 and 2016, respectively. These amounts relate to investments in limited liability companies and limited partnerships. The Company does not have access to daily valuations, therefore; the estimated fair value of the limited liability companies and limited partnerships are based on net asset value as a practical expedient for the limited liability companies and 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, 2017 and 2016, please see Note 3 below.

Variable Interest Entities

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

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

Cash and Cash Equivalents

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

At December 31, 2017 and 2016, the Company had approximately $56.1 million and $52.0 million, respectively, of cash and cash equivalents that was invested in a diversified portfolio of high quality short-term debt securities.

Valuation of Premium Receivable

The Company evaluates the collectability of premium receivable based on a combination of factors. In instances in which the Company is aware of a specific circumstance where a party may be unable to meet its financial obligations to the Company, a specific allowance for bad debts against amounts due is recorded to reduce the net receivable to the amount reasonably believed by management to be collectible. For all remaining balances, allowances are recognized for bad debts based on the length of time the receivables are past due. The allowance for bad debts was $2.2 million and $1.9 million as of December 31, 2017 and 2016, 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, 2017.

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, 2017.

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, 2017, there were no triggering events that occurred during the year that would result in an impairment of definite lived intangible assets. See Note 6 for additional information on goodwill and intangible assets.

Reinsurance

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

The Company regularly reviews the collectability of reinsurance receivables. An allowance for uncollectible reinsurance receivable is recognized based on the financial strength of the reinsurers and the length of time any balances are past due. Any changes in the allowance resulting from this review are included in net losses and loss adjustment expenses on the consolidated statements of operations during the period in which the determination is made. The allowance for uncollectible reinsurance was $8.0 million as of December 31, 2017 and 2016.

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

Income Taxes

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

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

Deferred Acquisition Costs

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

The amortization of deferred acquisition costs for the years ended December 31, 2017 and 2016 was $109.0 million and $114.3 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, 2017 and 2016, the total premium deficiency charges were $0.3 million in both years, 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 2017 and 2016 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, 2017 or 2016.

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 and 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 (losses) on the consolidated statements of operations.

Margin Borrowing Facility

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

Unpaid Losses and Loss Adjustment Expenses

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

The process of establishing the liability for unpaid losses and loss adjustment is complex, requiring the use of informed actuarially based estimates and management's judgment. In some cases, significant periods of time, up to several years or more, may elapse between the occurrence of an insured loss and the reporting of that loss to the Company. To establish this liability, the Company regularly reviews and updates the methods of making such estimates and establishing the resulting liabilities. Any resulting adjustments are recorded in consolidated statements of operations during the period in which the determination is made.

Premiums

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

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

Contingent Commissions

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

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 and losses, primarily comprised of re-measurement of known losses on claims to be paid in foreign currencies, were a gain of $2.0 million and a loss of $0.7 million for the years ended December 31, 2017 and 2016, respectively.

Other Income

On September 30, 2016, Diamond State Insurance Company sold all the outstanding shares of capital stock of one of its wholly owned subsidiaries, United National Specialty Insurance Company, to an unrelated party. Diamond State Insurance Company received a one-time payment of $18.7 million and recognized a pretax gain of $6.9 million which is reflected in other income in 2016. This transaction did not have an impact on the Company's ongoing business operations. Subsequent to the sale, any business previously written by United National Specialty Insurance Company is being written by other companies within the Company's U.S. Insurance Operations.

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

3. Investments

The amortized cost and estimated fair value of investments were as follows as of December 31, 2017 and 2016:

(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, 2017					
Fixed maturities:					
U.S. treasury and agency obligations	$ 105,211	$ 564	$ (1,193)	$ 104,582	$ -
Obligations of states and political subdivisions	94,915	466	(267)	95,114	-
Mortgage-backed securities	150,237	404	(1,291)	149,350	-
Asset-backed securities	202,972	265	(393)	202,844	(1)
Commercial mortgage-backed securities	137,741	102	(1,051)	136,792	-
Corporate bonds	415,346	2,291	(1,388)	416,249	-
Foreign corporate bonds	123,600	333	(545)	123,388	-
Total fixed maturities	1,230,022	4,425	(6,128)	1,228,319	(1)
Common stock	124,915	18,574	(3,260)	140,229	-
Other invested assets	77,820	-	-	77,820	-
Total	$ 1,432,757	$ 22,999	$ (9,388)	$ 1,446,368	$ (1)

(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, 2016					
Fixed maturities:					
U.S. treasury and agency obligations	$ 69,473	$ 763	$ (223)	$ 70,013	$ -
Obligations of states and political subdivisions	155,290	1,507	(351)	156,446	-
Mortgage-backed securities	88,131	895	(558)	88,468	-
Asset-backed securities	233,027	697	(592)	233,132	(4)
Commercial mortgage-backed securities	183,890	149	(1,724)	182,315	-
Corporate bonds	381,132	1,743	(2,848)	380,027	-
Foreign corporate bonds	126,369	164	(673)	125,860	-
Total fixed maturities	1,237,312	5,918	(6,969)	1,236,261	(4)
Common stock	119,515	3,445	(2,403)	120,557	-
Other invested assets	66,827	91	-	66,918	-
Total	$ 1,423,654	$ 9,454	$ (9,372)	$ 1,423,736	$ (4)

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

Excluding U.S. treasuries and agency bonds, the Company did not hold any debt or equity investments in a single issuer that was in excess of 4% of shareholder's equity at December 31, 2017 and 2016.

The amortized cost and estimated fair value of the Company's fixed maturities portfolio classified as available for sale at December 31, 2017, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 63,079	$ 63,025
Due in one year through five years	434,994	433,979
Due in five years through ten years	233,257	234,533
Due in ten years through fifteen years	2,187	2,205
Due after fifteen years	5,555	5,591
Mortgage-backed securities	150,237	149,350
Asset-backed securities	202,972	202,844
Commercial mortgage-backed securities	137,741	136,792
Total	$ 1,230,022	$ 1,228,319

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, 2017:

	Less than 12 months		12 months or longer (1)		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	$ 79,304	$ (962)	$ 17,469	$ (231)	$ 96,773	$ (1,193)
Obligations of states and political subdivisions	32,654	(142)	12,060	(125)	44,714	(267)
Mortgage-backed securities	127,991	(1,247)	1,866	(44)	129,857	(1,291)
Asset-backed securities	97,817	(371)	6,423	(22)	104,240	(393)
Commercial mortgage-backed securities	80,047	(507)	27,976	(544)	108,023	(1,051)
Corporate bonds	139,923	(751)	53,024	(637)	192,947	(1,388)
Foreign corporate bonds	53,320	(305)	20,582	(240)	73,902	(545)
Total fixed maturities	611,056	(4,285)	139,400	(1,843)	750,456	(6,128)
Common stock	32,759	(3,260)	-	-	32,759	(3,260)
Total	$ 643,815	$ (7,545)	$ 139,400	$ (1,843)	$ 783,215	$ (9,388)

(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, 2016:

(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	$ 37,576	$ (223)	$ -	$ -	$ 37,576	$ (223)
Obligations of states and political subdivisions	45,787	(341)	670	(10)	46,457	(351)
Mortgage-backed securities	52,780	(541)	298	(17)	53,078	(558)
Asset-backed securities	66,949	(511)	21,020	(81)	87,969	(592)
Commercial mortgage-backed securities	91,158	(1,073)	69,747	(651)	160,905	(1,724)
Corporate bonds	171,621	(2,731)	9,218	(117)	180,839	(2,848)
Foreign corporate bonds	76,036	(673)	-	-	76,036	(673)
Total fixed maturities	541,907	(6,093)	100,953	(876)	642,860	(6,969)
Common stock	57,439	(2,403)	-	-	57,439	(2,403)
Total	$ 599,346	$ (8,496)	$ 100,953	$ (876)	$ 700,299	$ (9,372)

(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, 2017 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, 2017, gross unrealized losses related to U.S. treasury and agency obligations were $1.193 million. Of this amount, $0.231 million have been in an unrealized loss position for twelve months or greater and rated AA+. Macroeconomic and market analysis is conducted in evaluating these securities. Consideration is given to the interest rate environment, duration and yield curve management of the portfolio, sector allocation and security selection.

Obligations of states and political subdivisions – As of December 31, 2017, gross unrealized losses related to obligations of states and political subdivisions were $0.267 million. Of this amount, $0.125 million have been in an unrealized loss position for twelve months or greater and are rated investment grade 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, 2017, gross unrealized losses related to mortgage-backed securities were $1.291 million. Of this amount, $0.044 million have been in an unrealized loss position for twelve months or greater. 95.5% of the unrealized losses for twelve months or greater are related to securities rated AA+ or better. Mortgage-backed securities are modeled to project principal losses under downside, base, and upside scenarios for the economy and home prices. The primary assumption that drives the security and loan level modeling is the Home Price Index ("HPI") projection. These forecasts incorporate not just national macro-economic trends, but also regional impacts to arrive at the most granular and accurate projections. These assumptions are incorporated into the model as a basis to generate delinquency probabilities, default curves, loss severity curves, and voluntary prepayment curves at the loan level within each deal. The model utilizes HPI-adjusted current LTV, payment history, loan terms, loan modification history, and borrower characteristics as inputs to generate expected cash flows and principal loss for each bond under various scenarios.

Asset backed securities ("ABS") - As of December 31, 2017, gross unrealized losses related to asset backed securities were $0.393 million. Of this amount, $0.022 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 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, 2017, gross unrealized losses related to the CMBS portfolio were $1.051 million. Of this amount, $0.544 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 24.5. This represents the percentage of pool losses that can occur before a mortgage-backed security will incur its first dollar of principal loss. For the Company's CMBS portfolio, a loan level analysis is utilized where every underlying CMBS loan is re-underwritten based on a set of assumptions reflecting expectations for the future path of the economy. Each loan is analyzed over time using a series of tests to determine if a credit event will occur during the life of the loan. Inherent in this process are several economic scenarios and their corresponding rent/vacancy and capital market states. The five primary credit events that frame the analysis include loan modifications, term default, balloon default, extension, and ability to pay off at balloon. The resulting output is the expected loss adjusted cash flows for each bond under the base case and distressed scenarios.

Corporate bonds - As of December 31, 2017, gross unrealized losses related to corporate bonds were $1.388 million. Of this amount, $0.637 million have been in an unrealized loss position for twelve months or greater and are rated investment grade or better. The analysis for this asset class includes maintaining detailed financial models that include a projection of each issuer's future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, the issuer's current competitive position, its vulnerability to changes in the competitive and regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

Foreign bonds – As of December 31, 2017, gross unrealized losses related to foreign bonds were $0.545 million. Of this amount, $0.240 million have been in an unrealized loss position for twelve months or greater and are rated investment grade or better. For this asset class, detailed financial models are maintained that include a projection of each issuer's future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, the issuer's current competitive position, its vulnerability to changes in the competitive and regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

Common stock – As of December 31, 2017, gross unrealized losses related to common stock were $3.260 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, 2017 and 2016:

(Dollars in thousands)	Years Ended December 31, 2017	2016
Fixed maturities:		
OTTI losses, gross	$ (31)	$ (259)
Portion of loss recognized in other comprehensive income (pre-tax)	-	-
Net impairment losses on fixed maturities recognized in earnings	(31)	(259)
Equity securities	(2,575)	(6,474)
Total	$ (2,606)	$ (6,733)

The following table is an analysis of the credit losses recognized in earnings on fixed maturities held by the Company as of December 31, 2017 and 2016 for which a portion of the OTTI loss was recognized in other comprehensive income.

(Dollars in thousands)	Years Ended December 31, 2017	2016
Balance at beginning of period	$ 31	$ 31
Additions where no OTTI was previously recorded	-	-
Additions where an OTTI was previously recorded	-	-
Reductions for securities for which the company intends to sell or more likely than not will be required to sell before recovery	-	-
Reductions reflecting increases in expected cash flows to be collected	-	-
Reductions for securities sold during the period	(18)	-
Balance at end of period	$ 13	$ 31

Accumulated Other Comprehensive Income, Net of Tax

Accumulated other comprehensive income, net of tax, as of December 31, 2017 and 2016 was as follows:

(Dollars in thousands)	December 31, 2017	2016
Net unrealized gains (losses) from:		
Notes receivable from affiliates	$ (290,497)	$ (290,497)
Fixed maturities	(1,703)	(1,051)
Common stock	15,314	1,042
Foreign currency fluctuations	551	-
Other	-	91
Deferred taxes	(5,175)	(352)
Accumulated other comprehensive income, net of tax	$ (281,510)	$ (290,767)

The following tables present the changes in accumulated other comprehensive income, net of tax, by component for the years ended December 31, 2017 and 2016:

Year Ended December 31, 2017 (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	$ (206)	$ (290,497)	$ (64)	$ (290,767)
Other comprehensive income (loss) before reclassification	9,503	-	994	10,497
Amounts reclassified from accumulated other comprehensive income (loss)	(1,021)	-	(219)	(1,240)
Other comprehensive income (loss)	8,482	-	775	9,257
Ending balance	$ 8,276	$ (290,497)	$ 711	$ (281,510)

Year Ended December 31, 2016 (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	$ 4,707	$ (290,497)	$ (122)	$ (285,912)
Other comprehensive income (loss) before reclassification	10,403	-	(261)	10,142
Amounts reclassified from accumulated other comprehensive income (loss)	(15,316)	-	319	(14,997)
Other comprehensive income (loss)	(4,913)	-	58	(4,855)
Ending balance	$ (206)	$ (290,497)	$ (64)	$ (290,767)

The reclassifications out of accumulated other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

(Dollars in thousands)		Amounts Reclassified from Accumulated Other Comprehensive Income Years Ended December 31,	
Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	2017	2016
Unrealized gains and losses on available for sale securities	Other net realized investment (gains)	$ (4,313)	$ (30,227)
	Other than temporary impairment losses on investments	2,606	6,733
	Total before tax	(1,707)	(23,494)
	Income tax expense	686	8,178
	Unrealized gains and losses on available for sale securities, net of tax	(1,021)	(15,316)
Foreign currency items	Other net realized investment (gains) losses	(336)	491
	Income tax expense (benefit)	117	(172)
	Foreign currency items, net of tax	(219)	319
Total reclassifications	Total reclassifications, net of tax	$ (1,240)	$ (14,997)

Net Realized Investment Gains (Losses)

The components of net realized investment gains (losses) for the years ended December 31, 2017 and 2016 were as follows:

(Dollars in thousands)	Years Ended December 31, 2017	2016
Fixed maturities:		
Gross realized gains	$ 4,274	$ 3,140
Gross realized losses	(3,203)	(712)
Net realized gains	1,071	2,428
Common stock:		
Gross realized gains	4,178	28,785
Gross realized losses	(3,206)	(8,210)
Net realized gains	972	20,575
Derivatives:		
Gross realized gains	3,555	3,733
Gross realized losses	(3,630)	(4,843)
Net realized losses (1)	(75)	(1,110)
Total net realized investment gains (losses)	$ 1,968	$ 21,893

(1) Includes $3.6 million and $4.8 million of periodic net interest settlements related to the derivatives for the years ended December 31, 2017 and 2016, respectively.

The proceeds from sales and redemptions of available for sale securities resulting in net realized investment gains (losses) for the years ended December 31, 2017 and 2016 were as follows:

(Dollars in thousands)	Years Ended December 31, 2017	2016
Fixed maturities	$ 906,028	$ 381,304
Equity securities	32,218	111,156

Net Investment Income

The sources of net investment income for the years ended December 31, 2017 and 2016 were as follows:

(Dollars in thousands)	Years Ended December 31, 2017	2016
Fixed maturities	$ 32,664	$ 30,275
Equity securities	3,595	3,302
Cash and cash equivalents	853	194
Other invested assets	4,861	5,295
Notes from affiliates	2,836	2,433
Total investment income	44,809	41,499
Investment expense (1)	(2,890)	(5,158)
Net investment income	$ 41,919	$ 36,341

(1) Investment expense for the year ended December 31, 2016 includes $1.5 million in upfront fees necessary to enter into a new investment. See Note 12 for additional information on the Company's $40 million commitment related to this investment.

The Company's total investment return on a pre-tax basis for the years ended December 31, 2017 and 2016 were as follows:

(Dollars in thousands)	Years Ended December 31, 2017	2016
Net investment income	$ 41,919	$ 36,341
Net realized investment gains(losses)	1,968	21,893
Change in unrealized holding gains and losses	14,080	(8,399)
Net realized and unrealized investment returns	16,048	13,494
Total investment return	$ 57,967	$ 49,835
Total investment return %	3.7%	3.3%
Average investment portfolio	$ 1,575,863	$ 1,502,574

Insurance Enhanced Asset-Backed and Credit Securities

As of December 31, 2017, the Company held insurance enhanced asset-backed, commercial mortgage-backed, and credit securities with a market value of approximately $33.9 million. Approximately $1.6 million of these securities were tax-free municipal bonds, which represented approximately 0.1% of the Company's total cash and invested assets, net of payable/ receivable for securities purchased and sold. These securities had an average rating of "AA." None of these bonds are pre-refunded with U.S. treasury securities, nor would they have carried a lower credit rating had they not been insured.

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, 2017, is as follows:

(Dollars in thousands) Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	Exposure Net of Pre-refunded & Government Guaranteed Securities
Municipal Bond Insurance Association	$ 1,157	$ -	$ -	$ 1,157
Gov't National Housing Association	425	-	425	-
Total backed by financial guarantors	$ 1,582	$ -	$ 425	$ 1,157

In addition to the tax-free municipal bonds, the Company held $32.3 million of insurance enhanced bonds, which represented approximately 2.1% of the Company's total invested assets, net of receivable/payable for securities purchased and sold. The insurance enhanced bonds are comprised of $21.8 million of taxable municipal bonds, $10.4 million of commercial mortgage-backed securities, and $0.1 million of asset-backed securities. The financial guarantors of the Company's $32.3 million of insurance enhanced asset-backed, commercial-mortgage-backed, and taxable municipal securities include Municipal Bond Insurance Association ($6.4 million), Assured Guaranty Corporation ($15.5 million), and Federal Home Loan Mortgage Corporation ($10.4 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, 2017.

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 borrowing arrangements, or were held in trust pursuant to intercompany reinsurance agreements. The fair values were as follows as of December 31, 2017 and 2016:

	Estimated Fair Value	
(Dollars in thousands)	**December 31, 2017**	**December 31, 2016**
On deposit with governmental authorities	$ 26,852	$ 29,079
Intercompany trusts held for the benefit of U.S. policyholders	328,494	351,002
Held in trust pursuant to third party requirements	94,098	88,178
Letter of credit held for third party requirements	3,944	4,871
Securities held as collateral for borrowing arrangements (1)	88,040	85,939
Total	$ 541,428	$ 559,069

(1) Amount required to collateralize margin borrowing facility.

Variable Interest Entities

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

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

The fair value of one of the Company's VIE's, which invests in distressed securities and assets, was $26.3 million and $32.9 million as of December 31, 2017 and 2016, respectively. The Company's maximum exposure to loss from this VIE, which factors in future funding commitments, was $40.5 million and $48.6 million at December 31, 2017 and 2016, respectively. The fair value of a second VIE that provides financing for middle market companies, was $33.8 million and $33.2 million at December 31, 2017 and 2016, respectively. The Company's maximum exposure to loss from this VIE, which factors in future funding commitments, was $43.8 million and $42.3 million at December 31, 2017 and 2016, respectively. During the 2nd quarter of 2017, the Company invested in a new limited partnership that also invests in distressed securities and assets and is considered a VIE. The Company's investment in this partnership has a fair value of $17.8 million as of December 31, 2017. The Company's maximum exposure to loss from this VIE, which factors in future funding commitments, was $51.3 million at December 31, 2017. The Company's investment in VIEs is included in other invested assets on the consolidated balance sheet with changes in fair value recorded in the consolidated statements of operations.

4. Derivative Instruments

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 statements of operations. The Company is ultimately responsible for the valuation of the interest rate swaps. To aid in determining the estimated fair value of the interest rate swaps, the Company relies on the forward interest rate curve and information obtained from a third party financial institution.

The following table summarizes information on the location and the gross amount of the derivatives' fair value on the consolidated balance sheets as of December 31, 2017 and 2016:

(Dollars in thousands)		December 31, 2017		December 31, 2016	
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	$ (7,968)	$ 200,000	$ (11,524)

The following table summarizes the net gains (losses) included in the consolidated statements of operations for changes in the fair value of the derivatives and the periodic net interest settlements under the derivatives for the years ended December 31, 2017 and 2016:

		Years Ended December 31,	
(Dollars in thousands)	Consolidated Statements of Operations Line	2017	2016
Interest rate swap agreements	Net realized investment gains (losses)	$ (75)	$ (1,110)

As of December 31, 2017 and 2016, the Company is due $3.1 million and $5.3 million, respectively, for funds it needed to post to execute the swap transaction and $9.5 million and $12.6 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.

5. Fair Value Measurements

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

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

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

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

The following table presents information about the Company's invested assets and derivative instruments measured at fair value on a recurring basis as of December 31, 2017 and 2016, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of December 31, 2017	**Fair Value Measurements**			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$ 104,582	$ -	$ -	$ 104,582
Obligations of states and political subdivisions	-	95,114	-	95,114
Mortgage-backed securities	-	149,350	-	149,350
Commercial mortgage-backed securities	-	136,792	-	136,792
Asset-backed securities	-	202,844	-	202,844
Corporate bonds	-	416,249	-	416,249
Foreign corporate bonds	-	123,388	-	123,388
Total fixed maturities	104,582	1,123,737	-	1,228,319
Common stock	140,229	-	-	140,229
Total assets measured at fair value (1)	$ 244,811	$ 1,123,737	$ -	$ 1,368,548
Liabilities:				
Derivative instruments	$ -	$ 7,968	$ -	$ 7,968
Total liabilities measured at fair value	$ -	$ 7,968	$ -	$ 7,968

(1) Excluded from the table above are limited partnerships of $77.8 million at December 31, 2017 whose fair value is based on net asset value as a practical expedient.

As of December 31, 2016	**Fair Value Measurements**			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$ 70,013	$ -	$ -	$ 70,013
Obligations of states and political subdivisions	-	156,446	-	156,446
Mortgage-backed securities	-	88,468	-	88,468
Commercial mortgage-backed securities	-	182,315	-	182,315
Asset-backed securities	-	233,132	-	233,132
Corporate bonds	-	380,027	-	380,027
Foreign corporate bonds	-	125,860	-	125,860
Total fixed maturities	70,013	1,166,248	-	1,236,261
Common stock	120,557	-	-	120,557
Total assets measured at fair value (1)	$ 190,570	$ 1,166,248	$ -	$ 1,356,818
Liabilities:				
Derivative instruments	$ -	$ 11,524	$ -	$ 11,524
Total liabilities measured at fair value	$ -	$ 11,524	$ -	$ 11,524

(1) Excluded from the table above are limited partnerships of $66.9 million at December 31, 2016 whose fair value is based on net asset value as a practical expedient.

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

The securities classified as Level 2 in the above table consist primarily of fixed maturity securities and derivative instruments. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, security prices are derived through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. If there are no recent reported trades, matrix or model processes are used to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of asset-backed securities, collateralized mortgage obligations, and mortgage-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. The estimated fair value of the derivative instruments, consisting of interest rate swaps, is obtained from a third party financial institution that utilizes observable inputs such as the forward interest rate curve.

The fair value of the margin borrowing facility approximates its carrying value due to the facility being due on demand.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016.

The following table presents changes in Level 3 investments measured at fair value on a recurring basis for the year ended December 31, 2017 and 2016:

(Dollars in thousands)	Years Ended December 31, 2017	2016
Beginning balance	$ -	$ -
Total gains (realized / unrealized):		
Amortization of bond premium and discount, net	-	75
Included in realized gains (losses)	-	486
Purchases	-	27,303
Sales	-	(27,864)
Ending balance	$ -	$ -

The investments classified as Level 3 in the above table consist of privately placed debt instruments purchased in 2017 with unobservable inputs. The Company does not have access to daily valuations; therefore, market trades, performance of the underlying assets, and key risks are considered in order to estimate fair values of these middle market corporate debt instruments. In the fourth quarter of 2016, the Company exchanged the debt instruments purchased in previous quarters of 2016, along with cash and equity related to the debt instruments, for a single interest in the Private Middle Market Loan Fund, LP, which is considered a VIE. As this investment is priced using a Net Asset Value ("NAV") it is excluded from the level 3 investment table above. See Note 3 of the notes to the consolidated financial statements in Item 8 of Part II of this report for further information regarding the Company's investment in VIEs for the years ended December 31, 2017 and 2016.

Fair Value of Alternative Investments

Other invested assets consist of limited liability partnerships whose fair value is based on net asset value per share practical expedient. The following table provides the fair value and future funding commitments related to these investments at December 31, 2017 and 2016.

	December 31, 2017		December 31, 2016	
(Dollars in thousands)	Fair Value	Future Funding Commitment	Fair Value	Future Funding Commitment
Cayman Islands Exempted LP (1)	$ -	$ -	$ 797	$ -
Real Estate Fund, LP (2)	-	-	-	-
European Non-Performing Loan Fund, LP (3)	26,262	14,214	32,922	15,714
Private Middle Market Loan Fund, LP (4)	33,760	10,000	33,199	9,054
Distressed Debt Fund, LP (5)	17,798	33,500	-	-
Total	$ 77,820	$ 57,714	$ 66,918	$ 24,768

(1) This limited partnership was organized for the sole purpose of holding and disposing of ordinary shares of Global Indemnity Limited held directly or indirectly by the partnership ("portfolio investment"). The partnership was terminated in December, 2017. A receivable for the final distribution was recorded at December 31, 2017.

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

(3) This limited partnership invests in distressed securities and assets through senior and subordinated, secured and unsecured debt and equity, in both public and private large-cap and middle-market companies. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company does not have the contractual

option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. Based on the terms of the partnership agreement, the Company anticipates its interest in this partnership to be redeemed by 2020.

(4) This limited partnership provides financing for 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 investment management agreement, the Company anticipates its interest to be redeemed no later than 2024.

(5) This limited partnership invests in stressed and distressed debt instruments. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. Based on the terms of the partnership agreement, the Company anticipates its interest to be redeemed no later than 2027.

Limited Liability Companies and Limited Partnerships with ownership interest exceeding 3%

The Company uses the equity method to account for investments in limited liability companies and limited partnerships where its ownership interest exceeds 3%. The equity method of accounting for an investment in a limited liability company and limited partnership requires that its cost basis be updated to account for the income or loss earned on the investment. The investment income associated with these limited liability companies or limited partnerships, which is reflected in the consolidated statements of operations, was $4.7 million and $5.2 million for the years ended December 31, 2017 and 2016, respectively.

Pricing

The Company's pricing vendors provide prices for all investment categories except for investments in limited partnerships whose fair value is based on net asset values as a practical expedient. Two primary vendors are utilized to provide prices for equity and fixed maturity securities.

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

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

- Corporate and agency bonds are evaluated by utilizing terms and conditions sourced from commercial vendors. Bonds with similar characteristics are grouped into specific sectors. Both asset classes use standard inputs and utilize bid price or spread, quotes, benchmark yields, discount rates, market data feeds, and financial statements.

- 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 benchmark 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, an integrated evaluation system is used. The pricing models incorporate trades, spreads, benchmark curves, market data feeds, new issue data, and trustee reports.

- 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, various external analytical products are utilized and purchased from commercial vendors.

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

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

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

- On a quarterly basis, the Company corroborates investment security prices received from its pricing vendors by obtaining pricing from a second pricing vendor for a sample of securities.

During 2017 and 2016, the Company has not adjusted quotes or prices obtained from the pricing vendors.

6. Goodwill and Intangible Assets

Goodwill

As a result of acquisitions in 2015 and 2010, the Company has goodwill, within the Personal Lines segment, of $6.5 million as of December 31, 2017 and 2016. The goodwill represents the excess purchase price over the Company's best estimate of the fair value of the assets acquired. Impairment testing performed in 2017 and 2016 did not result in impairment of the goodwill acquired.

Intangible assets

The following table presents details of the Company's intangible assets as of December 31, 2017:

(Dollars in thousands) Description	Useful Life	Cost	Accumulated Amortization	Net Value
Trademarks	Indefinite	$ 4,800	$ -	$ 4,800
Tradenames	Indefinite	4,200	-	4,200
State insurance licenses	Indefinite	10,000	-	10,000
Customer relationships	15 years	5,300	2,724	2,576
Agent relationships	10 years	900	270	630
Trade names	7 years	600	257	343
		$ 25,800	$ 3,251	$ 22,549

The following table presents details of the Company's intangible assets as of December 31, 2016:

(Dollars in thousands) Description	Useful Life	Cost	Accumulated Amortization	Net Value
Trademarks	Indefinite	$ 4,800	$ -	$ 4,800
Tradenames	Indefinite	4,200	-	4,200
State insurance licenses	Indefinite	10,000	-	10,000
Customer relationships	15 years	5,300	2,369	2,931
Agent relationships	10 years	900	179	721
Trade names	7 years	600	173	427
		$ 25,800	$ 2,721	$ 23,079

Amortization related to the Company's definite lived intangible assets was $0.5 million, for each of the years ended December 31, 2017 and 2016.

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

(Dollars in thousands)	
2018	$ 529
2019	529
2020	529
2021	529
2022	443

Intangible assets with indefinite lives

As of December 31, 2017 and 2016, indefinite lived intangible assets, which are comprised of tradenames, trademarks, and state insurance licenses, were $19.0 million. 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 2017 and 2016 indicated that there was no impairment of these assets.

Intangible assets with definite lives

As of December 31, 2017 and 2016, definite lived intangible assets, net of accumulated amortization, were $3.5 million and $4.1 million, respectively, and were comprised of customer relationships, agent relationships, and tradenames. 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 2017 or 2016.

7. Reinsurance

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

The Company had the following reinsurance balances as of December 31, 2017 and 2016:

(Dollars in thousands)	December 31, 2017	December 31, 2016
Reinsurance receivables, net	$ 105,060	$ 143,774
Collateral securing reinsurance receivables	(6,584)	(13,865)
Reinsurance receivables, net of collateral	$ 98,476	$ 129,909
Allowance for uncollectible reinsurance receivables	$ 8,040	$ 8,040
Prepaid reinsurance premiums	28,851	42,583

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 $1.2 million and $2.0 million at December 31, 2017 and 2016, respectively.

As of December 31, 2017, 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, 2017)
Munich Re America Corporation	$ 48,222	A+

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

(Dollars in thousands)	Written	Earned
For the year ended December 31, 2017:		
Direct business	$ 433,922	$ 440,109
Reinsurance assumed	82,412	77,811
Reinsurance ceded (1)	(66,154)	(79,886)
Net premiums	$ 450,180	$ 438,034
For the year ended December 31, 2016:		
Direct business	$ 468,046	$ 466,750
Reinsurance assumed	97,799	98,267
Reinsurance ceded (1)	(94,905)	(96,552)
Net premiums	$ 470,940	$ 468,465

(1) Includes ceded written premiums of ($1.3) million and $35.3 million and ceded earned premiums of $13.5 million and $43.2 million to American Bankers Insurance Company for the years ended December 31, 2017, and 2016, respectively.

8. Income Taxes

As of December 31, 2017, the statutory income tax rates of the countries where the Company conducts or conducted business are 35% in the United States, 0% in Bermuda, 27.08% in the Duchy of Luxembourg (for Luxembourg City), 0.25% to 2.5% in Barbados, 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 United States enacted the Tax Cuts and Job Act (“TCJA”) on December 22, 2017 which contains provisions that can materially affect the tax treatment of the Company’s U.S. subsidiaries. Although the TCJA reduced the U.S. corporate income tax rate to 21 percent, it also imposed a 10 percent base erosion minimum tax, or BEAT, on a U.S. corporation’s modified taxable income, which generally is the corporation’s taxable income calculated without regard to certain otherwise deductible payments made to certain foreign affiliates (including interest payments as well as gross premium or other consideration paid or accrued to a related foreign reinsurance company for reinsurance). In addition to BEAT, the TCJA limits the deductibility of interest expense and executive compensation by the Company’s U.S. subsidiaries. The Company is continuing to study the full extent of the impact of these and other provisions of the TCJA which will become effective on January 1, 2018.

The Company’s income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, including the results of the quota share between Global Indemnity Reinsurance and the Insurance Operations, for the years ended December 31, 2017 and 2016 were as follows:

Year Ended December 31, 2017: (Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 212,386	$ 462,453	$ (158,505)	$ 516,334
Net premiums written	$ 212,432	$ 237,748	$ -	$ 450,180
Net premiums earned	$ 201,165	$ 236,869	$ -	$ 438,034
Net investment income	58,871	24,609	(41,561)	41,919
Net realized investment gains (losses)	(250)	2,218	-	1,968
Other income	195	6,366	-	6,561
Total revenues	259,981	270,062	(41,561)	488,482
Losses and Expenses:				
Net losses and loss adjustment expenses	94,903	174,309	-	269,212
Acquisition costs and other underwriting expenses	89,153	94,580	-	183,733
Corporate and other operating expenses	812	8,315	-	9,127
Interest expense	253	42,342	(41,561)	1,034
Income (loss) before income taxes	$ 74,860	$ (49,484)	$ -	$ 25,376

Year Ended December 31, 2016: (Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 201,726	$ 506,061	$ (141,942)	$ 565,845
Net premiums written	$ 201,690	$ 269,250	$ -	$ 470,940
Net premiums earned	$ 212,325	$ 256,140	$ -	$ 468,465
Net investment income	50,954	19,341	(33,954)	36,341
Net realized investment gains	83	21,810	-	21,893
Other income (loss)	(182)	10,569	-	10,387
Total revenues	263,180	307,860	(33,954)	537,086
Losses and Expenses:				
Net losses and loss adjustment expenses	95,812	168,191	-	264,003
Acquisition costs and other underwriting expenses	94,749	101,901	-	196,650
Corporate and other operating expenses	492	8,303	-	8,795
Interest expense	228	34,758	(33,954)	1,032
Income (loss) before income taxes	$ 71,899	$ (5,293)	$ -	$ 66,606

The following table summarizes the components of income tax benefit:

(Dollars in thousands)	Years Ended December 31, 2017	2016
Current income tax expense:		
Foreign	$ 381	$ 314
U.S. Federal	127	147
Total current income tax expense	508	461
Deferred income tax expense (benefit):		
U.S. tax rate change	17,524	-
U.S. Federal	(18,542)	(2,727)
Total deferred income tax (benefit)	(1,018)	(2,727)
Total income tax benefit	$ (510)	$ (2,266)

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

The following table summarizes the differences between the tax provision for financial statement purposes and the expected tax provision at the weighted average tax rate:

(Dollars in thousands)	Years Ended December 31, 2017		2016	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Expected tax provision at weighted average	$(16,938)	(66.7%)	$ (1,512)	(2.3%)
Adjustments:				
Tax exempt interest	(213)	(0.8)	(394)	(0.6)
Dividend exclusion	(571)	(2.3)	(617)	(0.9)
Tax rate change	17,524	69.1	-	0.0
Other	(312)	(1.3)	257	0.4
Effective income tax benefit	$ (510)	(2.0%)	$ (2,266)	(3.4%)

The effective income tax benefit rate for 2017 was 2.0%, compared with an effective income tax benefit rate of 3.4% for 2016. The decrease in the effective income tax benefit rate in 2017 compared to 2016 is due to incurring a provisional tax expense of $17.5 million related to the reduction in the deferred tax asset as a result of the TCJA enacted on December 22, 2017. The provisional tax expense was offset by an increase in the tax benefit due to an increase in losses incurred in the Company's U.S. operations for 2017 compared to 2016.

Financial results for the year ended December 31, 2017 reflect provisional amounts related to the December 22, 2017 enactment of the TCJA. These provisional estimates are based on the Company's initial analysis and current interpretation of the legislation. Given the complexity of the legislation, anticipated guidance from the U.S. Treasury, and the potential for additional guidance from the Securities and Exchange Commission or the Financial Accounting Standards Board, these estimates may be adjusted during 2018.

The tax effects of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2017 and 2016 are presented below:

(Dollars in thousands)	2017	2016
Deferred tax assets:		
Discounted unpaid losses and loss adjustment expenses	$ 3,625	$ 7,015
Unearned premiums	5,318	8,802
Section 163(j) carryforward	7,906	8,075
Alternative minimum tax credit carryover	-	10,957
Net operating loss carryforward	16,323	3,205
Partnership K1 basis differences	130	238
Capital gain on derivative instruments	1,673	4,033
Investment impairments	1,742	3,419
Stock options	1,740	2,820
Stat-to-GAAP reinsurance reserve	1,014	1,337
Intercompany transfers	317	808
Other	3,249	4,986
Total deferred tax assets	43,037	55,695
Deferred tax liabilities:		
Purchase accounting adjustment for American Reliable	7,723	6,095
Intangible assets	2,394	3,942
Unrealized gain on securities available-for-sale and investments in limited partnerships included in accumulated other comprehensive income	3,105	352
Investment basis differences	211	484
Deferred acquisition costs	1,921	2,941
Depreciation and amortization	285	119
Other	1,202	805
Total deferred tax liabilities	16,841	14,738
Total net deferred tax assets	$ 26,196	$ 40,957

The deferred tax assets and deferred tax liabilities listed in the table above relate to temporary differences between the Company's accounting and tax carrying values and carryforwards for its companies in the United States. The net deferred tax asset at December 31, 2017 includes a $17.5 million reduction as a result of the TCJA enacted on December 22, 2017. The new tax law reduces the Company's U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. As a result, the Company reduced its net deferred tax assets at December 31, 2017 and recorded a provisional deferred tax expense of $17.5 million which increased the effective tax rate for the year ending December 31, 2017 by 69.1%.

Management believes it is more likely than not that the remaining deferred tax assets will be completely utilized in future years. As a result, the Company has not recorded a valuation allowance at December 31, 2017 and 2016.

The Company has an alternative minimum tax ("AMT") credit carryforward of $11.0 million as of December 31, 2017 and 2016. The TCJA repealed the corporate AMT. The AMT credit carryforward of $11.0 million was reclassed to federal income taxes receivable at December 31, 2017 and will be fully refunded by the end of 2021. The Company has a net operating loss ("NOL") carryforward of $16.3 million as of December 31, 2017, which begins to expire in 2035 based on when the original NOL was generated. The Company's NOL carryforward as of December 31, 2016 was $3.2 million. The Company has a Section 163(j) ("163(j)") carryforward of $7.9 million and $8.1 million as of December 31, 2017 and 2016, respectively, which can be carried forward indefinitely. The 163(j) carryforward is for 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 2014.

Should the Company's subsidiaries that are subject to income taxes imposed by the U.S. authorities pay a dividend to their foreign affiliates, withholding taxes would apply. The Company has not recorded deferred taxes for potential withholding tax on undistributed earnings. The Company believes, although there can be no assurances, that it qualifies for treaty benefits under the Tax Convention with Luxembourg and would be subject to a 5% withholding tax if it were to pay a dividend. Determination of the unrecognized deferred tax liability related to these undistributed earnings is not practicable because of the complexities with its hypothetical calculation. The Company did not pay any dividends from a U.S. subsidiary to a foreign affiliate during 2017 or 2016.

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 2017 or 2016.

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, 2017 and 2016. As of December 31, 2017, the Company did not record any liabilities for tax-related interest and penalties on its consolidated balance sheets.

9. Liability for Unpaid Losses and Loss Adjustment Expenses

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

	Years Ended December 31,	
(Dollars in thousands)	**2017**	**2016**
Balance at beginning of period	$ 651,042	$ 680,047
Less: Ceded reinsurance receivables	130,439	108,130
Net balance at beginning of period	520,603	571,917
Purchased reserves, gross	19,333	2,007
Less: Purchased reserves ceded	(29)	(45)
Purchase reserves, net of third party reinsurance	19,362	2,052
Incurred losses and loss adjustment expenses related to:		
Current year	323,112	321,255
Prior years	(53,900)	(57,252)
Total incurred losses and loss adjustment expenses	269,212	264,003
Paid losses and loss adjustment expenses related to:		
Current year	156,325	177,006
Prior years	115,431	140,363
Total paid losses and loss adjustment expenses	271,756	317,369
Net balance at end of period	537,421	520,603
Plus: Ceded reinsurance receivables	97,243	130,439
Balance at end of period	$ 634,664	$ 651,042

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 2017, the Company reduced its prior accident year loss reserves by $53.9 million, which consisted of a $39.4 million decrease related to Commercial Lines, $6.6 million decrease related to Personal Lines, and a $7.9 million decrease related to Reinsurance Operations.

The $39.4 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

- **General Liability:** A $26.9 million reduction in aggregate with $6.9 million of favorable development in the construction defect reserve category and $20.0 million of favorable development in the other general liability reserve categories. The favorable development in the construction defect reserve category recognizes lower than anticipated claims frequency and severity which led to reductions primarily in the 2005 through 2016 accident years. For the other general liability reserve categories, lower than expected claims severity was the primary driver of the favorable development mainly in the 2005 through 2014 accident years.
- **Professional Liability:** A $5.8 million decrease in aggregate primarily reflects lower than expected claims severity in the 2006 through 2008 and 2011 through 2012 accident years.
- **Property:** A $6.3 million reduction in aggregate with $4.0 million of favorable development in the property excluding catastrophe reserve categories and $2.3 million of favorable development in the property catastrophe reserve categories. The favorable development in the reserve categories excluding catastrophe experience reflects lower than expected claims severity in the 2011 through 2015 accident years. For the property catastrophe reserve categories, lower than anticipated claims severity was the driver of the favorable development in the 2011 through 2016 accident years.
- **Workers Compensation:** A $0.5 million reduction primarily due to lower than expected case incurred emergence in the 2011 accident year.

The $6.6 million reduction of prior accident year loss reserves related to Personal Lines primarily consisted of the following:

- **Property:** A $6.1 million reduction in the property reserve categories. The decrease reflects lower than expected case incurred emergence primarily in the 2016 accident year and favorable development from the Butte wildfire subrogation recovery in the 2015 accident year.
- **General Liability:** A $0.5 million reduction reflects lower than expected case incurred emergence in the 2016 accident year, primarily in the agriculture reserve category, partially offset by adverse development in the 2015 accident year reflecting higher than anticipated case incurred emergence mainly in the dwelling reserve category.

The $7.9 million reduction of prior accident year loss reserves related to Reinsurance Operations was primarily from the property lines for accident years 2008 through 2016. Ultimate losses were lowered in these accident years based on review of the experience reported from cedants.

During 2016, the Company reduced its prior accident year loss reserves by $57.3 million, which consisted of a $43.8 million decrease related to Commercial Lines and a $13.5 million decrease related to Reinsurance Operations.

The $43.8 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

- **Property:** A $0.8 million increase in aggregate with a $0.5 million increase in the non-catastrophe segments and $0.3 million increase in the catastrophe segments. The increases reflect higher than expected case incurred emergence, primarily in the 2009, 2012, and 2015 accident years. The increases were partially offset by decreases in the 2008, 2011, and 2013 accident years due to better than expected case incurred emergence in those accident years.

- **General Liability:** A $43.8 million reduction in aggregate, within the casualty lines, with $9.4 million of favorable development in the construction defect reserve category and $34.4 million of favorable development in the other general liability reserve categories. For the construction defect reserve category, lower than expected frequency and severity led to favorable development in accident years 2005 through 2015. Lower than expected claims severity was the driver of the favorable development in the other general liability reserve categories, primarily in the 2004 through 2014 accident years.

- **Marine:** A $1.4 million decrease in accident years 2010 through 2012 was driven by less than expected case incurred emergence in these years which is primarily within the casualty lines.

The $13.5 million reduction of prior accident year loss reserves related to Reinsurance Operations was primarily from the property lines for accident years 2010 through 2015. Ultimate losses were lowered in these accident years based on reviews of the experience reported from cedants.

Prior to 2001, the Company underwrote multi-peril business insuring general contractors, developers, and sub-contractors primarily involved in residential construction that has resulted in significant exposure to construction defect ("CD") claims. The Company's reserves for CD claims are established based upon management's best estimate in consideration of known facts, existing case law and generally accepted actuarial methodologies. However, due to the inherent uncertainty concerning this type of business, the ultimate exposure for these claims may vary significantly from the amounts currently recorded. As of December 31, 2017 and 2016, gross reserves for CD claims were $43.8 million and $54.5 million, respectively, and net reserves for CD claims were $40.2 million and $48.6 million, respectively.

The Company has exposure to asbestos and environmental ("A&E") claims. The asbestos exposure primarily arises from the sale of product liability insurance, and the environmental exposure arises from the sale of general liability and commercial multi-peril insurance. In establishing the liability for unpaid losses and loss adjustment expenses related to A&E exposures, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities have been established to cover additional exposures on both known and unasserted claims. Estimates of the liabilities are reviewed and updated regularly. Case law continues to evolve for such claims, and uncertainty exists about the outcome of coverage litigation and whether past claim experience will be representative of future claim experience. Included in net unpaid losses and loss adjustment expenses as of December 31, 2017 and 2016 were IBNR reserves of $26.9 million and $26.7 million, respectively, and case reserves of approximately $3.3 million and $3.2 million, respectively, for known A&E-related claims.

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

	Years Ended December 31,	
(Dollars in thousands)	**2017**	**2016**
Gross reserve for A&E losses and loss adjustment expenses – beginning of period	$ 51,919	$ 53,824
Plus: Incurred losses and loss adjustment expenses – case reserves	542	(669)
Plus: Incurred losses and loss adjustment expenses – IBNR	928	2,064
Less: Payments	1,516	3,300
Gross reserves for A&E losses and loss adjustment expenses – end of period	$ 51,873	$ 51,919

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

	Years Ended December 31,	
(Dollars in thousands)	**2017**	**2016**
Net reserve for A&E losses and loss adjustment expenses – beginning of period	$ 29,890	$ 30,529
Plus: Incurred losses and loss adjustment expenses – case reserves	769	(125)
Plus: Incurred losses and loss adjustment expenses – IBNR	198	631
Less: Payments	733	1,145
Net reserves for A&E losses and loss adjustment expenses – end of period	$ 30,124	$ 29,890

Establishing reserves for A&E and other mass tort claims involves more judgment than other types of claims due to, among other things, inconsistent court decisions, an increase in bankruptcy filings as a result of asbestos-related liabilities, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage. The insurance industry continues to receive a substantial number of asbestos-related bodily injury claims, with an increasing focus being directed toward other parties, including installers of products containing asbestos rather than against asbestos manufacturers. This shift has resulted in significant insurance coverage litigation implicating applicable coverage defenses or determinations, if any, including but not limited to, determinations as to whether or not an asbestos-related bodily injury claim is subject to aggregate limits of liability found in most comprehensive general liability policies.

As of December 31, 2017 and 2016, the survival ratio on a gross basis for the Company's open A&E claims was 20.7 years and 13.8 years, respectively. As of December 31, 2017 and 2016, the survival ratio on a net basis for the Company's open A&E claims was 35.6 years and 19.3 years, respectively. The survival ratio, which is the ratio of gross or net reserves to the 3-year average of annual paid claims, is a financial measure that indicates how long the current amount of gross or net reserves are expected to last based on the current rate of paid claims.

Line of Business Categories

The following is information, presented by lines of business with similar characteristics including similar payout patterns, about incurred and paid claims development as of December 31, 2017, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities included within the net incurred claims amounts. The years included represent the number of years for which claims incurred typically remain outstanding but need not exceed 10 years including the most recent report period presented.

The information about incurred and paid claims development for the years ended December 31, 2008 to 2015, is presented as required supplementary unaudited information.

Commercial Lines

Property and Casualty Methodologies

Commercial Lines internal actuarial reserve reviews were completed for loss and allocated loss adjustment expenses ("ALAE") separately for property excluding catastrophe experience, property catastrophes, and casualty reserve categories. The internal actuarial reserve reviews were completed with data through December, 2017. Actuarial methodologies, such as the Loss Development and Bornhuetter-Ferguson methods, were employed to develop estimates of ultimate Loss & ALAE for most reserve categories. Additional actuarial methodologies were employed to develop estimates of ultimate Loss & ALAE for mass tort and constructions defect reserve categories due to the unique characteristics of the exposures involved. Management's ultimate selections were based on the internal actuarial review and a third party actuarial review completed during the 4th quarter of 2017. Case incurred is subtracted from the management selected ultimates to obtain the booked IBNR reserves. These methodologies are consistent with last year.

Commercial Lines cumulative claim frequency has been calculated at the claim level and includes claims closed without payment.

Commercial Lines – Property
(Dollars in thousands)

	Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,			As of December 31, 2017	
Accident Year	2015 (unaudited)	2016 (unaudited)	2017	IBNR (1)	Cumulative Number of Reported Claims
2015	$ 63,574	$ 64,722	$ 62,575	$ 2,868	4,649
2016		61,990	61,014	5,097	4,104
2017			44,785	8,583	2,778
		Total	$ 168,374		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Commercial Lines – Property

(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31, 2015 (unaudited)	2016 (unaudited)	2017
2015	$ 41,942	$ 57,653	$ 58,926
2016		39,643	51,967
2017			28,541
		Total	139,434
		All outstanding liabilities before 2015, net of reinsurance	7,635
		Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	$ 36,575

The following is required supplementary information about average historical claims duration as of December 31, 2017:

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited) 1	2	3
Commercial Lines - Property	65.2%	22.7%	2.0%

Commercial Lines – Casualty

(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance For the Years Ended December 31, 2008 (unaudited)	2009 (unaudited)	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017	As of December 31, 2017 IBNR (1)	Cumulative Number of Reported Claims
2008	$138,417	$170,855	$160,325	$149,564	$148,019	$146,142	$138,558	$134,514	$129,894	$126,924	$ 7,096	6,191
2009		93,748	96,956	104,518	104,803	104,392	96,206	94,016	91,297	88,384	7,444	3,896
2010			79,188	101,830	102,252	101,113	94,484	91,368	84,681	82,824	10,785	3,503
2011				115,441	117,602	117,288	115,193	108,720	96,361	84,269	5,701	3,741
2012					61,340	65,911	65,637	63,359	55,137	52,504	11,346	2,379
2013						63,807	68,089	67,702	66,301	64,877	11,435	2,519
2014							61,325	60,227	58,042	56,837	15,139	2,307
2015								57,262	56,620	57,775	17,359	2,010
2016									54,130	53,776	25,895	1,750
2017										54,338	37,994	1,283
									Total	$722,508		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Commercial Lines – Casualty
(Dollars in thousands)

	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									
Accident Year	2008 (unaudited)	2009 (unaudited)	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017
2008	$ 7,844	$ 34,172	$ 65,700	$ 86,889	$ 100,369	$ 110,145	$ 114,546	$ 116,246	$ 117,797	$ 118,254
2009		5,564	19,154	37,653	53,738	65,721	71,108	75,181	77,771	79,896
2010			5,503	19,926	34,659	50,520	58,913	65,377	67,277	69,615
2011				5,451	21,325	41,282	56,562	64,722	72,087	74,839
2012					3,500	11,884	22,456	31,231	36,360	39,596
2013						6,400	17,881	29,510	38,438	46,272
2014							3,968	15,690	26,268	33,697
2015								3,336	14,584	25,147
2016									4,135	14,027
2017										4,914
									Total	506,257
									All outstanding liabilities before 2008, net of reinsurance	64,830
									Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	$ 281,081

The following is required supplementary information about average historical claims duration as of December 31, 2017:

	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)									
Year	1	2	3	4	5	6	7	8	9	10
Commercial Lines - Casualty	7.2%	18.3%	20.3%	16.5%	11.0%	7.3%	3.4%	2.4%	1.8%	0.4%

Personal Lines

Property and Casualty Methodologies

Personal Lines internal actuarial reserve reviews were completed for loss and allocated loss adjustment expenses (ALAE) separately for property excluding catastrophe experience, property catastrophes, and casualty reserve categories. The internal actuarial reserve reviews were completed with data through December, 2017. Actuarial methodologies, such as the Loss Development and Bornhuetter-Ferguson methods, were employed to develop estimates of ultimate Loss & ALAE. Management's ultimate selections were based on the internal actuarial review and a third party actuarial review completed during the 4^{th} quarter of 2017. Case incurred is subtracted from the management selected ultimates to obtain the booked IBNR reserves. These methodologies are consistent with last year.

Personal lines are primarily comprised of business acquired in the purchase of American Reliable, which occurred on January 1, 2015. The acquisition included the purchase of the business of the legal entity as well as additional books of business written by other Assurant entities. In addition, ceding arrangements subsequent to the date of the acquisition are not consistent with years prior to the acquisition. As a result, it is not practical, nor would it be consistent, to include information for years prior to 2015 in the development tables for Personal Lines.

Personal Lines cumulative claim frequency has been calculated at the claim level and includes claims closed without payment.

Personal Lines – Property
(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31, 2016 (unaudited)	2017	As of December 31, 2017 IBNR (1)	Cumulative Number of Reported Claims
2016	$ 146,571	$ 144,787	$ 5,418	17,356
2017		148,016	15,743	16,384
	Total	$ 292,803		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Personal Lines – Property
(Dollars in thousands)

Accident Year	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31, 2016 (unaudited)	2017
2016	$ 121,899	$ 138,289
2017		114,360
	Total	252,649
All outstanding liabilities before 2016, net of reinsurance		4,206
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance		$ 44,360

The following is required supplementary information about average historical claims duration as of December 31, 2017.

Year	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited) 1	2
Personal Lines - Property	80.7%	11.3%

Personal Lines – Casualty
(Dollars in thousands)

Accident Year	Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31, 2015 (unaudited)	2016 (unaudited)	2017	As of December 31, 2017 IBNR (1)	Cumulative Number of Reported Claims
2015	$ 18,930	$ 20,506	$ 21,850	$ 5,059	1,317
2016		21,476	21,073	11,345	1,370
2017			19,999	15,334	878
		Total	$ 62,922		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Personal Lines – Casualty
(Dollars in thousands)

	Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance		
	For the Years Ended December 31,		
Accident Year	2015 (unaudited)	2016 (unaudited)	2017
2015	$ 3,439	$ 8,757	$ 12,926
2016		3,507	6,885
2017			2,132
		Total	21,943
		All outstanding liabilities before 2015, net of reinsurance	11,672
		Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	$ 52,651

The following is required supplementary information about average historical claims duration as of December 31, 2017:

	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)		
Year	1	2	3
Personal Lines - Casualty	14.3%	20.2%	19.1%

Reinsurance Lines

Property & Casualty Methodologies

Reinsurance Operations internal reserve reviews were completed for loss and allocated loss adjustment expenses (ALAE) combined for run off treaties and the current book of business. The current book of business is constituted of professional liability portfolios and retrocessions from Bermuda based companies for property catastrophe, marine business, and mortgage insurance. The reserve reviews were completed based on the latest data reported from the cedants which is typically on a quarter lag. Paid loss, ALAE and Case reserves, shown in the reinsurance category tables below, which are originally based in a foreign currency, are remeasured in U.S. dollars based on the Foreign Exchange (FX) rate at the date the cedant's report. Management's ultimate selections were based on a review of ultimates reported from the cedants, including loss emergence during the reporting period, and a third party actuarial review completed during the 4th quarter of 2017. Case incurred is subtracted from the management selected ultimates to obtain the booked IBNR reserves. These methodologies are consistent with last year.

The Company does not have direct access to claim frequency information underlying certain reinsurance contracts. As a result, the Company does not believe providing claim frequency information is practicable.

Reinsurance Lines – Property
(Dollars in thousands)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance For the Years Ended December 31, / **As of December 31, 2017**

Accident Year	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017	IBNR (1)	Cumulative Number of Reported Claims
2011	$ 30,963	$ 28,547	$ 26,916	$ 25,994	$ 24,994	$ 24,912	$ 24,786	$ 1,028	-
2012		10,388	10,578	9,279	8,579	8,497	8,397	539	-
2013			15,153	9,948	8,197	6,698	6,345	753	-
2014				21,787	18,861	14,139	13,590	1,264	-
2015					19,877	16,738	12,526	2,977	-
2016						23,646	22,485	10,433	-
2017							43,782	26,239	-
						Total	$ 131,911		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Reinsurance Lines – Property
(Dollars in thousands)

Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,

Accident Year	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017
2011	$ 12,044	$ 19,274	$ 20,698	$ 22,060	$ 22,426	$ 22,771	$ 23,096
2012		1,127	5,481	7,221	7,648	7,527	7,584
2013			723	4,008	5,835	5,111	5,255
2014				2,243	9,035	10,460	11,182
2015					742	5,163	6,768
2016						2,071	5,704
2017							2,152
						Total	61,741
All outstanding liabilities before 2011, net of reinsurance							322
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance							$ 70,492

The following is required supplementary information about average historical claims duration as of December 31, 2017:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)

Year	1	2	3	4	5	6	7
Reinsurance Lines - Property	15.7%	39.0%	15.7%	1.1%	0.8%	1.0%	1.3%

Reinsurance Lines – Casualty
(Dollars in thousands)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,

Accident Year	2008 (unaudited)	2009 (unaudited)	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017	As of December 31, 2017 IBNR (1)	Cumulative Number of Reported Claims
2008	$ 8,906	$ 8,758	$ 8,988	$ 8,997	$10,167	$10,340	$10,340	$ 9,435	$ 9,835	$ 9,768	$ 291	-
2009		20,706	23,818	25,444	30,533	30,850	31,340	31,419	31,453	31,514	386	-
2010			41,831	53,279	57,916	62,628	61,062	61,792	60,701	60,573	2,015	-
2011				45,726	48,846	44,692	47,980	46,510	43,657	42,968	2,122	-
2012					15,865	15,624	17,123	17,579	17,360	17,348	1,113	-
2013						1,224	1,262	1,172	1,013	974	870	-
2014							1,988	2,095	2,060	1,957	1,954	-
2015								2,908	2,911	2,780	2,779	-
2016									3,627	3,627	3,627	-
2017										4,358	4,358	-
									Total	$ 175,867		

(1) Incurred-but-not-reported liabilities plus expected development on reported claims

Reinsurance Lines – Casualty
(Dollars in thousands)

Cumulative Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,

Accident Year	2008 (unaudited)	2009 (unaudited)	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017
2008	$ -	$ 627	$ 1,955	$ 5,149	$ 5,648	$ 6,832	$ 8,713	$ 8,875	$ 8,919	$ 8,981
2009		1,986	9,759	11,064	12,597	13,652	15,104	30,141	31,019	31,128
2010			10,185	21,447	30,754	36,090	39,123	55,315	55,848	56,960
2011				7,968	20,072	28,495	36,020	38,907	39,815	40,079
2012					5,312	9,435	11,658	15,534	15,696	15,790
2013						123	50	62	65	65
2014							88	47	50	1
2015								107	128	1
2016									-	-
2017										-
									Total	153,005
									All outstanding liabilities before 2008, net of reinsurance	1,210
									Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	$ 24,072

The following is required supplementary information about average historical claims duration as of December 31, 2017:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)

Year	1	2	3	4	5	6	7	8	9	10
Reinsurance Lines - Casualty	9.3%	10.3%	7.8%	12.0%	3.5%	9.2%	17.1%	2.1%	0.4%	0.6%

The reconciliation of the net incurred and paid claims development tables to the liability for unpaid losses and loss adjustment expenses in the consolidated balance sheets as of December 31, 2017 is as follows:

Net outstanding liabilities	
Commercial Lines – Property	$ 36,575
Commercial Lines – Casualty	281,081
Personal Lines – Property	44,360
Personal Lines – Casualty	52,651
Reinsurance Lines – Property	70,492
Reinsurance Lines – Casualty	24,072
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	509,231
Reinsurance recoverable on unpaid claims	
Commercial Lines – Property	8,508
Commercial Lines – Casualty	68,786
Personal Lines – Property	10,608
Personal Lines – Casualty	7,718
Reinsurance Lines – Property	-
Reinsurance Lines – Casualty	71
Total reinsurance recoverable on unpaid claims	95,691
Other outstanding liabilities	
Commercial Lines	
Ceded Allowance	8,040
Unallocated claims adjustment expenses	16,930
Purchase accounting adjustment	(1,200)
Loss Clearing	322
Personal Lines	
Fronted business ceded to Assurant	2,752
Unallocated claims adjustment expenses	2,190
Loss Clearing	(25)
Reinsurance Lines	
Unallocated claims adjustment expenses	987
Other	(254)
Total other outstanding liabilities	29,742
Total gross liability for unpaid losses and loss adjustment expenses	$ 634,664

10. Debt

Margin Borrowing Facility

The Company has available a margin borrowing facility. At December 31, 2017, the borrowing rate for this facility was tied to the Fed Funds Effective rate and was approximately 1.6%. At December 31, 2016, the borrowing rate for this facility was tied to LIBOR and was approximately 1.6%. 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, 2017, approximately $88.0 million in securities were deposited as collateral to support borrowings. The amount borrowed against the margin account may fluctuate as routine investment transactions, such as dividends received, investment income received, maturities and pay-downs, impact cash balances. The margin facility contains customary events of default, including, without limitation, insolvency, failure to make required payments, failure to comply with any representations or warranties, failure to adequately assure future performance, and failure of a guarantor to perform under its guarantee. The amount outstanding on the Company's margin borrowing facility was $72.2 million and $66.6 million as of December 31, 2017 and 2016, respectively.

The Company recorded interest expense related to the Margin Borrowing Facility of approximately $1.0 million for each of the years ended December 31, 2017 and 2016.

11. 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. In connection with the Parent Company's share redemption in 2015, 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 Limited shares that were held by Fox Paine Capital Fund, II were transferred into a new unrelated liquidating partnership. These shares were redeemed in December, 2017 and final distribution was received in January, 2018. In conjunction with the redemption of these shares, net investment income of $0.1 million was recognized during the year ended December 31, 2017.

There were no distributions received from Fox Paine Capital Fund II during the years ended December 31, 2017 and 2016.

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. In addition, Fox Paine may propose and negotiate transaction fees with the Company subject to the provisions of the Company's related party transaction policies including approval of the Company's Audit Committee of the Board of Directors, for those services from time to time. Management fee expense of $1.9 million and $1.8 million was incurred during the years ended December 31, 2017 and 2016, respectively.

Crystal & Company

During the year ended December 31, 2016, the Company incurred $0.2 million in brokerage fees to Crystal & Company, an insurance broker. James W. Crystal, the chairman and chief executive officer of Crystal & Company, was a member of the Parent Company's Board of Directors until he resigned on July 24, 2016.

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:

	Years Ended December 31,	
(Dollars in thousands)	**2017**	**2016**
Assumed earned premium	$ 4	$ 27
Assumed losses and loss adjustment expenses	(130)	(527)

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

	As of December 31.	
(Dollars in thousands)	**2017**	**2016**
Net payable balance	$ (10)	$ (107)

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 $0.5 million during each of the years ended December 31, 2017 and 2016. Services provided and billed to the Company from the Parent Company and its wholly-owned subsidiaries were $1.7 million and $1.2 million for the years ended December 31, 2017 and 2016, 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%. In 2016, this loan was assumed by Global Indemnity Limited, the ultimate Parent Company. As of December 31, 2017 and 2016, there was $1.0 million outstanding on this loan. Accrued interest was $1.9 million as of December 31, 2017 and 2016, 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. In 2016, this loan was assumed by Global Indemnity Limited, the ultimate Parent Company. There was $33.0 million outstanding on this note as of December 31, 2017 and 2016.

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 were loaned from Global Indemnity (Cayman) Ltd. to Global Indemnity plc, 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. In November, 2016, the amounts owed by Global Indemnity plc, the former Parent Company, were assigned to Global Indemnity Limited, the new Parent Company. On May 5, 2017, Global Indemnity (Cayman) Ltd. was merged into Global Indemnity Limited. As a result, the loan between Global Indemnity (Cayman) Ltd. and Global Indemnity Limited was expunged and Global Indemnity Limited assumed the loan payable to U.A.I. (Luxembourg) Investment S.à.r.l. As of December 31, 2017 and 2016, there was $181.5 million outstanding on the line of credit with accrued interest of $9.1 million and $6.9 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. In December, 2014, Global Indemnity (Cayman) Limited repaid $125.0 million of the outstanding principal. On May 5, 2017, Global Indemnity (Cayman) Limited was merged into Global Indemnity Limited. In 2017, this note was refinanced at the Applicable Federal Rate of 1.11%. As of December 31, 2017, Global Indemnity Limited owed $75.0 million under this loan agreement with accrued interest of $1.4 million. As of December 31, 2016, Global Indemnity (Cayman) Limited owed $75.0 million under this loan agreement with accrued interest of $0.9 million.

Global Indemnity Limited, the Parent Company, made a capital contribution in the amount of $96.0 million during the first quarter of 2017. Through a series of additional capital contributions and repayment of certain intercompany balances, U.A.I. (Luxembourg) IV S.à.r.l., one of the Company's wholly-owned subsidiaries, was the ultimate recipient of this capital contribution in the amount of $93.5 million. These transactions were performed to provide liquidity to the Company's U.S. Holding Companies.

In 2017, the Company declared a dividend of $120.0 million to its parent, Global Indemnity Limited. Of this amount, $100.0 million was paid to Global Indemnity Limited in December, 2017. As of December 31, 2017, accrued dividends were $20.0 million.

12. Commitments and Contingencies

Lease Commitments

Total rental expense under operating leases for the years ended December 31, 2017 and 2016 was $3.5 million and $3.6 million, respectively. Rent expense was net of sublease income of $0.02 million for the year ended December 31, 2016. There was no sublease income for the year ended December 31, 2017. At December 31, 2017, future minimum cash payments under non-cancelable operating leases were as follows:

(Dollars in thousands)	
2018	$ 3,049
2019	2,094
2020	52
Total	$ 5,195

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

In 2014, the Company entered into a $50 million commitment to purchase an alternative investment vehicle which is comprised of European non-performing loans. As of December 31, 2017, the Company has funded $35.8 million of this commitment leaving $14.2 million as unfunded.

In 2016, the Company entered into a $40 million commitment with an investment manager that provides financing for middle market companies. As of December 31, 2017, the Company has funded $30.0 million of this commitment leaving $10.0 million as unfunded.

In 2017, the Company entered into a $50 million commitment to purchase an alternative investment vehicle comprised of stressed and distressed debt instruments. As of December 31, 2017, the Company has funded $16.5 million of this commitment leaving $33.5 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 11 above for additional information pertaining to this management agreement.

13. Share-Based Compensation Plans

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

In 2017, the Company accounted for ($0.4) million of the Parent Company's ($0.4) million of compensation expense related to stock options. In 2016, the Company accounted for $0.3 million of the Parent Company's $0.3 million of compensation expense related to stock options.

In 2017, the Company accounted for $2.9 million of the Parent Company's $3.0 million of compensation expense related to restricted stock granted to key employees. In 2016, the Company accounted for $2.0 million of the Parent Company's $2.1 million of compensation expense related to restricted stock granted to key employees.

14. 401(k) Plan

The Company maintains a 401(k) defined contribution plan that covers all eligible U.S. employees. Under this plan, the Company matches 100% of the first 6% contributed by an employee. Vesting on contributions made by the Company is immediate. Total expenses for the plan were $1.8 million and $1.9 million for the years ended December 31, 2017 and 2016, respectively.

15. Statutory Financial Information

GAAP differs in certain respects from Statutory Accounting Principles ("SAP") as prescribed or permitted by the various U.S. state insurance departments. The principal differences between SAP and GAAP are as follows:

- Under SAP, investments in debt securities are primarily carried at amortized cost, while under GAAP the Company records its debt securities at estimated fair value.
- Under SAP, policy acquisition costs, such as commissions, premium taxes, fees and other costs of underwriting policies are charged to current operations as incurred, while under GAAP such costs are deferred and amortized on a pro rata basis over the period covered by the policy.
- Under SAP, certain assets designated as "Non-admitted assets" (such as prepaid expenses) are charged against surplus.
- Under SAP, net deferred income tax assets are admitted following the application of specified criteria, with the resulting admitted deferred tax amount being credited directly to surplus.
- Under SAP, certain premium receivables are non-admitted and are charged against surplus based upon aging criteria.
- Under SAP, the costs and related receivables for guaranty funds and other assessments are recorded based on management's estimate of the ultimate liability and related receivable settlement, while under GAAP such costs are accrued when the liability is probable and reasonably estimable and the related receivable amount is based on future premium collections or policy surcharges from in-force policies.
- Under SAP, unpaid losses and loss adjustment expenses and unearned premiums are reported net of the effects of reinsurance transactions, whereas under GAAP, unpaid losses and loss adjustment expenses and unearned premiums are reported gross of reinsurance.
- Under SAP, a provision for reinsurance is charged to surplus based on the authorized status of reinsurers, available collateral, and certain aging criteria, whereas under GAAP, an allowance for uncollectible reinsurance is established based on management's best estimate of the collectability of reinsurance receivables.
- Under SAP, the tax impact of the Tax Cuts and Jobs Act enacted on December 22, 2017 is recorded through surplus, whereas under GAAP, the tax impact is recorded in the Consolidated Statements of Operations.

The National Association of Insurance Commissioners ("NAIC") issues model laws and regulations, many of which have been adopted by state insurance regulators, relating to: (a) risk-based capital ("RBC") standards; (b) codification of insurance accounting principles; (c) investment restrictions; and (d) restrictions on the ability of insurance companies to pay dividends.

The Company's U.S. insurance subsidiaries are required by law to maintain certain minimum surplus on a statutory basis, and are subject to regulations under which payment of a dividend from statutory surplus is restricted and may require prior approval of regulatory authorities. Applying the current regulatory restrictions as of December 31, 2017, the maximum amount of distributions that could be paid in 2018 by the United National insurance companies and the Penn-America insurance companies under applicable laws and regulations without regulatory approval is approximately $21.0 million and $6.3 million, respectively. The Penn-America insurance companies limitation includes $2.1 million that would be distributed to United National Insurance Company or its subsidiary Penn Independent Corporation based on the December 31, 2017 ownership percentages. American Reliable is unable to pay a distribution in 2018 without regulatory approval. During 2017, the United National Insurance Company, the Penn-America Insurance Company, and American Reliable declared and paid dividends of $17.8 million, $7.9 million, and $3.3 million, respectively. In addition, United National Insurance Company paid a $35.0 million dividend, which was previously declared in 2015, to its parent company, American Insurance Services, Inc. during the year ended December 31, 2017.

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 2017 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)	**2017**	**2016**
Statutory capital and surplus, as of end of period	$ 274,586	$ 323,144
Statutory net income (loss)	($19,019)	35,618

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 shareholder and under the Bermuda Companies Act 1981 (the “Companies Act”), which financial statements will be prepared in accordance with GAAP.

The principal differences between statutory financial statements prepared under the Insurance Act and GAAP are as follows:

- Under the Insurance Act, policy acquisition costs, such as commissions, premium taxes, fees and other costs of underwriting policies are charged to current operations as incurred, while under GAAP such costs are deferred and amortized on a pro rata basis over the period covered by the policy.

- Under the Insurance Act, prepaid expenses and intangible assets are charged to current operations as incurred, while under GAAP such costs are deferred and amortized on a pro rata basis.

- Under the Insurance Act, unpaid losses and loss adjustment expenses and unearned premiums are reported net of the effects of reinsurance transactions, whereas under GAAP, unpaid losses and loss adjustment expenses and unearned premiums are reported gross of reinsurance.

Under the Companies Act, Global Indemnity Reinsurance may only declare or pay a dividend if it has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Global Indemnity Reinsurance is also prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital or 25% or more of its total statutory capital and surplus as set out in its previous year's statutory financial statements, and any application for such approval must include such information as the BMA may require. Based upon the total statutory capital plus the statutory surplus as set out in its 2017 statutory financial statements that will be filed in 2018, Global Indemnity Reinsurance could pay a dividend of up to $227.1 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. In 2017, Global Indemnity Reinsurance declared a dividend of $120.0 million to its parent, Global Indemnity. Of this amount, $100.0 million was paid to Global Indemnity in December, 2017. As of December 31, 2017, accrued dividends were $20.0 million.

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)	**2017**	**2016**
Statutory capital and surplus, as of end of period	$ 908,433	$ 838,923
Statutory net income	29,647	32,768

16. Segment Information

The Company manages its business through three business segments. Commercial Lines offers specialty property and casualty products designed for product lines such as Small Business Binding Authority, Property Brokerage, and Programs. Personal Lines offers specialty personal lines and agricultural coverage. Reinsurance Operations 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.

During the 1st quarter of 2017, the Company re-evaluated its Commercial Lines and Personal Lines segments and determined that certain portions of business will be managed, operated and reported by including them in the other segment. As a result, the composition of the Company's reportable segments changed slightly. Premium that is written through a wholly owned agency that mainly sells to individuals, which was previously included as part of the Commercial Lines segment, is now included within the Personal Lines segment. In addition, one of the small commercial programs written by American Reliable Insurance Company, which was previously included within the Personal Lines segment, is now aggregated within the Commercial Lines segment. Accordingly, the segment results for 2016 have been revised to reflect these changes.

On September 30, 2016, Diamond State Insurance Company sold all the outstanding shares of capital stock of one of its wholly owned subsidiaries, United National Specialty Insurance Company, to an unrelated party. Diamond State Insurance Company received a one-time payment of $18.7 million and recognized a pretax gain of $6.9 million which is reflected in other income in 2016. This transaction did not have an impact on the Company's ongoing business operations. Subsequent to the sale, any business previously written by United National Specialty Insurance Company is being written by other companies within the Company's U.S. Insurance Operations.

The following are tabulations of business segment information for the years ended December 31, 2017 and 2016. Corporate information is included to reconcile segment data to the consolidated financial statements.

2017: **(Dollars in thousands)**	**Commercial Lines** (1)	**Personal Lines** (1)	**Reinsurance Operations** (2)	**Total**
Revenues:				
Gross premiums written	$ 212,670	$ 249,777 (6)	$ 53,887	$ 516,334
Net premiums written	$ 186,448	$ 209,799	$ 53,933	$ 450,180
Net premiums earned	$ 178,798	$ 215,983	$ 43,253	$ 438,034
Other income	78	6,288	195	6,561
Total revenues	178,876	222,271	43,448	444,595
Losses and Expenses:				
Net losses and loss adjustment expenses	62,834	165,798	40,580	269,212
Acquisition costs and other underwriting expenses	75,990 (3)	93,113 (4)	14,630	183,733
Income (loss) from segments	$ 40,052	$ (36,640)	$ (11,762)	(8,350)
Unallocated Items:				
Net investment income				41,919
Net realized investment gains				1,968
Corporate and other operating expenses				(9,127)
Interest expense				(1,034)
Income before income taxes				25,376
Income tax benefit				510
Net income				$ 25,886
Total assets	$ 920,135	$ 467,525	$ 595,962 (5)	$ 1,983,622

(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 $714 relating to cessions from Commercial Lines to Reinsurance Operations.
(4) Includes federal excise tax of $862 relating to cessions from Personal Lines to Reinsurance Operations.
(5) Comprised of Global Indemnity Reinsurance's total assets less its investment in subsidiaries
(6) Includes ($1,338) of business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

2016: (Dollars in thousands)	Commercial Lines (1)	Personal Lines (1)	Reinsurance Operations (2)	Total
Revenues:				
Gross premiums written	$ 203,061	$ 302,947 (6)	$ 59,837	$ 565,845
Net premiums written	$ 182,956	$ 228,183	$ 59,801	$ 470,940
Net premiums earned	$ 189,342	$ 237,555	$ 41,568	$ 468,465
Other income (loss)	6,857	3,712	(182)	10,387
Total revenues	196,199	241,267	41,386	478,852
Losses and Expenses:				
Net losses and loss adjustment expenses	75,401	174,528	14,074	264,003
Acquisition costs and other underwriting expenses	81,477 (3)	99,109 (4)	16,064	196,650
Income (loss) from segments	$ 39,321	$ (32,370)	$ 11,248	18,199
Unallocated Items:				
Net investment income				36,341
Net realized investment gains				21,893
Corporate and other operating expenses				(8,795)
Interest expense				(1,032)
Income before income taxes				66,606
Income tax benefit				2,266
Net income				$ 68,872
Total assets	$ 828,335	$ 470,508	$ 678,876 (5)	$ 1,977,719

(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 $756 relating to cessions from Commercial Lines to Reinsurance Operations.
(4) Includes federal excise tax of $948 relating to cessions from Personal Lines to Reinsurance Operations.
(5) Comprised of Global Indemnity Reinsurance's total assets less its investment in subsidiaries
(6) Includes $35,334 of business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

17. Supplemental Cash Flow Information

Taxes and Interest Paid

The Company paid the following net federal income taxes and interest for 2016 and 2015:

(Dollars in thousands)	Years Ended December 31, 2017	2016
Federal income taxes paid	$ 120	$ 159
Federal income taxes recovered	-	4,889
Interest paid	1,025	1,021

18. New Accounting Pronouncements

The following are new accounting guidance which have not yet been adopted.

In May, 2017, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance which clarifies whether changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This guidance is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is 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, or cash flows.

In March, 2017, the FASB issued new accounting guidance which amends the amortization period for certain purchased callable debt securities held at a premium. Under current generally accepted accounting principles, entities generally amortize the premium as an adjustment of yield over the contractual life of the instruments. Under the new guidance, the amortization period would be shortened to the earliest call date. This guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company is still evaluating the impact of this guidance on its financial condition, results of operations, and cash flows.

In January, 2017, the FASB issued updated guidance that simplifies how an entity is required to test goodwill for impairment by eliminating the requirement to calculate the implied fair value of goodwill (i.e. Step 2 of the current goodwill impairment test). Under the new amendments, an entity may still first assess qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. If determined to be necessary, the quantitative impairment test shall be used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized, if any. A goodwill impairment loss is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. This guidance is effective for public business entities' annual or interim goodwill impairment testing in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. 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, or cash flows.

In October, 2016, the FASB issued new accounting guidance regarding intra-entity transfers of assets other than inventory. Under current GAAP, the tax effects of intra-entity asset transfers (intercompany sales) are deferred until the transferred asset is sold to a third party or otherwise recovered through use. This is an exception to the principle in ASC 740, Income Taxes, that generally requires comprehensive recognition of current and deferred income taxes. The new guidance eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer. The new guidance does not apply to intra-entity transfers of inventory. The income tax consequences from the sale of inventory from one member of a consolidated entity to another will continue to be deferred until the inventory is sold to a third party. Upon adoption on January 1, 2018, there will be a cumulative adjustment to retained earnings which the Company does not expect to be material to its overall financial condition.

In August, 2016, the FASB issued new accounting guidance regarding the classification of certain cash receipts and cash payments within the statements of cash flows. The new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This guidance is effective for public business entities for fiscal periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is 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, or cash flows.

In June, 2016, the FASB issued new accounting guidance addressing the measurement of credit losses on financial instruments. For assets held at amortized cost basis, the new guidance replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of information for credit loss estimates. For available for sale debt securities, credit losses should be measured similar to current GAAP; however, the new guidance requires that credit losses be presented as an allowance rather than as a write-down and allows for the reversal of credit losses in the current period net income. This guidance is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application of this new guidance is permitted as of the fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. This guidance will be applied using a modified-retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is still evaluating the impact of this guidance on its financial condition, results of operations, and cash flows.

In February, 2016, the FASB issued new accounting guidance regarding leases. The new guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Early adoption is permitted. Upon adoption, the Company expects to report higher assets and liabilities as a result of recognizing right-of-use assets and corresponding lease liabilities on the Consolidated Balance Sheets. The Company expects the new guidance to have minimal impact on the Consolidated Statement of Operations or Consolidated Statement of Cash Flows.

In January, 2016, the FASB issued new accounting guidance surrounding the accounting for financial instruments. The new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. In particular, the guidance requires equity investments, except for those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with the changes in fair value recognized in net income. It also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. This guidance is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application of this new guidance is permitted as of the beginning of the fiscal year of adoption. Upon adoption on January 1, 2018, the Company estimates that a cumulative effect adjustment, net of tax, of approximately $10.0 million will be reclassified from accumulated other comprehensive income and increase retained earnings. However, there will be no net impact to overall equity.

In May, 2014, the FASB issued new accounting guidance regarding the recognition of revenue from customers arising from the transfer of goods and services. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Long and short duration insurance contracts, which comprise the majority of the Company's revenues, are excluded from this accounting guidance. While insurance contracts are not within the scope of this guidance, the Company reviewed the requirement of the new guidance to determine whether its revenue recognition policy for fee income will be impacted by this updated guidance. Based on this review, the Company does not believe its accounting policies will be impacted by this new revenue recognition guidance. This guidance is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period.

19. Subsequent events

On March 8, 2018, the Company settled its final reserve calculation which resulted in $41.5 million being due to Global Indemnity Group, Inc. in accordance with the Stock Purchase Agreement between Global Indemnity Group, Inc. and American Bankers Insurance Group, Inc. for the purchase of American Reliable. The settlement is comprised of (i) receipt of $38.8 million for loss and loss adjustment expenses paid on or after January 1, 2015 or payable as of December 31, 2017 with respect to losses incurred prior to January 1, 2015, (ii) receipt of $6.2 million for accrued interest and (iii) payment of $3.5 million for the difference between the agreed upon purchase price and actual settlement on January 1, 2015. These amounts are included in other assets on the consolidated balance sheets as of December 31, 2017.