

Global Indemnity plc  
Form 10-Q  
May 10, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended March 31, 2011**  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**  
**001-34809**  
**Commission File Number**  
**GLOBAL INDEMNITY PLC**  
(Exact name of registrant as specified in its charter)

**Ireland**  
(State or other jurisdiction  
of incorporation or organization)

**98-0664891**  
(I.R.S. Employer Identification No.)

**ARTHUR COX BUILDING  
EARLSFORT TERRACE  
DUBLIN 2  
IRELAND**

(Address of principal executive office including zip code)

**353 (0) 1 618 0517**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

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

As of April 27, 2011, the registrant had outstanding 18,354,550 Class A Ordinary Shares and 12,061,370 Class B Ordinary Shares.



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

1)

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

- 2) we, us, our, and the Company refer to Global Indemnity and its subsidiaries or, prior to July 2, 2010, to United America Indemnity;
- 3) ordinary shares refers to Global Indemnity Class A and Class B ordinary shares, or, prior to July 2, 2010, to United America Indemnity Class A and Class B common shares;
- 4) United America Indemnity refers to United America Indemnity, Ltd., a Cayman Islands exempted company that, on July 2, 2010, became a direct, wholly-owned subsidiary of Global Indemnity plc, and its subsidiaries;
- 5) our U.S. Subsidiaries refers to Global Indemnity Group, Global Indemnity Group Services, LLC, AIS, Penn-America Group, Inc., and our Insurance Operations;
- 6) our United States Based Insurance Operations and Insurance Operations refer to the insurance and related operations conducted by the U.S. Insurance Companies, American Insurance Adjustment Agency, Inc., Global Indemnity Collectibles Insurance Services, LLC, United America Insurance Services, LLC, and J.H. Ferguson & Associates, LLC;
- 7) our U.S. Insurance Companies refers to the insurance and related operations conducted by United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company and Penn-Patriot Insurance Company;

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- 8) our Non-U.S. Subsidiaries refers to Global Indemnity Services Ltd., Global Indemnity (Gibraltar) Ltd., Global Indemnity (Cayman) Ltd., Global Indemnity (Luxembourg) Ltd., Wind River Reinsurance, the Luxembourg Companies, and U.A.I. (Ireland) Ltd.;
- 9) Wind River Reinsurance refers to Wind River Reinsurance Company, Ltd.;
- 10) the Luxembourg Companies refers to U.A.I. (Luxembourg) I S.à r.l., U.A.I. (Luxembourg) II S.à r.l., U.A.I. (Luxembourg) III S.à r.l., U.A.I. (Luxembourg) IV S.à r.l., U.A.I. (Luxembourg) Investment S.à r.l., and Wind River (Luxembourg) S.à r.l.;
- 11) AIS refers to American Insurance Service, Inc.;
- 12) our Predecessor Insurance Operations refers to Wind River Investment Corporation, which was dissolved on May 31, 2006, AIS, American Insurance Adjustment Agency, Inc., Emerald Insurance Company, which was dissolved on March 24, 2008, United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, and J.H. Ferguson & Associates, LLC;
- 13) our International Reinsurance Operations and Reinsurance Operations refer to the reinsurance and related operations of Wind River Reinsurance;
- 14) Global Indemnity Group refers to Global Indemnity Group, Inc., (fka United America Indemnity Group, Inc.);
- 15) Penn-America refers to our product classification that includes property and general liability products for small commercial businesses distributed through a select network of wholesale general agents with specific binding authority;
- 16) United National refers to our product classification that includes property, general liability, and professional liability lines products distributed through program administrators with specific binding authority;
- 17) Diamond State refers to our product classification that includes property, casualty, and professional liability lines products distributed through wholesale brokers and program administrators with specific binding authority;
- 18) the Statutory Trusts refers to United National Group Capital Trust I, United National Group Capital Statutory Trust II, Penn-America Statutory Trust I, whose registration was cancelled effective January 15, 2008, and Penn-America Statutory Trust II, whose registration was cancelled effective February 2, 2009;
- 19) Fox Paine & Company refers to Fox Paine & Company, LLC and affiliated investment funds;
- 20) GAAP refers to accounting principles generally accepted in the United States of America; and
- 21) \$ or dollars refers to U.S. dollars.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GLOBAL INDEMNITY PLC****Consolidated Balance Sheets**

(In thousands, except share amounts)

	<b>(Unaudited)</b> <b>March 31,</b> <b>2011</b>	<b>December 31,</b> <b>2010</b>
<b>ASSETS</b>		
Fixed maturities:		
Available for sale, at fair value (amortized cost: \$1,414,836 and \$1,393,655)	\$ 1,457,717	\$ 1,444,392
Equity securities:		
Preferred stocks:		
Available for sale, at fair value (cost: \$930 and \$930)	2,346	2,252
Common stocks:		
Available for sale, at fair value (cost: \$126,691 and \$120,674)	154,325	145,274
Other invested assets		
Available for sale, at fair value (cost: \$14,126 and \$4,255)	16,724	4,268
Securities classified as trading, at fair value (cost: \$0 and \$1,112)		1,112
 Total investments	 1,631,112	 1,597,298
Cash and cash equivalents	108,170	119,888
Accounts receivable, net	68,097	56,657
Reinsurance receivables	390,574	422,844
Deferred federal income taxes	8,044	6,926
Deferred acquisition costs	38,037	35,344
Intangible assets	18,987	19,082
Goodwill	4,820	4,820
Prepaid reinsurance premiums	8,046	11,104
Other assets	25,911	20,720
 Total assets	 \$ 2,301,798	 \$ 2,294,683
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Unpaid losses and loss adjustment expenses	\$ 1,035,088	\$ 1,052,743
Unearned premiums	139,957	135,872
Ceded balances payable	9,531	12,376
Contingent commissions	4,819	9,260
Payable for securities purchased	10,916	4,768
Federal income taxes payable	8,128	55
Notes and debentures payable	121,214	121,285
Other liabilities	30,780	29,655
 Total liabilities	 1,360,433	 1,366,014

Commitments and contingencies (Note 10)

**Shareholders equity:**

Ordinary shares, \$0.0001 par value, 900,000,000 ordinary shares authorized; Class A ordinary shares issued: 21,388,550 and 21,340,821, respectively; Class A ordinary shares outstanding: 18,341,910 and 18,300,544, respectively; Class B ordinary shares issued and outstanding: 12,061,370 and 12,061,370, respectively	3	3
Additional paid-in capital	623,181	622,725
Accumulated other comprehensive income, net of taxes	55,787	57,211
Retained earnings	363,427	349,642
Class A ordinary shares in treasury, at cost: 3,046,640 and 3,040,277 shares, respectively	(101,033)	(100,912)
Total shareholders equity	941,365	928,669
Total liabilities and shareholders equity	\$ 2,301,798	\$ 2,294,683

See accompanying notes to consolidated financial statements.



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**GLOBAL INDEMNITY PLC**  
**Consolidated Statements of Operations**  
(In thousands, except shares and per share data)

	<b>(Unaudited)</b>	
	<b>Quarters Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Gross premiums written	\$ 87,666	\$ 92,853
Net premiums written	\$ 83,108	\$ 81,481
Net premiums earned	\$ 75,969	\$ 70,788
Net investment income	14,414	14,579
Net realized investment gains:		
Other-than-temporary impairment losses on investments	(553)	(89)
Other-than-temporary impairment losses on investments recognized in other comprehensive income		47
Other net realized investment gains	12,550	14,246
Total net realized investment gains	11,997	14,204
Other income	11,669	
Total revenues	114,049	99,571
<b>Losses and Expenses:</b>		
Net losses and loss adjustment expenses	58,342	41,789
Acquisition costs and other underwriting expenses	29,852	30,148
Corporate and other operating expenses	2,780	4,896
Interest expense	1,752	1,739
Income before income taxes	21,323	20,999
Income tax expense	7,591	2,069
Income before equity in net income (loss) of partnerships	13,732	18,930
Equity in net income (loss) of partnerships, net of taxes	53	(29)
Net income	\$ 13,785	\$ 18,901
<b>Per share data (1):</b>		
Net income		
Basic	\$ 0.45	\$ 0.63

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Diluted	\$	0.45	\$	0.63
Weighted-average number of shares outstanding				
Basic		30,301,293		30,184,544
Diluted		30,338,413		30,204,420

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

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**GLOBAL INDEMNITY PLC**  
**Consolidated Statements of Comprehensive Income**  
(In thousands)

	<b>(Unaudited)</b>	
	<b>Quarters Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net income	\$ 13,785	\$ 18,901
Other comprehensive loss, net of tax:		
Unrealized holding gains arising during period	7,335	9,978
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of tax	(4)	(1)
Recognition of previously unrealized holding gains	(8,755)	(10,993)
Unrealized foreign currency translation losses		(113)
Other comprehensive loss, net of tax	(1,424)	(1,129)
Comprehensive income, net of tax	\$ 12,361	\$ 17,772

See accompanying notes to consolidated financial statements.

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**GLOBAL INDEMNITY PLC**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(In thousands, except share amounts)

	(Unaudited) Quarter Ended March 31, 2011	Year Ended December 31, 2010
<b>Number of Class A ordinary shares issued:</b>		
Number at beginning of period	21,340,821	21,243,345
Ordinary shares issued under share incentive plans	33,558	20,828
Ordinary shares issued to directors	14,171	76,648
Number at end of period	21,388,550	21,340,821
<b>Number of Class B ordinary shares issued:</b>		
Number at beginning and end of period	12,061,370	12,061,370
<b>Par value of Class A ordinary shares:</b>		
Balance at beginning and end of period	\$ 2	\$ 2
<b>Par value of Class B ordinary shares:</b>		
Balance at beginning and end of period	\$ 1	\$ 1
<b>Additional paid-in capital:</b>		
Balance at beginning of period	\$ 622,725	\$ 619,473
Share compensation plans	456	3,252
Balance at end of period	\$ 623,181	\$ 622,725
<b>Accumulated other comprehensive income, net of deferred income tax:</b>		
Balance at beginning of period	\$ 57,211	\$ 48,481
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period	(1,422)	8,703
Unrealized foreign currency translation losses		(43)
Other comprehensive income (loss)	(1,422)	8,660
Change in other-than-temporary impairment losses recognized in other comprehensive income, net of taxes	(2)	70
Balance at end of period	\$ 55,787	\$ 57,211

**Retained earnings:**

Balance at beginning of period	\$	349,642	\$	264,739
Net income		13,785		84,903
Balance at end of period	\$	363,427	\$	349,642

**Number of Treasury Shares:**

Number at beginning of period		3,040,277		3,028,106
Class A ordinary shares purchased		6,363		12,171
Number at end of period		3,046,640		3,040,277

**Treasury Shares, at cost:**

Balance at beginning of period	\$	(100,912)	\$	(100,720)
Class A ordinary shares purchased, at cost		(121)		(192)
Balance at end of period	\$	(101,033)	\$	(100,912)
Total shareholders' equity	\$	941,365	\$	928,669

*Share amounts have been retrospectively restated to reflect the 1-for-2 stock exchange effective July 2, 2010 when the Company completed its re-domestication to Ireland.*

See accompanying notes to consolidated financial statements.

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**GLOBAL INDEMNITY PLC**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	<b>(Unaudited)</b>	
	<b>Quarter Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,785	\$ 18,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of trust preferred securities issuance costs	20	20
Amortization and depreciation	522	528
Restricted stock expense	562	1,167
Deferred federal income taxes	(435)	(865)
Amortization of bond premium and discount, net	940	657
Net realized investment gains	(11,997)	(14,204)
Equity in net (income) loss of partnerships	(53)	29
<b>Changes in:</b>		
Accounts receivable, net	(11,440)	953
Reinsurance receivables	32,270	22,643
Unpaid losses and loss adjustment expenses	(17,655)	(25,100)
Unearned premiums	4,085	6,890
Ceded balances payable	(2,845)	(13,983)
Other assets and liabilities, net	(4,512)	(9,236)
Contingent commissions	(4,441)	(5,692)
Federal income taxes payable	8,073	3,124
Deferred acquisition costs	(2,693)	(474)
Prepaid reinsurance premiums	3,058	3,803
Net cash provided by (used for) operating activities	7,244	(10,839)
<b>Cash flows from investing activities:</b>		
Proceeds from sale of fixed maturities	220,016	275,773
Proceeds from sale of stocks	29,365	10,324
Proceeds from maturity of fixed maturities	22,845	17,925
Proceeds from sale of other invested assets	1,348	68
Purchases of fixed maturities	(253,112)	(356,759)
Purchases of stocks	(29,100)	(10,937)
Purchases of other invested assets	(10,026)	
Net cash used for investing activities	(18,664)	(63,606)
<b>Cash flows from financing activities:</b>		
Tax expense associated with share-based compensation plans	(106)	(192)
Purchases of Class A ordinary shares	(121)	(120)
Principal payments of term debt	(71)	(71)

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Net cash used for financing activities	(298)	(383)
Effect of exchange rates on cash and cash equivalents		(113)
Net change in cash and cash equivalents	(11,718)	(74,941)
Cash and cash equivalents at beginning of period	119,888	186,087
Cash and cash equivalents at end of period	\$ 108,170	\$ 111,146

See accompanying notes to consolidated financial statements.

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**GLOBAL INDEMNITY PLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Principles of Consolidation and Basis of Presentation**

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

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

The unaudited consolidated financial statements include all adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair statement of results for the interim periods. Results of operations for the quarters ended March 31, 2011 and 2010 are not necessarily indicative of the results of a full year. The accompanying notes to the unaudited consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company's 2010 Annual Report on Form 10-K.

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

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

**2. Redomestication**

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



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**GLOBAL INDEMNITY PLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**3. Profit Enhancement Initiative**

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

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

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

(Dollars in thousands)	Employee Termination	Operating Leases	Asset Impairments	Workers Compensation	Total
Charges incurred in 2010	\$ 1,711	\$ 1,532	\$ 631	\$ 2,907	\$ 6,781
Cash payments for 2010 actions	(758)			(985)	(1,743)
Non-cash adjustments	176		(631)	(1,430)	(1,885)
Liability at December 31, 2010	\$ 1,129	\$ 1,532	\$	\$ 492	\$ 3,153
Cash payments for 2010 actions	(504)			(492)	(996)
Non-cash adjustments		(190)			(190)
Liability at March 31, 2011	\$ 625	\$ 1,342	\$	\$	\$ 1,967

There were no charges incurred related to the Profit Enhancement Initiative in our statement of operations for the periods ended March 31, 2011 or 2010.

**4. Investments**

The Company's investments in fixed maturities, preferred stock, and common stock are classified as available for sale and are carried at their fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the Company's available for sale portfolio, other invested assets, are determined on the basis of quoted market prices where available. If quoted market prices are not available, the Company uses third party pricing services to assist in determining fair value. In many instances, these services examine the pricing of similar instruments to estimate fair value. The Company purchases bonds with the expectation of holding them to their maturity; however, changes to the portfolio are sometimes required to assure it is appropriately matched to liabilities. In addition, changes in financial market conditions and tax considerations may cause the Company to sell an investment before it matures. Corporate loans have stated maturities; however, they generally do not reach their final maturity due to borrowers refinancing. The difference between amortized cost and fair value of the Company's available for sale investments, excluding the Company's convertible bond and convertible preferred stock portfolios, net of the effect of deferred income taxes, is

reflected in accumulated other comprehensive income in shareholders' equity and, accordingly, has no effect on net income other than for the credit loss component of impairments deemed to be other than temporary. The difference between amortized cost and fair value of the convertible bonds and convertible preferred stocks is included in income.

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**GLOBAL INDEMNITY PLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

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

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

<b>(Dollars in thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Other than temporary impairments recognized in AOCI (1)</b>
<b>As of March 31, 2011</b>					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 109,762	\$ 5,196	\$ (4)	\$ 114,954	\$
Obligations of states and political subdivisions	240,985	5,080	(602)	245,463	
Mortgage-backed securities	333,133	10,103	(136)	343,100	(17)
Asset-backed securities	111,335	2,368	(122)	113,581	(38)
Commercial mortgage-backed securities	38,353	5	(173)	38,185	
Corporate bonds and loans	529,366	19,922	(595)	548,693	(134)
Foreign corporate bonds	51,902	1,885	(46)	53,741	
<b>Total fixed maturities</b>	<b>1,414,836</b>	<b>44,559</b>	<b>(1,678)</b>	<b>1,457,717</b>	<b>(189)</b>
Common stock	126,691	29,024	(1,390)	154,325	
Preferred stock	930	1,416		2,346	
Other invested assets	14,126	3,021	(423)	16,724	
<b>Total</b>	<b>\$ 1,556,583</b>	<b>\$ 78,020</b>	<b>\$ (3,491)</b>	<b>\$ 1,631,112</b>	<b>\$ (189)</b>

(1) Represents the total amount of other than temporary impairment losses recognized in accumulated other comprehensive income ( AOCI ) due to the adoption of the recent guidance on other than temporary impairments in 2009. Per the accounting guidance, these items were not included in earnings as of March 31, 2011.

<b>(Dollars in thousands)</b>	<b>Amortized</b>	<b>Gross Unrealized</b>	<b>Gross Unrealized</b>	<b>Estimated</b>	<b>Other than temporary impairments recognized in</b>
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<b>(Dollars in thousands)</b>	<b>Cost</b>	<b>Gains</b>	<b>Losses</b>	<b>Fair Value</b>	<b>AOCI (2)</b>
<b>As of December 31, 2010</b>					
Fixed maturities:					
U.S. treasury and agency obligations	\$ 192,746	\$ 9,948	\$ (4)	\$ 202,690	\$
Obligations of states and political subdivisions	239,872	5,756	(616)	245,012	
Mortgage-backed securities	239,265	9,864	(49)	249,080	(19)
Asset-backed securities	112,626	2,548	(75)	115,099	(41)
Commercial mortgage-backed securities	38,963	9	(239)	38,733	
Corporate bonds and loans	511,754	21,594	(564)	532,784	(134)
Foreign corporate bonds	58,429	2,570	(5)	60,994	
<b>Total fixed maturities</b>	<b>1,393,655</b>	<b>52,289</b>	<b>(1,552)</b>	<b>1,444,392</b>	<b>(194)</b>
Common stock	120,674	25,300	(700)	145,274	
Preferred stock	930	1,322		2,252	
Other invested assets	5,367	13		5,380	
<b>Total</b>	<b>\$ 1,520,626</b>	<b>\$ 78,924</b>	<b>\$ (2,252)</b>	<b>\$ 1,597,298</b>	<b>\$ (194)</b>

(2) Represents the total amount of other than temporary impairment losses recognized in accumulated other comprehensive income ( AOCI ) due to the adoption of the recent guidance on other than temporary impairments in 2009. Per the accounting guidance, these items were not included in earnings as of December 31, 2010.

The Company holds a mortgage-backed security ( MBS ) issued by Government National Mortgage Association ( GNMA ) which represented approximately 8% of shareholders' equity as of March 31, 2011 and December 31, 2010. Excluding U.S. treasury, agency bonds, and the MBS issued by GNMA, the Company did not hold any debt or equity investments in a single issuer that was in excess of 4.0% and 2.0% of shareholders' equity at March 31, 2011 or December 31, 2010, respectively.

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The amortized cost and estimated fair value of the Company's fixed maturities portfolio classified as available for sale at March 31, 2011, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<b>(Dollars in thousands)</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ 69,569	\$ 70,842
Due after one year through five years	604,897	627,804
Due after five years through ten years	197,630	203,381
Due after ten years through fifteen years	17,898	18,622
Due after fifteen years	42,021	42,202
Mortgaged-backed securities	333,133	343,100
Asset-backed securities	111,335	113,581
Commercial mortgage-backed securities	38,353	38,185
	<b>\$ 1,414,836</b>	<b>\$ 1,457,717</b>

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 March 31, 2011:

<b>(Dollars in thousands)</b>	<b>Less than 12 months Gross Unrealized</b>		<b>12 months or longer (1) Gross Unrealized</b>		<b>Total Gross Unrealized</b>	
	<b>Fair Value</b>	<b>Losses</b>	<b>Fair Value</b>	<b>Losses</b>	<b>Fair Value</b>	<b>Losses</b>
Fixed maturities:						
U.S. treasury and agency obligations	\$ 1,012	\$ (4)	\$	\$	\$ 1,012	\$ (4)
Obligations of states and political subdivisions	47,382	(537)	1,614	(65)	48,996	(602)
Mortgage-backed securities	33,876	(114)	547	(22)	34,423	(136)
Asset-backed securities	16,447	(71)	819	(51)	17,266	(122)
Commercial mortgage-backed securities	32,846	(173)			32,846	(173)
Corporate bonds and loans	62,331	(591)	754	(4)	63,085	(595)
Foreign corporate bonds	5,300	(46)			5,300	(46)
Total fixed maturities	199,194	(1,536)	3,734	(142)	202,928	(1,678)
Common stock	25,611	(1,361)	361	(29)	25,972	(1,390)
Other invested assets	9,577	(423)			9,577	(423)
Total	\$ 234,382	\$ (3,320)	\$ 4,095	\$ (171)	\$ 238,477	\$ (3,491)

(1) Fixed maturities in a gross unrealized loss position for twelve months or longer are primarily comprised of non-credit losses on investment grade securities where management does not intend to sell, and it is more likely

than not that the Company will not be forced to sell the security before recovery. The Company has analyzed these securities and has determined that they are not impaired.

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

(Dollars in thousands)	Less than 12 months		12 months or longer (1)		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:						
U.S. treasury and agency obligations	\$ 1,015	\$ (4)	\$	\$	\$ 1,015	\$ (4)
Obligations of states and political subdivisions	38,601	(553)	1,651	(63)	40,252	(616)
Mortgage-backed securities	2,298	(29)	561	(20)	2,859	(49)
Asset-backed securities	7,021	(17)	880	(58)	7,901	(75)
Commercial mortgage-backed securities	32,889	(239)			32,889	(239)
Corporate bonds and loans	35,063	(559)	1,014	(5)	36,077	(564)
Foreign corporate bonds	1,990	(5)			1,990	(5)
Total fixed maturities	118,877	(1,406)	4,106	(146)	122,983	(1,552)
Common stock	12,580	(700)			12,580	(700)
Total	\$ 131,457	\$ (2,106)	\$ 4,106	\$ (146)	\$ 135,563	\$ (2,252)

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

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

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

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

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

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

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

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

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

**U.S. treasury and agency obligations** As of March 31, 2011, gross unrealized losses related to U.S. treasury and agency obligations were \$0.004 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All of these securities are rated AAA. The Company's investment manager's analysis for this sector includes on-site visits and meetings with officials in addition to the standard rigorous analysis that determines the financial condition of the issuer.



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**Obligations of states and political subdivisions** As of March 31, 2011, gross unrealized losses related to obligations of states and political subdivisions were \$0.6 million. Of this amount, \$0.07 million has been in an unrealized loss position for twelve months or greater. These securities are rated investment grade. The Company's investment manager's analysis for this sector includes on-site visits and meetings with officials in addition to the standard rigorous analysis that determines the financial condition of the issuer.

**Mortgage-backed securities** As of March 31, 2011, gross unrealized losses related to mortgage-backed securities were \$0.14 million. Of this amount, \$0.02 million has been in an unrealized loss position for twelve months or greater. All of these securities are rated AA+. The Company's investment manager models each mortgage-backed security to project principal losses under downside, base, and upside scenarios for the economy and home prices. The primary assumption that drives the security and loan level modeling is the Home Price Index ( HPI ) projection. The Company's investment manager first projects HPI at the national level, then at the Metropolitan Statistical Area ( MSA ) level based on the historical relationship between the individual MSA HPI and the national HPI, using inputs from its macroeconomic team, mortgage portfolio management team, and structured analyst team. The model utilizes loan level data and borrower characteristics including FICO score, geographic location, original and current loan size, loan age, mortgage rate and type (fixed rate / interest-only / adjustable rate mortgage), issuer / originator, residential type (owner occupied / investor property), dwelling type (single family / multi-family), loan purpose, level of documentation, and delinquency status as inputs.

**Asset backed securities ( ABS )** As of March 31, 2011, gross unrealized losses related to asset backed securities were \$0.1 million. Of this amount, \$0.05 million has been in an unrealized loss position for twelve months or greater. These securities are rated investment grade. The weighted average credit enhancement for the Company's asset backed portfolio is 29.8. The Company's investment manager analyzes every ABS transaction on a stand-alone basis. This analysis involves a thorough review of the collateral, prepayment, and structural risk in each transaction. Additionally, their analysis includes an in-depth credit analysis of the originator and servicer of the collateral. The Company's investment manager projects an expected loss for a deal given a set of assumptions specific to the asset type. These assumptions are used to calculate at what level of losses that the deal will incur a dollar of loss. The major assumptions used to calculate this ratio are loss severities, recovery lags, and no advances on principal and interest.

**Commercial mortgage-backed securities ( CMBS )** As of March 31, 2011, gross unrealized losses related to CMBS were \$0.2 million. All unrealized losses have been in an unrealized loss position for less than twelve months. All of these securities are rated AAA. The weighted average credit enhancement for the Company's CMBS portfolio is 23.2. This represents the percentage of pool losses that can occur before a mortgage-backed security will incur its first dollar of principle losses. For the Company's CMBS portfolio, a loan level analysis is utilized where every underlying CMBS loan is re-underwritten based on the Company's investment manager's internally generated set of assumptions that reflect their expectation for the future path of the economy. In the analysis, the focus is centered on stressing the significant variables that influence commercial loan defaults and collateral losses in CMBS deals. These variables include: (1) occupancies are projected to drop; (2) capitalization rates vary by property type and are forecasted to return to more normalized levels as the capital markets repair and capital begins to flow again; and (3) property value was stressed by using projected property performance and projected capitalization rates. Term risk is triggered if projected debt service coverage rate falls below 1x. Balloon risk is triggered if a property's projected performance does not satisfy new, tighter mortgage standards.

**Corporate bonds and loans** As of March 31, 2011, gross unrealized losses related to corporate bonds and loans were \$0.6 million. Of this amount, \$0.004 million has been in an unrealized loss position for twelve months or greater. All of these securities are rated below investment grade. The Company's investment manager's analysis for this sector includes maintaining detailed financial models that include a projection of each issuer's future financial performance, including prospective debt servicing capabilities, capital structure composition, and the value of the collateral. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, issuer's current competitive position, vulnerability to changes in the competitive environment, regulatory environment, issuer

liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection. Part of the process also includes running downside scenarios to evaluate the expected likelihood of default as well as potential losses in the event of default.

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**Foreign bonds** As of March 31, 2011, gross unrealized losses related to foreign bonds were \$0.05 million. All unrealized losses have been in an unrealized loss position for less than twelve months. These securities are rated investment grade. The Company's investment manager maintains financial models for the Company's bond issuers. These models include a projection of each issuer's future financial performance including prospective debt servicing capabilities and capital structure composition. The analysis incorporates the macroeconomic environment, industry conditions in which the issuer operates, issuer's current competitive position, vulnerability to changes in the competitive environment, regulatory environment, issuer liquidity, issuer commitment to bondholders, issuer creditworthiness, and asset protection.

**Common stocks** As of March 31, 2011, gross unrealized losses related to common stock were \$1.39 million. Of this amount, \$0.03 million has been in an unrealized loss position for twelve months or greater. To determine if an other than temporary impairment of an equity security has occurred, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security. The Company also examines other factors to determine if the equity security could recover its value in a reasonable period of time.

The Company recorded the following other than temporary impairments ( OTTI ) on its investment portfolio for the quarters ended March 31, 2011 and 2010:

<b>(Dollars in thousands)</b>	<b>Quarters Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Fixed maturities:		
OTTI losses, gross	\$	\$ (89)
Portion of loss recognized in other comprehensive income (pre-tax)		47
Net impairment losses on fixed maturities recognized in earnings		(42)
Common stock	(553)	
Total	\$ (553)	\$ (42)

The following table is an analysis of the credit losses recognized in earnings on debt securities held by the Company for the quarters ended March 31, 2011 and 2010 for which a portion of the OTTI loss was recognized in other comprehensive income.

<b>(Dollars in thousands)</b>	<b>Quarters Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Balance at beginning of period	\$ 115	\$ 50
Additions where no OTTI was previously recorded		31
Additions where an OTTI was previously recorded		11
Reductions for securities for which the company intends to sell or more likely than not will be required to sell before recovery		
Reductions reflecting increases in expected cash flows to be collected		
Reductions for securities sold during the period	(29)	
Balance at end of period	\$ 86	\$ 92

**Accumulated Other Comprehensive Income**

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

<b>(Dollars in thousands)</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Net unrealized gains (losses) from:		
Fixed maturities	\$ 42,881	\$ 50,737
Preferred stock	1,416	1,322
Common stock	27,634	24,600
Mutual Fund	(423)	
Partnerships < 3% owned	3,021	13
Deferred taxes	(18,742)	(19,461)
Accumulated other comprehensive income	\$ 55,787	\$ 57,211

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***Net Realized Investment Gains***

The components of net realized investment gains for the quarters ended March 31, 2011 and 2010 were as follows:

<b>(Dollars in thousands)</b>	<b>Quarters Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Fixed maturities	\$ 5,715	\$ 11,691
Convertibles		3
Common stock	6,282	2,510
Total	\$ 11,997	\$ 14,204

The proceeds from sales of available-for-sale securities resulting in net realized investment gains (losses) for the three months ended March 31, 2011 and 2010 were as follows:

<b>(Dollars in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Fixed maturities	\$ 220,016	\$ 275,773
Equity securities	29,365	10,324

***Net Investment Income***

The sources of net investment income for the quarters ended March 31, 2011 and 2010 were as follows:

<b>(Dollars in thousands)</b>	<b>Quarters Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Fixed maturities	\$ 14,683	\$ 15,580
Preferred and common stocks	777	361
Cash and cash equivalents	17	77
Total investment income	15,477	16,018
Investment expense	(1,063)	(1,439)
Net investment income	\$ 14,414	\$ 14,579

The Company's total investment return on an after-tax basis for the quarters ended March 31, 2011 and 2010 were as follows:

<b>(Dollars in thousands)</b>	<b>Quarters Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net investment income	\$ 12,536	\$ 12,283

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Net realized investment gains	8,755	10,993
Net equity in net income (loss) of partnership	53	(29)
Net unrealized investment losses	(1,424)	(1,017)
Net investment gains	7,384	9,947
Total investment return	\$ 19,920	\$ 22,230
Total investment return % (1)	1.2%	1.3%
Average investment portfolio (2)	\$ 1,720,392	\$ 1,694,571

(1) Not annualized.

(2) Average of total cash and invested assets, net of payable for securities purchased, as of the beginning and ending of the period.

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**Subprime and Alt-A Investments**

The Company had approximately \$2.9 million and \$3.0 million worth of investment exposure through subprime and Alt-A investments as of March 31, 2011 and December 31, 2010, respectively. An Alt-A investment is one which is backed by a loan that contains limited documentation. As of March 31, 2011, approximately \$0.2 million of those investments were rated AAA by Standard & Poor's, \$0.2 million were rated BBB- to AA, and \$2.5 million were rated below investment grade. As of December 31, 2010, approximately \$0.2 million of those investments were rated AAA by Standard & Poor's, \$0.2 million were rated BBB- to AA, and \$2.6 million were rated below investment grade. There were no impairments on these investments during the quarter ended March 31, 2011 and \$0.04 million of impairments on these investments during the year ended December 31, 2010.

**Insurance Enhanced Municipal Bonds**

As of March 31, 2011, the Company held insurance enhanced municipal bonds of approximately \$115.9 million, which represented approximately 6.7% of the Company's total cash and invested assets. These securities had an average rating of AA. Approximately \$47.4 million of these bonds are pre-refunded with U.S. treasury securities, of which \$35.1 million are backed by financial guarantors, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond. Of the remaining \$68.5 million of insurance enhanced municipal bonds, \$32.5 million would have carried a lower credit rating had they not been insured. The following table provides a breakdown of the ratings for these municipal bonds with and without insurance.

(Dollars in thousands) Rating	Ratings with Insurance	Ratings without Insurance
AAA	\$ 145	\$
AA	27,569	10,418
A	422	16,271
BBB	2,493	3,940
NR	1,881	1,881
Total	\$ 32,510	\$ 32,510

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 March 31, 2011 is as follows:

(Dollars in thousands) Financial Guarantor	Total	Pre-refunded Securities	Government Guaranteed Securities	Exposure Net of Pre-refunded & Government Guaranteed Securities
Ambac Financial Group	\$ 11,258	\$ 5,721	\$	\$ 5,537
Financial Guaranty Insurance Company	2,454	2,454		
Financial Security Assurance, Inc.	42,621	15,122		27,499
Municipal Bond Insurance Association	39,920	11,025		28,895
Federal Housing Association	2,259		2,259	

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Government National Housing Association	3,684	789	2,895	
Permanent School Fund Guaranty	1,373		1,373	
Total backed by financial guarantors	103,569	35,111	6,527	61,931
Other credit enhanced municipal bonds	12,283	12,283		
Total	\$ 115,852	\$ 47,394	\$ 6,527	\$ 61,931

In addition to the \$115.9 million of insurance enhanced municipal bonds, the Company also held insurance enhanced asset-backed and credit securities with a market value of approximately \$32.4 million, which represented approximately 1.9% of the Company's total invested assets. The financial guarantors of the Company's \$32.4 million of insurance enhanced asset-backed and credit securities include Financial Guaranty Insurance Company (\$0.8 million), Municipal Bond Insurance Association (\$13.1 million), Ambac (\$2.5 million), Financial Security Assurance, Inc. (\$5.0 million), Assured Guaranty Insurance Group (\$5.8 million), and Other (\$5.2 million).

The Company had no direct investments in the entities that have provided financial guarantees or other credit support to any security held by the Company at March 31, 2011.



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**Bonds Held on Deposit**

Certain cash balances, cash equivalents, and bonds available for sale were deposited with various governmental authorities in accordance with statutory requirements or were held in trust pursuant to intercompany reinsurance agreements. The estimated fair values of bonds available for sale and on deposit or held in trust were as follows as of March 31, 2011 and December 31, 2010:

<b>(Dollars in thousands)</b>	<b>Estimated Fair Value</b>	
	<b>March 31, 2011</b>	<b>December 31, 2010</b>
On deposit with governmental authorities	\$ 43,400	\$ 43,656
Intercompany trusts held for the benefit of U.S. policyholders	601,160	609,242
Held in trust pursuant to third party requirements	96,625	68,900
Held in trust pursuant to U.S. regulatory requirements for the benefit of U.S. policyholders	5,941	5,871
Total	\$ 747,126	\$ 727,669

**5. Fair Value Measurements**

The Company elected to apply the fair value option within its limited partnership investment portfolio to an investment where the Company previously owned more than a 3% interest. The fair value of this investment was \$1.1 million as of December 31, 2010. During the quarter ended March 31, 2011, the Company liquidated its remaining interest in this limited partnership.

During the quarters ended March 31, 2011 and 2010, the Company recognized the following gains (losses), net of taxes, due to changes in the value of these investments.

<b>(Dollars in thousands)</b>	<b>Quarter Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Limited partnership > 3% ownership	\$ 53	\$ (29)

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

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

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

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

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

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

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

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

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

The following tables present information about the Company's invested assets measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

<b>As of March 31, 2011</b> <b>(Dollars in thousands)</b>	<b>Fair Value Measurements</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Fixed maturities:				
U.S. treasury and agency obligations	\$ 66,076	\$ 48,878	\$	\$ 114,954
Obligations of states and political subdivisions		245,463		245,463
Mortgage-backed securities		343,100		343,100
Commercial mortgage-backed securities		38,185		38,185
Asset-backed securities		113,581		113,581
Corporate bonds and loans		548,693		548,693
Foreign corporate bonds		53,741		53,741
Total fixed maturities	66,076	1,391,641		1,457,717
Preferred shares		2,346		2,346
Common shares	154,325			154,325
Other invested assets			16,724	16,724
Total invested assets	\$ 220,401	\$ 1,393,987	\$ 16,724	\$ 1,631,112

<b>As of December 31, 2010</b> <b>(Dollars in thousands)</b>	<b>Fair Value Measurements</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Fixed maturities:				
U.S. treasury and agency obligations	\$ 89,187	\$ 113,503	\$	\$ 202,690
Obligations of states and political subdivisions		245,012		245,012
Mortgage-backed securities		249,080		249,080
Commercial mortgage-backed securities		38,733		38,733
Asset-backed securities		115,099		115,099
Corporate bonds and loans		532,784		532,784
Foreign corporate bonds		60,994		60,994
Total fixed maturities	89,187	1,355,205		1,444,392
Preferred shares		2,252		2,252

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Common shares	145,274			145,274
Other invested assets			5,380	5,380
Total invested assets	\$ 234,461	\$ 1,357,457	\$ 5,380	\$ 1,597,298

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

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

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There were no significant transfers between Level 1 and Level 2 during the quarters ended March 31, 2011 or 2010. The following table presents changes in Level 3 investments measured at fair value on a recurring basis for the quarter ended March 31, 2011:

<b>Quarter Ended March 31, 2011</b> <b>(Dollars in thousands)</b>	<b>Other Invested Assets</b>
Beginning balance at January 1, 2011	\$ 5,380
Total gains (realized / unrealized):	
Included in equity in net income of partnership	81
Included in accumulated other comprehensive income	2,585
Purchases	10,025
Sales	(1,347)
Ending balance at March 31, 2011	\$ 16,724
Net unrealized losses included in net income for the period related to assets still held at March 31, 2011	\$

The amount is comprised of \$7.1 million related to investments in limited partnerships and \$9.6 million related to an investment in a mutual fund. The \$7.1 million related to investments in limited partnerships was comprised of securities for which there is no readily available independent market price. The estimated fair value of these limited partnerships is measured utilizing the Company's net asset value as a practical expedient for each limited partnership. Material assumptions and factors utilized in pricing these securities include future cash flows, constant default rates, recovery rates, and any market clearing activity that may have occurred since the prior month-end pricing period. The Company's investment in a mutual fund of \$9.6 million is measured utilizing the fund's net asset value. The net asset value of the fund is based on the actual market price of the assets of the portfolio, including accrued income less liabilities and provisions for accrued expenses. The fund is comprised primarily of foreign equities. However, since the Company does not have the ability to see the invested asset composition of the mutual fund on a daily basis, this investment has been classified within the Level 3 category.

The following table presents changes in Level 3 investments measured at fair value on a recurring basis for the quarter ended March 31, 2010:

<b>Quarter Ended March 31, 2010</b> <b>(Dollars in thousands)</b>	<b>Other Invested Assets</b>
Beginning balance at January 1, 2010	\$ 7,999
Total losses (realized / unrealized):	
Included in equity in net loss of partnership	(44)
Included in accumulated other comprehensive income	(1,339)
Distribution	(68)
Ending balance at March 31, 2010	\$ 6,548

Net unrealized losses included in net income for the period related to assets still held at March 31, 2010 \$ (44)

The amount is comprised of \$6.5 million related to investments in limited partnerships. Of the investments in limited partnerships, \$5.4 million was comprised of securities for which there is no readily available independent market price. The estimated fair value of these limited partnerships is measured utilizing the Company's net asset value as a practical expedient for each limited partnership. Material assumptions and factors utilized in pricing these securities include future cash flows, constant default rates, recovery rates, and any market clearing activity that may have occurred since the prior month-end pricing period. Of our investments in limited partnerships, \$1.1 million was related to a limited partnership which holds convertible preferred securities of a privately held company. In February, 2011, the Company's remaining interest of \$1.1 million was liquidated.

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**Fair Value of Alternative Investments**

Included in Other invested assets in the fair value hierarchy at March 31, 2011 are limited liability partnerships and a mutual fund measured at fair value. The following table provides the fair value and future funding commitments related to these investments at March 31, 2011.

<b>(Dollars in thousands)</b>	<b>Fair Value</b>	<b>Future Funding Commitments</b>
Equity Fund, LP (1)	\$ 7,147	\$ 2,544
Real Estate Fund, LP (2)		
Mutual Fund (3)	9,577	
 Total	 \$ 16,724	 \$ 2,544

- (1) This limited partnership invests in companies, from various business sectors, whereby the partnership has acquired control of the operating business as a lead or organizing investor. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner.
- (2) This limited partnership invests in real estate assets through a combination of direct or indirect investments in partnerships, limited liability companies, mortgage loans, and lines of credit. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company continues to hold an investment in this limited partnership and has written the fair value down to zero in 2010.
- (3) This is an open-ended unincorporated mutual investment fund which seeks to generate attractive long term total returns by investing in companies which benefit from increasing levels of domestic consumption expenditure in the Asia ex Japan region. Investments will primarily be in equity securities within the consumer staples, consumer discretionary and healthcare sectors in the Asia ex Japan region; however, the approach is unconstrained and may opportunistically invest in any sector. The Company may request to redeem units of the portfolio. However, depending on the size of the redemption request, certain restrictions may apply.

**Pricing**

The Company's pricing vendors provide prices for all investment categories except for investments in limited partnerships. One vendor provides prices for equity securities and select fixed maturity categories including: corporate loans, commercial mortgage backed securities, high yield, investment grade, short term securities, and international fixed income securities, if any. A second vendor provides prices for other fixed maturity categories including: asset backed securities ( ABS ), collateralized mortgage obligations ( CMO ), and municipals. A third vendor provides prices for the remaining fixed maturity categories including mortgage backed securities ( MBS ) and treasuries. The following is a description of the valuation methodologies used by the Company's pricing vendors for investment securities carried at fair value:

Equity prices are received from all primary and secondary exchanges.

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



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

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

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

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

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

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

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

Understanding and periodically evaluating the various pricing methods and procedures used by the

Company's pricing vendors to ensure that investments are properly classified within the fair value hierarchy.

During the quarter ended March 31, 2011, the Company has not needed to adjust quotes or prices obtained from the pricing vendors.

**6. Reinsurance**

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

The Company had the following reinsurance balances as of March 31, 2011 and December 31, 2010:

<b>(Dollars in thousands)</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Reinsurance receivables	\$ 390,574	\$ 422,839
Collateral securing reinsurance receivables	(214,653)	(289,284)
Reinsurance receivables, net of collateral	\$ 175,921	\$ 133,555

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Allowance for uncollectible reinsurance receivables	\$	12,742	\$	12,742
Prepaid reinsurance premiums		8,046		11,105

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

**Property Catastrophe Excess of Loss** The Company's current property writings create exposure to catastrophic events. To protect against these exposures, the Company purchases a property catastrophe treaty. Effective June 1, 2010, the Company renewed its property catastrophe excess of loss treaty which provides occurrence coverage for losses of \$75.0 million in excess of \$15.0 million. This treaty provides for one full reinstatement of coverage at 100% additional premium as to time and pro rata as to amount of limit reinstated. This replaces the treaty that expired on May 31, 2010, which provided identical limits of coverage.

**Property Per Risk Excess of Loss** Effective January 1, 2011, the Company renewed its property per risk excess of loss treaty which provides coverage of \$13.0 million per risk in excess of \$2.0 million per risk. This replaces the treaty that expired December 31, 2010, which provided coverage of \$14.0 million per risk in excess of \$1.0 million per risk. The renewal treaty provides coverage in two layers: \$3.0 million per risk in excess of \$2.0 million per risk, and \$10.0 million per risk in excess of \$5.0 million per risk. The first layer is split into two sections, each subject to a \$3.0 million limit of liability for all risks involved in one loss occurrence, and the second layer is subject to a \$10.0 million limit for all risks involved in one loss occurrence.

**Professional Liability Excess of Loss** Effective January 1, 2010, the Company renewed its professional liability excess of loss treaty which provides coverage of \$4.0 million per policy / occurrence in excess of \$1.0 million per policy / occurrence. This replaces the treaty that expired December 31, 2009, which provided identical limits of coverage. For 2011, it is anticipated that the exposure will be added to the casualty excess of loss treaty.

**Casualty Excess of Loss** Effective May 1, 2010, the Company renewed its casualty excess of loss treaty which provides coverage for \$2.0 million per occurrence in excess of \$1.0 million per occurrence for general liability and auto liability. Allocated loss adjustment expenses are included within limits. This replaces the treaty that expired April 30, 2010, which provided coverage for \$2.25 million per occurrence in excess of \$0.75 million per occurrence, with allocated loss adjustment expenses shared in proportion to losses retained and ceded.

**Casualty Clash Excess of Loss** Effective January 1, 2011, the Company renewed its casualty clash excess of loss treaty which provides coverage of \$10.0 million per occurrence in excess of \$3.0 million per occurrence, subject to a \$20.0 million limit for all loss occurrences. This replaces the treaty that expired December 31, 2010, which provided identical coverage.

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

**Workers Compensation Excess of Loss** Effective April 15, 2010, the Company entered into two new workers compensation excess of loss treaties. The first treaty provides coverage for \$3.0 million per occurrence in excess of \$2.0 million per occurrence, with three full reinstatements of coverage—one at no cost and two at 100% additional premium as to time and pro rata as to amount of limit reinstated. The second treaty provides coverage in three layers for \$45.0 million per occurrence in excess of \$5.0 million per occurrence. The first layer of \$5.0 million in excess of \$5.0 million provides for two full reinstatements of coverage at 100% additional premium. The second layer of \$10.0 million in excess of \$10.0 million, and the third layer of \$30.0 million in excess of \$20.0 million, provides for one full reinstatement of coverage at 100% additional premium. As discussed in Note 3 above, as part of the Profit Enhancement Initiative we curtailed our workers' compensation product initiative, which resulted in a minimum premium charge of \$1.5 million for 2010 under these contracts. These treaties are not expected to be renewed in 2011.



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**Marine Excess of Loss** Effective May 24, 2010, the Company entered into a new marine excess of loss treaty which provides coverage in three layers for \$13.0 million per occurrence in excess of \$2.0 million per occurrence. The first layer of \$3.0 million in excess of \$2.0 million, and the second layer of \$5.0 million in excess of \$5.0 million, provides for two full reinstatements of coverage at 100% additional premium. The third layer of \$5.0 million in excess of \$10.0 million provides for one full reinstatement of coverage at 100% additional premium.

There were no other significant changes to any of the Company's other reinsurance treaties during the quarter ended March 31, 2011. To the extent that there may be an increase or decrease in catastrophe or casualty clash exposure in the future, the Company may increase or decrease its reinsurance protection for these exposures commensurately.

**7. Income Taxes**

The statutory income tax rates of the countries where the Company does business are 35.0% in the United States, 0.0% in Bermuda, 0.0% in the Cayman Islands, 0.0% in Gibraltar, 28.59% in the Duchy of Luxembourg, and 25.0% on non-trading income and 12.5% on trading income in the Republic of Ireland. The statutory income tax rate of each country is applied against the expected annual taxable income of the Company in each country to estimate the annual income tax expense. Total estimated annual income tax expense is divided by total estimated annual pre-tax income to determine the expected annual income tax rate used to compute the income tax provision. On an interim basis, the expected annual income tax rate is applied against interim pre-tax income, excluding net realized gains and losses, discrete items such as the AON settlement and limited partnership distributions, and then adding that amount to income taxes on net realized gains and losses, discrete items and limited partnership distributions. The Company's income before income taxes from the Non-U.S. Subsidiaries and U.S. Subsidiaries, including the results of the quota share agreement between Wind River Reinsurance and the Insurance Operations, for the quarters ended March 31, 2011 and 2010 were as follows:

<b>Quarter Ended March 31, 2011: (Dollars in thousands)</b>	<b>Non-U.S. Subsidiaries</b>	<b>U.S. Subsidiaries</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenues:</b>				
Gross premiums written	\$ 58,697	\$ 56,467	\$ (27,498)	\$ 87,666
Net premiums written	\$ 58,195	\$ 24,913	\$	\$ 83,108
Net premiums earned	\$ 49,626	\$ 26,343	\$	\$ 75,969
Net investment income	11,649	7,313	(4,548)	14,414
Net realized investment gains	3,415	8,582		11,997
Other income		11,669		11,669
Total revenues	64,690	53,907	(4,548)	114,049
<b>Losses and Expenses:</b>				
Net losses and loss adjustment expenses	40,851	17,491		58,342
Acquisition costs and other underwriting expenses	18,737	11,115		29,852
Corporate and other operating expenses	1,763	1,017		2,780
Interest expense		6,300	(4,548)	1,752
Income before income taxes	\$ 3,339	\$ 17,984	\$	\$ 21,323

<b>Quarter Ended March 31, 2010:</b> <b>(Dollars in thousands)</b>	<b>Non-U.S.</b> <b>Subsidiaries</b>	<b>U.S.</b> <b>Subsidiaries</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenues:</b>				
Gross premiums written	\$ 61,646	\$ 54,071	\$ (22,864)	\$ 92,853
Net premiums written	\$ 60,867	\$ 20,614	\$	\$ 81,481
Net premiums earned	\$ 47,041	\$ 23,747	\$	\$ 70,788
Net investment income	10,861	8,265	(4,547)	14,579
Net realized investment gains	5,031	9,173		14,204
Total revenues	62,933	41,185	(4,547)	99,571
<b>Losses and Expenses:</b>				
Net losses and loss adjustment expenses	25,954	15,835		41,789
Acquisition costs and other underwriting expenses	20,375	9,773		30,148
Corporate and other operating expenses	2,168	2,728		4,896
Interest expense		6,286	(4,547)	1,739
Income before income taxes	\$ 14,436	\$ 6,563	\$	\$ 20,999

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

<b>(Dollars in thousands)</b>	<b>Quarters Ended March 31,</b>			
	<b>2011</b>	<b>% of Pre-</b>		<b>2010</b>
	<b>Amount</b>	<b>Tax Income</b>	<b>Amount</b>	<b>% of Pre-</b>
				<b>Tax Income</b>