CONEXANT SYSTEMS INC
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Additional Information About This Transaction
In connection with the proposed transaction, SMSC will file with the Securities and Exchange Commission (the "SEC") a Registration Statement on Form S-4 that will include a proxy statement of Conexant and a prospectus of SMSC. The definitive proxy statement/prospectus will be mailed to stockholders of Conexant. Conexant and SMSC urge investors and security holders to read the proxy statement/prospectus regarding the proposed transaction when it becomes available because it will contain important information about the proposed transaction. You may obtain a free copy of the proxy statement/prospectus (when available) and other related documents filed by SMSC and Conexant with the SEC at the SEC's website at www.sec.gov. The proxy statement/prospectus (when it is available) and other documents filed by SMSC or Conexant with the SEC relating to the proposed transaction may also be obtained for free by accessing SMSC's website at www.smsc.com by clicking on the link for "Investor Relations", then clicking on the link for "SEC Filings" or by accessing Conexant's website at www.conexant.com and clicking on the "Investors" link and then clicking on the link for "Financial Information" and then clicking on the link for "SEC Filings".

Participants in This Transaction
SMSC, Conexant and their respective directors, executive officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from Conexant stockholders in connection with the proposed transaction. Information regarding the persons who may, under the rules of the SEC, be considered participants in the solicitation of Conexant stockholders in connection with the proposed transaction, including the interests of such participants in the proposed transaction, will be set forth in the proxy statement/prospectus when it is filed with the SEC. You can find information about SMSC's executive officers and directors in SMSC's definitive proxy statement filed with the SEC on June 14, 2010. You can find information about Conexant's executive officers and directors in Conexant's definitive proxy statement filed with the SEC on December 10, 2010. You can obtain free copies of these documents from SMSC or Conexant, respectively, using the contact information above.

Forward Looking Statements
Except for historical information contained herein, the matters set forth in this document are forward-looking statements about expected future events and financial and operating results that involve risks and uncertainties. These uncertainties may cause SMSC's or Conexant's actual future results to be materially different from those discussed in the forward-looking statements. These risks and uncertainties include risks relating to the ability to obtain regulatory approvals of the transaction on the proposed terms and schedule; the failure of Conexant stockholders to approve the transaction; a failure to consummate or delay in consummating the Merger for other reasons; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; competition and its effect on pricing, spending, third-party relationships and revenues; and other risks relating to the companies' businesses set forth in their filings with the SEC.

Our forward looking statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations and may not reflect the potential impact of any future acquisitions, mergers or divestitures. All forward-looking statements speak only as of the date hereof and are based upon the information available to SMSC and Conexant at this time. Such statements are subject to change, and SMSC and Conexant do not undertake to update such statements, except to the extent required under applicable law and regulation. These and other risks and uncertainties, including potential liability resulting from pending or future litigation, are detailed from time to time in SMSC's and Conexant's reports filed with the SEC. Investors are advised to read each company's Annual Report on Form 10-K and quarterly reports on Form 10-Q filed with the SEC, particularly those sections entitled "Other Factors That May Affect Future Operating Results" or "Risk Factors" for a more complete discussion of these and other risks and uncertainties.

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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the SMSC's third quarter fiscal 2011 earnings conference call. At this time, I'd like to inform you that today's conference is being recorded and that all participants' lines are in a listen-only mode. Following management's discussion, we will open the conference up for questions and answers and instructions will follow at that time. I'll now turn the conference over to your host, Carolynne Borders of SMSC. Please go ahead, Ms. Borders.

Carolynne Borders - SMSC - Director Corporate Communications

Thank you. Good morning, and thank you for joining us today for SMSC's third quarter fiscal 2011 conference call. Please note that there is a slide presentation that accompanies today's call. The press release, slide presentation and a replay will be available in the Investor Relations section of our website. Representing management today are Chris King, President and CEO, and Kris Sennesael, Vice President and CFO. Following management's discussion, we'll open the call to a Q&A session.

If you're participating in our online webcast, please move on to slide two for a quick note on our Safe Harbor statement. Certain matters discussed in this teleconference are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected or forecasted. Such risks and uncertainties include, but are not limited to, those discussed in this teleconference and those found in the Company's Form 10-K, 10-Qs and other filings with the Securities and Exchange Commission. I'd also refer you to the forward-looking statement language contained in today's press release regarding risks and uncertainties.

Today's presentation also includes non-GAAP financial measures which should not be considered in isolation or as an alternative to results of operations data or any other measure or performance derived in accordance with US GAAP. However, these non-GAAP financial measures are presented because management believes they provide useful supplemental information for management and investors and allow them to perform meaningful comparisons to the Company's past and present results. Before we begin, I'd like to remind you that SMSC will be presenting at the Needham Growth Conference in New York City, tomorrow, January 11th at 1.30 PM Eastern time. And with that, I'll turn the call over to Chris King.

Christine King - SMSC - President & CEO

Thanks, Carolynne and good morning everyone. Today I am very pleased to announce the signing of a definitive agreement in which SMSC will purchase all of the outstanding shares of Conexant. We are very excited about the strategic technology, engineering, and financial implications of our future together. Under the terms of the agreement, SMSC will acquire Conexant for approximately $2.25 per share, 50% in cash and 50% in stock. The transaction is valued at approximately $284 million, including the assumption of Conexant's net debt. The acquisition has been approved by the SMSC and Conexant Boards Of Directors. We expect to close the transaction in the first half of calendar 2011, subject to the satisfaction of regulatory requirements, approval by Conexant stockholders and other customary closing conditions.

The acquisition is expected to be accretive to non-GAAP gross margins, non-GAAP operating margins, and non-GAAP earnings per share immediately upon closing. We expect to realize approximately $8 million to $10

million in annualized pre-tax cost synergies by the end of SMSC's fourth quarter fiscal 2012 as a result of the consolidation of support functions and optimization of the supply chain across a larger base. We plan to provide an update on the impact of the acquisition to our financial model as well as the accounting treatment for the transaction following the close of the deal. As you know, our two Companies have a long history of serving the semiconductor industry.

SMSC has spent the last two years focusing not only on connectivity solutions, including USB, MOST automotive networking and other protocols but on the content and use applications which surround these standards as well. Adding graphics, video, storage, security and wireless audio has extended our reach, added value and has allowed us to provide more comprehensive feature-rich solutions to our customers. During the same time period while divesting some of its assets, Conexant has focused its investment and engineering capability on new growth areas that are highly complementary to SMSC's strategy. These products include world-class computing consumer and embedded audio, video capabilities, security solutions, additional connectivity protocols and highly differentiated imaging products.

These solutions are an excellent match to SMSC's focus on providing value-added connectivity ecosystems to the computing, consumer automotive and industrial markets. As a result, the SMSC/Conexant combination will expand our reach and scope into connectivity products which not only include communication protocols but the content surrounding it. This creates a Company which is balanced and diversified in terms of end market presence and geographical reach. The combined Companies are expected to bring together a team of over 900 highly capable engineers encompassing analog, mixed signal, firmware and software expertise with deep applications knowledge that is important to our end markets.

While there is significant synergies in our product portfolios, there is no real product overlap between SMSC and Conexant. As a result, combining the two Companies will add to the scale and breadth of our solution offerings. In addition, we currently serve many of the same customers who are leaders in the computing, consumer and industrial markets. We believe there are many opportunities for both Companies to accelerate the sale of existing products by leveraging the deep relationships we have established over the years. At the same time, we will focus on bringing newly developed Conexant products to market and working with our customers to design integrated solutions that take advantage of the combined capability of both Companies.

To ensure the optimal integration of our teams as well as technical and product strengths, we will be taking advantage of the outstanding leadership both at Conexant and SMSC. We are pleased to announce that, Sailesh Chittipeddi, currently the President and Chief Operating Officer at Conexant will assume the role of Executive Vice President of the combined Company, with responsibility for all product lines, worldwide engineering and marketing. Roger Wendelken and Dave Coller will continue as Heads of Worldwide Sales and Operations respectively, while Kris Sennesael will remain Chief Financial Officer. While we will be taking advantage of cost synergies throughout the integration period including optimization of our supply chains, our intent is to leave both our engineering workforces essentially intact and we are planning to remain in our global locations.

Finally, the size and scale of the new SMSC will be significantly increased. We expect this will result in improved financial and operational leverage with an annual revenue of more than $600 million and an accretive impact to non-GAAP gross margin, non-GAAP operating margin, and non-GAAP earnings per share immediately upon closing. As we all know, success in the semiconductor industry is about the ability to provide complete customer and market solutions, as well as superior financial performance. The size and scale of the SMSC/Conexant combination as well as technology and product synergies and a world-class engineering team will bring SMSC another step closer to a bold and successful future.

Now let's move on to SMSC's third quarter earnings results on slide 13. SMSC's revenue of $107 million in the third quarter fiscal 2011 was up 3% sequentially or up 23% from the third quarter last year. This was record quarterly revenue for SMSC. $2.7 million of this revenue was a result of the Symwave acquisition which closed on November 12. Without this additional revenue, SMSC sales of $104.3 million are within our prior guidance range, flat sequentially and up 20% from the same period last year. This result is consistent with our previous remarks related to muted seasonality in the back half of our fiscal year following an unusually strong first half.

Sales to the automotive market reached a record level in the third quarter at $19.1 million, and grew by 5% sequentially. PC revenue grew 2% due to continued slow enterprise demand which is lower than we expected at some of our customers. Industrial revenue continued to increase for the sixth quarter in a row. The largest drop in the third quarter came from the termination of certain PC promotional programs for free accessories which benefited us. Other consumer sales were flat. However, the market adoption of wireless audio capabilities was lower than expected.

In addition, the launch of some tablet devices we are designed into were delayed. On a year-over-year basis, sales into all end markets produced strong double-digit growth. Non-GAAP gross margin in the third quarter was 55.4%, and non-GAAP operating margin was 14.8%. We reported non-GAAP EPS of $0.52 for the quarter. Finally, SMSC

generated $9.2 million in cash from operations during the quarter.

Let's move to slide 14 for a discussion on the market and our business outlook. We expect fourth quarter sales to decline roughly in line with seasonality. Our expectation is that PC demand will be relatively flat with the exception of the ODMs driving to lower inventory levels, the effect of a number of platform transitions, and the normal Japanese year-end inventory adjustments. Industrial revenue should drop lower than seasonal as the supply chain aligns with demand and we anticipate normal post-Christmas season consumer inventory correction. We currently believe all these factors will result in a short-term pause before a better than seasonal fiscal Q1. We expect to exit fiscal 2011 with over $400 million in revenue, up more than 30% year-over-year which will be record annual revenue for SMSC.

4

We expect to improve our non-GAAP earnings per share by more than three times for fiscal 2010 earnings per share of $0.46. Book-to-bill during Q3 was a low 0.7, as our order coverage was extremely high coming into the quarter. The largest booking drop was for industrial components as we returned to more normal sales levels. Our bookings have picked up significantly since early December, and our quarter-to-date book-to-bill is above 1.3, as orders spill in for Q4 and Q1.

Slide 15 provides a snapshot of some recent SMSC design wins and other product highlights. We recently enhanced our connectivity product offering with the introduction of our ViewSpan USB3 Remote Graphics Technology for multiple displays and we received our first orders from a major Tier 1 display customer. We also now have a brand-new storage product portfolio as a result of the Symwave acquisition with our USB to SATA technology. Our low power, high performance storage solution has been well received with target customers. Most importantly, we believe the addition of this highly experienced analog team will accelerate our connectivity roadmaps as storage technology is increasingly integrated into our connectivity chips.

Overall, USB2 revenue continues to remain strong and we anticipate this to continue into the fourth quarter. With our USB3 Storage Solution in production and our graphics products starting to ramp now, we are expecting a strong USB-oriented fiscal 2012. Design wins for our USB to Ethernet products are also growing. We've introduced support for both 10/100 as well as 10/100 gigabit Ethernet into single-chip fully integrated solutions. Our expectation is the tablet market could open up a whole new opportunity for connectivity solutions both in the tablet itself and in various docking stations.

SMSC USB connectivity and analog components are designed into most of the major reference designs and we are now working with over 20 customers in the US, Asia and Japan, as part of the solution for this new category. After seeing many of these new products at CES last week, we are looking forward to this changing landscape in the coming months. Moving to other design wins that have been highlighted in industry tear-downs, we are excited to report that two of SMSC's chips were selected for Sony's Google TV to enable ethernet connectivity and USB support. Our USB transceiver was also selected for the Parrot Drone Quadricopter which appears to be hot ticket item with flying enthusiasts.

SMSC also recently launched its next generation wireless audio processor, with Tri-Band support and embedded multi-channel USB2 audio controller for a wide variety of digital wireless audio applications. This was designed for customers integrating Wi-Fi and Bluetooth into their consumer products such as home, audio and theater systems, PCs, gaming consoles and headphones. And other exciting news, the MOST Cooperation just reported on a recent Audi/Volkswagen announcement. They will be the first to bring a car to market with the next generation MOST150 in the Audi A3. Volkswagen has also stated that it will use MOST150 in their entire production series across all brands. We reported last quarter that we had achieved a milestone with more than 100 car models on the road with MOST.

Today we are announcing the latest additions with the MINI Countryman, the BMW X3 and a new Bentley model. Over the past two years we have made a number of decisions to acquire or invest in companies. Our investment rationale has always been to enhance our organic growth profile and market share with synergistic products or technology and to add high quality engineering talent to our team. On November 12, we acquired Symwave a fabless designer of high performance USB and FireWire storage solutions. This team of engineers has delivered the industry's highest performing storage products for SuperSpeed USB market. Its USB to serial ATA device was the first to achieve USB IF certification.

Prior to the acquisition, Symwave products had already been qualified by most of the major storage OEM companies worldwide and have started shipping in high volume production. With USB3 now ready for mass deployment, the Symwave team is strengthening our USB3 market position, allowing us to take advantage of this performance shift at the optimal time. Perhaps of most importance, we expect this IP will be broadly used throughout SMSC's connectivity

portfolio.

While the Symwave's acquisition along with our wireless audio acquisitions are expected to be somewhat dilutive to gross margins and earnings in Q4, we firmly believe they bring SMSC essential technology skills and capabilities to enable our future growth. We've had a solid investment track record to date and we are very excited about the prospects of our latest acquisition agreement with Conexant. As we discussed, we feel this is a great fit with SMSC's product portfolio and we expect to drive significant efficiencies and opportunities through our new size and scale following the close of the transaction.

Slide 16 offers a snapshot of revenue performance by vertical market. As mentioned earlier on an absolute dollar basis, automotive, consumer electronics, PC and industrial revenue all increased sequentially. All of our end markets are expected to perform in line with seasonality in the fourth quarter, with the exception of the industrial market. We anticipate industrial sales will drop about 20% due to an inventory correction following six quarters of sequential growth, returning to normal levels in Q1.

5

We expect PC sales to be in line with normal seasonality, primarily driven by the customary year-end Japanese inventory adjustments. Consumer sales should decline slightly due to weakness in video related products, offset by a ramp of wireless audio programs. Revenue from our USBPHYs and SmartPhones will also be down in line with normal seasonality. We expect automotive sales to be slightly up in Q4.

Now looking at product line revenue performance on slide 17 for the third quarter, our computing and connectivity revenue grew by 2% sequentially. Regarding PC inventory, we believe that current ODM inventory stands at approximately two weeks. Overall, we believe inventories in the channel and at the ODMs are in a healthy state as we transition into 2011 and the Chinese New Year shutdown. Automotive product sales grew by 6%.

The luxury car segment has continued to be strong, driven by demand in the US and China, and OEMs such as Audi, BMW, Daimler, Volvo and Jaguar seem to be benefiting from this. To support this, the luxury car makers shortened their Christmas vacation shutdowns in order to increase their capacity. Therefore, we expect solid demand to continue into the new year. Our analog product sales increased by 6% from the second quarter of fiscal 2011. This was mainly driven by the ramp of thermal management design wins.

Going forward, we expect there will be a move to integrate analog functions like touch and thermal management into embedded control and connectivity solutions and we are positioning ourselves to take advantage of this trend. Finally, we are introducing the consumer electronics solutions product line which combines our mobile technology and wireless technology groups. We think this is a natural fit and expect the consolidation of our investment will result in a more competitive product solution for our customers in portable ecosystems and a higher return on R&D investment for SMSC.

For the third quarter, the Consumer Electronics Solutions product line grew by 2% sequentially. In the fourth quarter, we expect these sales to be about flat as we believe there is currently adequate inventory in the SmartPhone channel. Wireless Audio revenue grew by 7% sequentially in Q3 and we anticipate further growth in Q4. However, the adoption of wireless audio is slower than we had anticipated, due to the consumer spending environment and price sensitivity.

In looking at revenue by geography on slide 18, the total breakdown is very similar between the second and third quarters. In absolute dollars, EMEA and Asia grew in the low single digits sequentially while the Americas were down 3% and Japan was about flat. However, in year-over-year comparison, EMEA grew by an impressive 40% and Japan increased by 33%.

Looking ahead to the fourth quarter, we expect our revenue from Asia and Japan to decline sequentially as customers in this region traditionally work down inventory at this time, with the Americas and EMEA about flat from the third quarter. As evident last week at CES, connectivity is becoming ever more important in mobile, enterprise, automotive and consumer devices. SMSC continues to benefit from new connectivity adoption from traditional applications to new opportunities in storage, security, graphics, and now wireless solutions. We expect to further add to this portfolio with the addition of Conexant's audio, video, imaging and connectivity capability. Now I'll hand the call over to Kris Sennesael for a review of our financial highlights on slide 19. Kris?

Kris Sennesael - SMSC - VP & CFO

Yes. Thanks Chris. Revenue in the third quarter of fiscal 2011 was $107 million, a 3% sequential increase and up 23% versus the same period in the prior year. Revenue included approximately $2.7 million in revenue from the Symwave acquisition, which closed on November 12. Non-GAAP gross margin was 55.4%. Gross margin from the SMSC business excluding Symwave came in very strong, above our target model of 56%. Currently, the gross margin in the

acquired business from Symwave is well below the SMSC gross margin, and as such, it's having a dilutive effect on the overall gross margin. Non-GAAP operating margin was 14.8%. Operating margin from the SMSC business excluding Symwave is approximately in line with our target model and guidance, but the acquired Symwave business is also dilutive to the overall operating margin.

On a non-GAAP basis, net income was $12 million, and diluted earnings per share was $0.52, slightly higher than the $0.51 reported in the second quarter of fiscal 2011, and showing a significant increase from the $0.34 in the third quarter one year ago. The non-GAAP EPS of $0.52 is well above our guidance range of $0.42 to $0.43. The non-GAAP effective tax rate for the third quarter of fiscal 2011 was 25%, lower than usual, due to a reversal of approximately $1.9 million in FIN 48 Tax Reserves.

Slide 20 shows an improving trend in SMSC's quarterly revenue. In the third quarter, we achieved a new Company record total revenue of $107 million. Looking ahead to the fourth quarter, we still anticipate a normal seasonal sequential revenue decline of approximately 7% to 10%. Slide 21 shows our trailing quarterly non-GAAP net income performance. Our quarterly profit also continues to demonstrate solid improvement as we execute on our financial model. Non-GAAP net income in the third quarter of fiscal 2011 was $12 million, or $0.52 per diluted share. On a GAAP basis, gross margin was 52.2%. The net loss was $4.6 million, or $0.20 per diluted share.

The GAAP result of the third quarter includes stock-based compensation expense of $18.9 million. Of the $18.9 million, $16.9 million was related to the fair market value adjustment of share appreciation rights as a result of the increase in SMSC stock price during the third quarter. The GAAP result also includes $2.2 million in amortization of intangibles, about $150,000 in restructuring charges and $2.7 million for acquisition and equity investment charges. The tax effect of the non-GAAP adjustments totaled $7.5 million.

Join me on slide 22 for a review of the balance sheet. During the third quarter, SMSC generated $9.2 million in cash from operations. CapEx in the third quarter was $3.3 million, and depreciation was $4.3 million. $3.8 million of auction rate securities were redeemed at par in the third quarter, and an additional $550,000 in the securities was redeemed to date in the current quarter, leaving us a current gross balance of $32.2 million in these securities. Slide 23 details SMSC current inventory and receivables position. Inventories in the third quarter of fiscal 2011 increased by $4.2 million sequentially, primarily due to the additional inventory from the Symwave acquisition. As a result, the inventory turns decreased from 3.9 to 3.8, slightly below our target of four turns. DSO grew slightly from 54 days to 55 days at the end of the third quarter, also mainly as a result of the Symwave acquisition.

Let's wrap up on slide 24 with a review of our business outlook. We currently expect fourth quarter fiscal 2011 revenues to be in the range of $96 million to $99 million, down 7% to 10%, roughly in line with normal seasonality. Revenues include approximately $3 million from the Symwave acquisition. We anticipate non-GAAP gross margin to be approximately 54%, primarily due to changes in the mix as most of the decline in revenue is expected in the industrial end market which typically has gross margins above Company average, and including the dilutive effect of Symwave revenue.

Non-GAAP operating expenses are expected to be approximately flat with the third quarter of fiscal 2011. We expect the non-GAAP effective tax rate in the fourth quarter to be about 45%, mainly as a result of some losses from the acquired businesses that are located in offshore tax jurisdictions. We expect our future tax rate to improve gradually when those losses become deductible towards future profits in those tax jurisdictions. For the fourth quarter, we expect earnings per share to be in the range of $0.20 to $0.24 per share on a non-GAAP basis. This EPS guidance includes the impact of the Symwave acquisition which is approximately $0.04 dilutive and a $0.02 negative impact as a result of the higher non-GAAP effective tax rate as I explained before. Now, I'll turn the call over to the operator for the Q&A.

QUESTION AND ANSWER

Operator

Thank you. The question-and-answer session today will be conducted electronically. (Operator Instructions) We'll pause for just a moment to assemble the queue. We'll take our first question from Vernon Essi from Needham & Company.

Vernon Essi - Needham & Company - Analyst

Thank you very much and good morning.

Christine King - SMSC - President & CEO

Hi, Vern.

Vernon Essi - Needham & Company - Analyst

Hi. Regarding Conexant, a lot of information here and just backing up, I mean, I see the accretion argument pretty easily on the numbers but I think the biggest question you're probably going to get and I'll address it directly is the revenue atrophy of the Company. How do you respond to that and what is your strategy going forward assuming this acquisition is consummated?

Christine King - SMSC - President & CEO

Sure. That's a great question, Vernon. I think it does get right to the point. So I think you know over the last two years that Conexant has divested of a number of its product lines, particularly in the broadband, wireless networking and broadband media networking. So what's left in the Company and the pieces that we're very excited about, first and foremost is world class audio capability which is growing on the embedded side. Also, video capability in surveillance and other video applications, additional connectivity protocols and then of course, the imaging business. We believe that these areas of products are very complementary to our strategy at SMSC and we believe that we're at the bottom here of the atrophy of the old businesses, as you mentioned, with some very good acceleration of new product areas.

And so in my opening remarks, I talked about the SMSC strategy for the last two years. Obviously, we focus a lot on connectivity, particularly in USB as well as MOST. And I think just being a connectivity supplier in the future is not going to be good enough. So we've been adding content around the edges of connectivity with applications and products that address graphics with our new USB graphics solution, storage, security, wireless audio, and now we think that with the addition of the Conexant products, that will even further that, adding this world class audio, the video capability that they have, as well as some of the networking protocols and of course, imaging. So we think that our content story is going to be very much enhanced and our expectation is that we are going to have several opportunities to grow the revenue that Conexant currently enjoys.

Number one is we think there is opportunities with existing products which will be complemented by SMSC's deep relationships with many of the customers in the PC and the consumer space so we're looking forward to that. We're looking forward to the ramp of the new products that Conexant has just started shipping, particularly in embedded audio and in video and that of course along with our ramping products. Even as we announced the transaction this morning, I'm hearing from SMSC employees saying "wow, we can use this technology here in our next generation wireless audio product." So I really think there is a growth story here. I understand that there will be some skepticism about it but we're just going to get those products and work with our customers and the solutions and I believe it's going to, over time, enhance the revenue growth of the combined Company.

Vernon Essi - Needham & Company - Analyst

Okay. I appreciate the long answer. Just to revisit obviously some great cross-selling opportunities here and I think you highlighted the two end markets as become primarily PC and consumer for the connectivity side is where you see Conexant as having the most augmentation off of your installed base.

Christine King - SMSC - President & CEO

Yes, and I think there's also some in the industrial area as well.

Vernon Essi - Needham & Company - Analyst

Thanks for answering that. And then I -- just a quick -- and I'll move on for another person to ask questions. But just in terms of the quarter summary from you business conditions, you made a point about PC enterprise being lower than expected. Could you just discuss that and what you're seeing out there?

Christine King - SMSC - President & CEO

Sure. Yes, I think as we've gone through the year, as you know, Vern, we always expected there to be this hockey stick of enterprise demand which I don't believe has really happened. It's just been slow every single quarter. I would say in the quarter that we completed it was slower than we had expected. I also think there was an impact of transition from Intel platform to Intel platform that had some effect on us as well. So I still think that enterprise sales are growing but I think at a lower rate than we thought. We thought mid-single digits. I think now we're looking at a little bit low single digits. So it just hasn't taken off the way we expected. I do think that we're seeing the effect of these platform transitions.

Vernon Essi - Needham & Company - Analyst

And just to follow-on that. You would -- do you have any specific take at this point, every management team's getting the question, if you believe that the tablet/ARM-base approach is encroaching upon the Wintel duopoly. Do you have any take on that or any --

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Christine King - SMSC - President & CEO

Sure. I think on the consumer side of the Wintel type of products, there's no question that Apple is having an impact, no question about that. I think we all saw at CES a great number of new tablet devices. I think there were like 75 or something of them being shown. I think the jury is still out on which ones will be successful and how successful they'll be. But I think this is an area where we believe we need to be positioned well and so as I mentioned, we are designed into most of the reference platforms.

And we're working with over 20 different customers, whether it's the traditional PC OEMs, ODMs, Asian and Japanese suppliers that have new tablet devices. So I still think the jury's out, Vern. I think that it's going to be tough for someone to get a meaningful position in the next year, compared to the position that Apple has. I think we all have to be ready for it. I think that the operating system rollout is probably slowing things down a little bit so as that happens I think it will be a wait and see but we're going to be in there.

Vernon Essi - Needham & Company - Analyst

Okay. All right. Thanks very much.

Christine King - SMSC - President & CEO

Thank you, Vern.

Operator

We'll take our next question from Jeff Schreiner with Capstone Investments.

Jeff Schreiner - Capstone Investments - Analyst

Yes, thank you very much for taking my question. Kris Sennesael, I was wondering if you could comment, sir, regarding inventories. I believe it's the second quarter that they're up sequentially yet as we looked at the guidance last quarter of flat to up a few percentage points and the guidance this quarter with the typical seasonality. Can you help us understand what's going on with within inventories?

Kris Sennesael - SMSC - VP & CFO

Yes, as I said in the call, most of the inventory increase is coming from the Symwave acquisition, which is currently ramping their business and so their inventory turns are definitely lower than where we were at SMSC. As a result, of that we are now at 3.8 inventory turns.

Jeff Schreiner - Capstone Investments - Analyst

Okay. Thank you. I must have missed this. Chris, what's the typical seasonality that you usually see in the first quarter?

Christine King - SMSC - President & CEO

Usually our seasonality is about flat and as I mentioned, based on our customer forecasts, the way bookings are filling in right now, it is our take that first quarter ought to be better than seasonality, normal seasonality.

Jeff Schreiner - Capstone Investments - Analyst

Thank you. I'll just ask one more and let some other people get in here, but gross margins here at 55% on a non-GAAP basis, I think even with a little bit of headwind it seems from the Symwave acquisition, it seems like they're fairly stable here based on some of the guidance you've given. Is there any initial thought process you can give us about maybe where that profile could be moving after the acquisition? Is it going to be significantly impacted, do you think?

Kris Sennesael - SMSC - VP & CFO

Absolutely, if you look currently, Conexant non-GAAP gross margins are approximately 60%. So we believe that once the acquisition is completed, that should give us approximately 200 basis points further improvement on the gross margins.

Jeff Schreiner - Capstone Investments - Analyst

Okay. Thank you very much. I appreciate it.

Christine King - SMSC - President & CEO

Thanks, Jeff.

Operator

We'll go next to Suji De Silva with ThinkEquity. Good morning Chris and Kris. Congratulations on the transaction.

Christine King - SMSC - President & CEO

Thanks Suji.

Operator

For the Conexant acquisition, sounds like many of the businesses are complementary. I'm curious if any of them are not from your perspective at this juncture and would be something you would not focus on all together.

Christine King - SMSC - President & CEO

I really think they are synergistic. I mean, certainly the one area that we haven't significantly participated in is imaging, although we do have connectivity products in printers. But I think even if we look at the imaging pieces of the market, we definitely have strong customer relationships with the customers there. So we're very excited about the common customers and what we can bring from a customer relationship standpoint overall. And as I mentioned, I think that the addition of content is going to really expand our product portfolio overall. So we're pretty excited about the entire product portfolio and I think one of the things, as we've gone forward, I think security and storage also have become very important to us at SMSC and I think that with the video capability and surveillance, some of the home security, but also token security is also very synergistic. So right now all of the pieces look like they fit to me.

Operator

Okay. And then on the core business in terms of order patterns you said seem to be rebounding quarter-to-date. I know PCs are going through a transition here. Can you talk about your expectations as the new Intel platforms start to ramp up whether that's going to track to your expectations faster or if it's going to be a little slower --

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Christine King - SMSC - President & CEO

I would say it's a little bit slower. I think that we'll start seeing the transition happening in our -- in this current quarter and then I think we'll help some of the acceleration in the first quarter.

10

Operator

Lastly on tablets, a follow-up there, what do you think your content opportunity is here per tablet initially and maybe longer term.

Christine King - SMSC - President & CEO

I would say on the types of products that we're being designed into tablets are, of course our USB5 hubs. We're starting to sample a low power portable hub which is exciting, flash media reader, our USB to Ethernet components and then our analog components. So I would say content is probably somewhere around $1 to $2, depending on how many parts are picked up by any particular tablet.

Operator

Great. Thanks for the color.

Christine King - SMSC - President & CEO

Thanks Suji.

Operator

We'll go next to Harsh Kumar with Morgan Keegan.

Harsh Kumar - Morgan, Keegan & Company - Analyst

Hey, guys. It's Harsh. I apologize if some of these questions have been asked before or addressed in the commentary. I missed some part of the call. Christine, I think you've given us some idea of your model at $100 million to $120 million run rate. You're going to be closer to about $150 million run rate at this point in time when this deal closes with Conexant. Could you give us an idea of what your model is capable of with those numbers on a longer term basis?

Christine King - SMSC - President & CEO

Thanks for your question, Harsh. We will be updating our model and as I said the details of the financial transaction at the time of the close. But that being said, I would say our expectation is that this transaction would be accretive to our model overall and it will certainly I think be a force in achieving our model.

Harsh Kumar - Morgan, Keegan & Company - Analyst

Fair enough. And then I think I just did some rough math and again, I don't know if you addressed this but you will be using about $92 million, $93 million of cash which I think will leave you about $40 million. How much cash do you need to run your business and how should we think about that?

Kris Sennesael - SMSC - VP & CFO

And Harsh, at Conexant, currently there is approximately $100 million as well.

11

Harsh Kumar - Morgan, Keegan & Company - Analyst

Oh, fair enough. That's that then. How long, Chris and Kris, before Symwave is fitted into the SMSC operating model and gross margin model and what's needed to be done there?

Christine King - SMSC - President & CEO

Sure. Thanks. Well, I think there is a number of things that we really like about the Symwave acquisition, although as I mentioned, it is dilutive to Q4 earnings. First of all, we think storage and having a play in storage is going to be important in connectivity going forward. And secondly, of course, USB3 is very important to us. We think this is the year of the USB3 transition so it's going to be very important to have products out there. Sampling in the first part of the year. And then of course, ramping into production towards the end of the year and so of course, the Symwave IP helps us there. And we do believe that we've acquired a world class engineering team which I think is going to be very important to us. I would say that the revenue picture on Symwave which is why we tried to be specific, it was $2.7 million of revenue in Q3. Our expectation is about $3 million in Q4.

As it's very fast moving market, I would say the revenue for next year is somewhat uncertain. It is lower -- the current business is a lower margin business and strictly USB to SATA. I would say as we go into next year, our expectation is that this business will be dilutive to gross margins. However, going forward, I think as we add new types of storage and new features and also apply this technology to the broader SMSC product portfolio, the acquisition, although not the products that were in production at the time of the acquisition, the acquisition I think can come in line with our overall gross margins, just not with the current products. So I hope that was clear. I guess to summarize, current products will not meet our margin expectations but we believe future products will.

Harsh Kumar - Morgan, Keegan & Company - Analyst

Got it. Fair enough. And then last, Conexant's $8 million to $10 million in savings, should we think of them as steady and linear after you close the quarter over the course of the next year, 12 months, or is there some hockey stick or one way or the other if you can help us with some color?

Kris Sennesael - SMSC - VP & CFO

In terms of revenue or OpEx?

Harsh Kumar - Morgan, Keegan & Company - Analyst

No, no, I meant the cost cuts, the $8 million to $10 million savings.

Kris Sennesael - SMSC - VP & CFO

There will definitely be a big impact in the first quarter but some of the remaining cost reductions will have to flow in over the next four quarters as we work on integration. Also, to give you some color, roughly 20% of the synergies will

be in cost of goods sold and 80% will be more in the OpEx area. Definitely in the cost of goods sold area, it will take some longer time to implement the cost synergies there.

Harsh Kumar - Morgan, Keegan & Company - Analyst

Very helpful. Thanks. And congratulations on the Conexant deal.

Christine King - SMSC - President & CEO

Thanks a lot, Harsh.

Operator

We'll go next to Sachin Shah with Capstone Global Markets.

12

Sachin Shah - Capstone Global Markets - Analyst

Good morning. Thanks for taking my question. Just wanted to clarify, aside from the HSR, what other regulatory approvals are needed to complete the deal?

Kris Sennesael - SMSC - VP & CFO

Yes, that's right, and also Conexant shareholder approval.

Sachin Shah - Capstone Global Markets - Analyst

Yes. Aside from the shareholder vote, HSR, any other regulatory approvals needed?

Kris Sennesael - SMSC - VP & CFO

No, no, there is not.

Sachin Shah - Capstone Global Markets - Analyst

Okay. Any reason why then the first half closing time frame is -- should the deal complete much sooner?

Kris Sennesael - SMSC - VP & CFO

We definitely are going to try to close the deal as soon as possible.

Sachin Shah - Capstone Global Markets - Analyst

Okay. That's fair. Now, just to understand the background of the transaction, were there any other parties, the valuation as well, how did you arrive at the valuation?

Kris Sennesael - SMSC - VP & CFO

Well, we have obviously used the normal analysis that are done including a discounted cash flow analysis, looking ahead to their business, not only in the short-term but also obviously in the mid and long term and we feel pretty comfortable about the valuation that is attached to this deal.

Christine King - SMSC - President & CEO

So just to add to that, I think that with the help of our advisors, we look at the deal every way so as Kris said, discounted cash flow, looking at the forecast and financial forecasts going forward, looking at the valuation of peer companies as well as peer transactions. So we come at it a lot of different ways and believe that with our advisors we've done a very thorough job.

Sachin Shah - Capstone Global Markets - Analyst

So was this an auction process or was this a --

13

Christine King - SMSC - President & CEO

No, no, it was not.

Sachin Shah - Capstone Global Markets - Analyst

Okay. Thank you very much. Have a good day.

Christine King - SMSC - President & CEO

Thanks.

Operator

We'll go next to Rob Crystal with Goldman Sachs.

Rob Crystal - Goldman Sachs - Analyst

I had a couple of housekeeping questions. I guess one is, are the auction rate securities in your cash on the SMSC balance sheet and then two, can you talk about the NOL at Conexant and how much you think you can save there or what you think the present value of that is?

Kris Sennesael - SMSC - VP & CFO

Sure. No, the auction rate securities are not reported under cash on the balance sheet.

Rob Crystal - Goldman Sachs - Analyst

Great. Okay.

Kris Sennesael - SMSC - VP & CFO

And --

Rob Crystal - Goldman Sachs - Analyst

The NOL?

Kris Sennesael - SMSC - VP & CFO

In terms of NOLs, obviously when you acquire a business there are 382 limitations to that and so we estimate that we probably can use like $7.5 million of NOLs over the next 20 years.

Rob Crystal - Goldman Sachs - Analyst

Okay. And who are the advisors on the deal?

Kris Sennesael - SMSC - VP & CFO

We worked together with Credit Suisse.

Rob Crystal - Goldman Sachs - Analyst

Okay. Great. Thank you very much. Good luck.

Christine King - SMSC - President & CEO

Thank you.

Operator

We'll take our next question from Blake Harper with Signal Hill.

Blake Harper - Signal Hill Group - Analyst

Thanks for taking my question. I know you've gotten a lot -- talked a lot about the deal but I just wanted to ask it in a different way. A lot of the acquisitions that you've done in the past have been a lot of smaller companies that had some interesting technologies that you tried to take into different applications and scale that way but I just wanted to see what was your thinking as a departure from that previous strategy as to go to the larger deal?

Christine King - SMSC - President & CEO

Sure. Our intent on any of these acquisitions has been, number one, increasing our product portfolio which allows us to increase our market share as well as broader set of customer penetration. That's always been number one. Number two is adding technology and talent. And my third criteria has always been deal accretion in a relatively short period of time. And I think that over the last two years since I've been at the Company, there have been limited opportunities of anything of this type of size that was in the price range that we would think provided a good value to us. And so it just happened that we were able to find a number of smaller deals that we think have really added to the Company overall.

And we were fortunate enough to be introduced to a Conexant technology and capability and product lineup and we were very excited about it. We think that the value is fair. We like the engineering team. We're very excited that the President and Chief Operating Officer has decided to join us and that's going to make, I think, our Company a lot stronger. So I think it was just that we saw the right opportunity at the right time at the right value and we're able to execute on it and so we really haven't put any limitations on ourselves other than meeting those acquisition criteria that we have and, once again, having a fair value and helping our model in the long term.

Blake Harper - Signal Hill Group - Analyst

Okay. Thanks, Chris. Just one more in the wireless audio, you talked about the adoption had slowed a little bit. Just wanted to have you expand on that a little bit or clarify. Is it something that you see in the market that you don't maybe think is -- there's a lot of opportunity there, or is it just something that you said like a price or new products that consumers would adopt that would need to be there for that market to take off or go more in the direction that you

would like it to?

Christine King - SMSC - President & CEO

Yes, the design wins have been great and I think it was one of our better demos at CES with major customers that we have like Samsung in-home theater. So wireless sound bars, wireless headphones, I think the products are great. But at our customers, the consumer adoption hasn't been as fast as they would like and I think today consumers don't want to pay the added price for wireless capability because of the price sensitivity. So we really think that the size of the market will still be very attractive. We're not discounting the size of the market at all. And I think that one of our goals is to continue to reduce the price point of our solution. We just introduced last week our new next generation wireless audio chip for home theater and have been making sure that we can reduce the price point, of course our associated costs, and we're continuing to work on that path. So our job is to make wireless audio in consumer applications affordable.

Blake Harper - Signal Hill Group - Analyst

Okay. Thanks a lot, Chris.

Christine King - SMSC - President & CEO

Sure. Thanks.

Operator

We'll take our next question from Mahesh Sanganeria with RBC Capital Markets.

Mahesh Sanganeria - RBC Capital Markets - Analyst

Hi, guys. Just a quick question on your guidance and particularly industrial. Can you give us some more color on what's driving industrial down so much and how does industrial look in Q1? And also, if you could give us some color on the linearity of the bookings, bookings have improved, could you give us some linearity on the bookings?

Christine King - SMSC - President & CEO

Sure, be happy to. I think as you know, the industrial sales for the last six quarters have been increasing significantly and I personally think what has been driving that is a fear that the supply won't be there. And so as a result, I would say that we had very strong industrial bookings and, in fact, our revenue in Q3 was almost $20 million of industrial, which is an extremely high number and by far, I would say in recent years a record for us. And now I think that there's not quite that fear that there will be shortages in the supply chain and so it's for that reason we expect this about 20% drop in Q4. I think that will start to recover in Q1, perhaps not back to the record levels that we were at, but I would say more normal levels.

So I really think it's just a product of fear in the supply chain and getting too much inventory in the channel in industrial components and I think as you know our industrial components, as many companies, is sold through distribution to many, many customers so it's one of the harder areas to see the trends. On the linearity of bookings, since December 1, we've seen pretty strong bookings and I would say the bookings have been very flat -- very linear. So I would say in the last four to five weeks, it's been pretty much about at the same level with the book-to-bill of a little over 1.3.

Mahesh Sanganeria - RBC Capital Markets - Analyst

And just a quick follow-up on that bookings. You said booking improved in December. Is there certain segment where you saw the booking improvement?

Christine King - SMSC - President & CEO

I would say overall the booking improvements we've seen on the portable and on the consumer side. There were a number of tablets that were delayed, so we've seen the bookings for those products. I think that we're seeing the post-Christmas season replenishment of inventory in SmartPhones. I would say that PC bookings are relatively healthy and of course, automotive bookings I would say pretty well in line.

Mahesh Sanganeria - RBC Capital Markets - Analyst

Okay. Thank you very much.

16

Christine King - SMSC - President & CEO

Thank you.

Operator

We'll take our next question from Christopher Longiaru with Sidoti & Company.

Christopher Longiaru - Sidoti & Company - Analyst

Hey, guys. Can you hear me?

Christine King - SMSC - President & CEO

Yes, hi, Chris.

Christopher Longiaru - Sidoti & Company - Analyst

Hi. Congratulations on the acquisition.

Christine King - SMSC - President & CEO

Thank you.

Christopher Longiaru - Sidoti & Company - Analyst

Just a couple questions. First, just looking out, I mean, how -- with the acquisition, what's the biggest thing you're excited about in terms of technology and where you think your biggest opportunity within Conexant is?

Christine King - SMSC - President & CEO

So what I'm most excited about is -- well, I guess two things. Number one is I'm very excited about the cross-selling opportunities on existing products. I think that both of our Companies have very customer-oriented cultures but I think that we're going to be able to utilize the relationships we've built up over many years and decades at SMSC to continue to increase the sales of the existing Conexant products. So I'm always excited about revenue that comes sooner rather than later. But on the other hand, I think probably the most compelling piece of this is the video and the audio, giving us an opportunity, for instance, in PCs and consumer devices to have a world class audio codec, not only the hardware but the system solutions, the software support is I think extremely exciting.

And also video, we just introduced our first video codec for automotive applications. I think this whole area of video security as well as video in automotives are really exciting areas. So this really gives us technology that we haven't had access to before and I would say also talent. As SMSC becomes a more solutions-oriented Company, I keep finding myself listening to our engineers saying, "well, we need more DSP capability or we need to have deeper audio capability." And as I was looking at this opportunity, I kept saying, "well, here it is." And so I think I'm the most excited about the integrating the intellectual property to create new products that our customers are going to be very happy with. Of course, I'm excited to get the engineers together.

Christopher Longiaru - Sidoti & Company - Analyst

And just moving -- just one more acquisition question and then I just have one more thing. Just on the acquisition in terms of the $8 million to $10 million, how does that progress? I mean, is it -- I know that Harsh asked how linear it was. You're talking about the gross margin. How long does it take to get to that in terms of some reduction as opposed to -- I know you said at the end of the fiscal year you would see that $8 million to $10 million. Are we going to see $1 million in the first quarter? $2million? How is that progression in your mind?

17

Kris Sennesael - SMSC - VP & CFO

It will be more than $1 million in the first quarter.

Christopher Longiaru - Sidoti & Company - Analyst

Okay.

Kris Sennesael - SMSC - VP & CFO

And so there will be a big impact right from the start and then the remainder we will make further improvements as we integrate the business over the next three to four quarters.

Christopher Longiaru - Sidoti & Company - Analyst

Got it. Just in terms of MOST, where was the majority of that growth in the quarter? You saw a record quarter there.

Christine King - SMSC - President & CEO

Yes.

Christopher Longiaru - Sidoti & Company - Analyst

Was that Asia?

Christine King - SMSC - President & CEO

It was a come by--it was primarily European car makers who were selling into Asia and the US, or I would say particularly China and the US. So part of it was units. Part of it was ramping of new products, particularly our USB products have been taking off pretty nicely and the third piece of it is we've been very successful on the middleware and software side of things for the MOST -- that support the MOST network. With our acquisition of K2L so that was up as well.

Christopher Longiaru - Sidoti & Company - Analyst

Thank you, guys. That's all I have.

Christine King - SMSC - President & CEO

Thank you.

Operator

We'll take our next question from Ian Ing with Gleacher & Company.

Ian Ing - Gleacher & Company - Analyst

Hi, Chris and Kris, congratulations on the Conexant deal.

18

Christine King - SMSC - President & CEO

Thank you, Ian.

Ian Ing - Gleacher & Company - Analyst

You talked about cross-selling opportunities. Could you talk also perhaps if there's silicon integration opportunities where components reside together on a system and perhaps you can do an integration and (inaudible) shrink and get some better gross margins?

Christine King - SMSC - President & CEO

Yes, I think that over time there will be opportunities there. So I can't be exactly specific. So I'm sorry, I'll have to be a little bit more general. But clearly one of the headwinds that we would expect at SMSC is as connectivity protocols get absorbed into higher functioning chips, that's always what we feel has been our biggest competitive risk. By adding this content that we can integrate connectivity with, we think that, that's really allowing us to get out ahead of that integration risk by adding features. So as an example, we can see, for instance, integrating audio as well as analog, which I was mentioning in our script, our prepared remarks, that we also see things like touch and environmental control being integrated as well.

So as an example, in our embedded controllers and PCs, integrating audio along with analog functions is a real natural fit overall. Also, I think on the audio side, there's an opportunity to integrate the audio codec with our wireless audio so that's another opportunity. Quite frankly, I think there's going to be opportunities for video integration. I would say that one of our more exciting demonstrations at CES was token security for banking and those types of applications on PCs or consumer devices and I can also see with the types of embedded modem applications we have security potentially being integrated in that. So I think that there are a lot of integration opportunities. I would say just how those look like from what's in the die, does it shrink it or not, we're not quite at that point yet.

Ian Ing - Gleacher & Company - Analyst

I see. Related to that question, I see that Conexant is fabless. Do you see that mix changing, perhaps SMSC business moving to the foundry model or the foundry model moving internally to SMSC?

Christine King - SMSC - President & CEO

Actually, Ian, we're both fabless. So we're both completely fabless and in fact, we share the same foundries as well as a lot of the same test suppliers. So there are synergies in our supply chain and it is totally fabless and outsourced.

Ian Ing - Gleacher & Company - Analyst

Very good. Last question. Could you talk a little bit more about how you're going to organize the sales force? Do you see Conexant teams and SMSC teams calling on the same customers and end markets or could you free up some

resources to pursue new opportunities?

Christine King - SMSC - President & CEO

Our objective would be that we would have a fully integrated sales force as well as fully integrated applications, fully integrated product lines so my philosophy is take the best of both. As I mentioned Roger Wendelken will be heading up our sales force and of course, this period that we're getting our approvals, we will be doing detailed integration planning as well as planning the organization. So we do plan to have one sales organization and take the best of both.

19

Ian Ing - Gleacher & Company - Analyst

Okay. Great. Thank you.

Christine King - SMSC - President & CEO

Thank you.

Operator

We'll take our next question from Jean Lopez with Saratoga Capital.

Jean Lopez - Saratoga Capital - Analyst

Hi, can you guys hear me okay?

Christine King - SMSC - President & CEO

Yes, Jean.

Jean Lopez - Saratoga Capital - Analyst

Great. I'm sorry. Just want to make sure because I got one of these new headsets. I have a couple questions. If we could just go back to bookings for one second. I want to clear a couple of things up in my head. Just looking back in my model from last quarter, so for the August ending quarter, you guys reported book-to-bill for the full quarter at 1 but when you had the call in September, I think you had cited it was running close to like 1.2. Does that all sound familiar? Do I have that down right?

Christine King - SMSC - President & CEO

I think that was Q2 numbers it seems to me.

Jean Lopez - Saratoga Capital - Analyst

Okay. So that's two quarters back.

Christine King - SMSC - President & CEO
Q3 was always -- Q2 was -- I think our highest level of bookings was in Q1 to Q2.

Jean Lopez - Saratoga Capital - Analyst

Right. Book-to-bill progression seems to be Q1 was like 1.5.

Christine King - SMSC - President & CEO

Yes, 1.5. Then it came down.

Jean Lopez - Saratoga Capital - Analyst

Q2 decreased to 1 for the full quarter.

Christine King - SMSC - President & CEO

That's right.

Jean Lopez - Saratoga Capital - Analyst

Again, I think you had indicated at the time it was running 1.2. You're down to 0.7 for this quarter.

Kris Sennesael - SMSC - VP & CFO

That's correct.

Jean Lopez - Saratoga Capital - Analyst

Okay. So in the last two quarters, bookings are down 30% sequentially each of the last two quarters. The imputed in the 1.3 you're talking about is just a gigantic spike in bookings. Assuming that were to continue for the full quarter that would impute bookings up 75%. I guess my question is what is going on underneath the covers in the supply chain that's causing this amount of order volatility and how relevant do you deem book-to-bill to be at this point, just given the fact that it seems to be changing on you rather quickly?

Christine King - SMSC - President & CEO

Well, I think book-to-bill's always an important indicator. As you pointed out, you have to understand it. I'm looking at the booking trends right in front of me now and I think the dynamics were as we got into our fiscal first quarter which started March 1, I think there was a lot of fear in the supply chain. As a Company, we never extended our lead times but what we found was in Q1 and I think we, at the time we noted this, we had a 1.5 book-to-bill and we said customers are placing orders out into Q3. And so I think in Q1 and then in Q2, customers were placing orders out into the Q3 time frame. And so I think that's what caused the rise in the bookings. So as we got through to the Q3 time frame, the orders were already there.

So we didn't have any new bookings and that's why the bookings level was so low, despite the fact that the revenue didn't decline significantly. Now, of course, we are going into the more seasonally weak quarter so that has a little bit of an effect. So if you take the run rate that we are on in Q4 so far, it gets the bookings back to where we were in the Q2 level, not where we were back at the Q1 level, and the orders that we're seeing are filling in for the balance of Q4 and booking into Q1.

Jean Lopez - Saratoga Capital - Analyst

Very helpful. That makes a lot of sense.

Christine King - SMSC - President & CEO

Sure.

Jean Lopez - Saratoga Capital - Analyst

The second part I wanted to get a little clarity on, Symwave, you guys said was $2.7 million in revenue for the quarter which I think you guys closed that November 12, so you didn't have quite a full quarter. Is that right?

Kris Sennesael - SMSC - VP & CFO

That's correct. It was only 18 days, but their revenue was pretty much back-end loaded.

Jean Lopez - Saratoga Capital - Analyst

Got you. And you're saying -- you're guiding that to $3 million for the full quarter, so effectively that business is flat quarter to quarter despite the fact you're getting a full quarter versus 18 days?

Christine King - SMSC - President & CEO

About that. The reason it was so high in Q3 was that customers were just stocking their shelves. So there was a big -- a huge production ramp which is now getting to more steady state.

Jean Lopez - Saratoga Capital - Analyst

Got you. Makes perfect sense. The last question -- thanks for all the clarity. The last question, just end market related, the Chinese started rolling back a lot of their subsidy activity which I'm sure you're seeing indigenously in their market and as you note, a lot of consumption there has been luxury in orientation which is going from Europe, exported to China. So I guess my question here is, one, is that something you're paying attention to? Two, is any of that activity showing up in any way out of the order patterns or anything along those lines? And then three, as you talked about a little bit of a better than seasonal outlook going out of this current quarter, what's your view on automotive within that better than seasonal context?

Christine King - SMSC - President & CEO

Sure. Well, of course we always do have to watch the Chinese market because it is a very important market. I would say on the automotive side, despite maybe perhaps a pullback in luxury car buying, I think the auto show's going on right now in Detroit. I think that luckily there's been some balance and I think increases in US automotive sales as well. So from a global standpoint, we feel pretty good about the automotive market and as I mentioned a lot of the car makers didn't even do their normal Christmas shutdowns. So we think the automotive revenue is going to be healthy going into the new year and then of course, towards the back end of next year, we have some new OEM product ramps. I was mentioning Volkswagen. We've mentioned that we have still the full ramp of General Motors in front of us.

So we feel really good about the automotive market going forward. In other areas in the Chinese market, I would say of more concern is probably more the consumer spending side of things and as I mentioned in Q4, now, part of this is worked out of inventory but Asia is one of the weaker geographies in Q4 and I think that this year we're expecting a more normal lunar new year shutdown and we're always watching to when Chinese New Year is over, what happens after that. So that will be very important to pay attention to.

Jean Lopez - Saratoga Capital - Analyst

That makes perfect sense. I apologize because you gave me two quick follow-ups in your answer. First one is, just around the shutdown stuff, do you have concern at all that the shutdown -- the lack of shutdowns is just related to demand getting pulled in to trying to catch the last of the subsidies or -- I'm not really asking whether you're afraid of that as an opinion. In the order books, do you notice any of that unusual spike up in activity towards the end --

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Christine King - SMSC - President & CEO

No.

Jean Lopez - Saratoga Capital - Analyst

Nothing. The second thing, the other clarification. When you say weaker consumer in Asia, which end markets are you referring to, again, specifically, when you -- what do you lob into that bucket?

Christine King - SMSC - President & CEO

I would say that it's a little bit of the PC side, particularly ODM PCs and also on TV-related products.

Jean Lopez - Saratoga Capital - Analyst

Got you. All right. Maybe they're spending all their money on cars.

Christine King - SMSC - President & CEO

Could be.

Jean Lopez - Saratoga Capital - Analyst

Thank you very much for all the help and clarification.

Christine King - SMSC - President & CEO

Thank you Jean.

Operator

We'll take our last question from Harsh Kumar with Morgan Keegan.

Harsh Kumar - Morgan, Keegan & Company - Analyst

Hey, guys. Just a quick question on the debt for Conexant. When is it due and is it due possibly upon takeover?

Kris Sennesael - SMSC - VP & CFO

That's correct, Harsh. It's due March 2015, but there is a change of control provision.

Harsh Kumar - Morgan, Keegan & Company - Analyst

Okay. Thanks.

Kris Sennesael - SMSC - VP & CFO

So Harsh, we are working together with our advisors and we obviously will work together with the secured note holders on this topic.

Operator

That's all the time limit we have for questions today. I'll turn the call back over to Chris King for closing remarks.

Christine King - SMSC - President & CEO

Sure. Thank you. Well, we've been busy this quarter at SMSC. We're all excited about the acquisition of Conexant which we believe will make SMSC a stronger Company. Our product portfolio has never been so exciting including our USB graphics, USB to Ethernet, next generation automotive and companion chips and wireless audio solutions. With the addition of the Conexant business, we have the opportunity to expand our product footprint, our presence with customers and to deliver better top and bottom line results. Let me wrap up with some wisdom I learned from Chinese New Year. The year of the Tiger was a great one for SMSC. We are just entering the year of the rabbit which starts with crouching and then jumping. The next year is the year of the dragon, the most powerful of the New Year symbols. This is a great proxy for the new SMSC future. We look forward to speaking with you next quarter. Have a great day.

Operator

This concludes today's conference call. Thank you for your participation.

24

-family:Times New Roman">Mortgage-backed securities 165,295 (3,453) 1,756 (58) 167,051 (3,511)

Asset-backed securities	148,609	(1,158)	6,399	(46)	155,008	(1,204)
Commercial mortgage-backed securities	113,728	(2,766)	27,292	(788)	141,020	(3,554)
Corporate bonds	320,235	(6,429)	52,303	(995)	372,538	(7,424)
Foreign corporate bonds	93,828	(1,951)	16,452	(345)	110,280	(2,296)

Total fixed maturities						
	$958,211	$(18,024)	$132,136	$(2,626)	$1,090,347	$(20,650)

(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, 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	$ 79,403	$ (962)	$ 17,469	$ (231)	$ 96,872	$ (1,193)
Obligations of states and political subdivisions	34,537	(149)	12,060	(125)	46,597	(274)
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	83,051	(523)	27,976	(544)	111,027	(1,067)
Corporate bonds	147,064	(754)	53,024	(637)	200,088	(1,391)
Foreign corporate bonds	53,320	(305)	20,582	(240)	73,902	(545)
Total fixed maturities	623,183	(4,311)	139,400	(1,843)	762,583	(6,154)
Common stock	32,759	(3,260)			32,759	(3,260)
Total	$ 655,942	$ (7,571)	$ 139,400	$ (1,843)	$ 795,342	$ (9,414)

(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 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.

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

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.

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, 2018, gross unrealized losses related to U.S. treasury and agency obligations were $2.060 million. Of this amount, $0.247 million have been in an unrealized loss position for twelve months or greater and are 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 March 31, 2018, gross unrealized losses related to obligations of states and political subdivisions were $0.601 million. Of this amount, $0.147 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 March 31, 2018, gross unrealized losses related to mortgage-backed securities were $3.511 million. Of this amount, $0.058 million have been in an unrealized loss position for twelve months or greater. 97.3% 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.

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

Asset backed securities (ABS) As of March 31, 2018, gross unrealized losses related to asset backed securities were $1.204 million. Of this amount, $0.046 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 23.9. 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 March 31, 2018, gross unrealized losses related to the CMBS portfolio were $3.554 million. Of this amount, $0.788 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 28.4. 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 March 31, 2018, gross unrealized losses related to corporate bonds were $7.424 million. Of this amount, $0.995 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 March 31, 2018, gross unrealized losses related to foreign bonds were $2.296 million. Of this amount, $0.345 million have been in an unrealized loss position for twelve months or greater. 78.3% of the unrealized losses for twelve months or greater are related to securities 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.

The Company recorded the following other than temporary impairments (OTTI) on its investment portfolio for the quarters ended March 31, 2018 and 2017:

	Quarters Ended March 31,	
(Dollars in thousands)	**2018**	**2017**
Fixed maturities:		
OTTI losses, gross	$	$ (31)
Portion of loss recognized in other comprehensive income (pre-tax)		
Net impairment losses on fixed maturities recognized in earnings		(31)
Equity securities		(79)
Total	$	$ (110)

12

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

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

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

Accumulated Other Comprehensive Income, Net of Tax

Accumulated other comprehensive income, net of tax, as of March 31, 2018 and December 31, 2017 was as follows:

(Dollars in thousands)	**March 31, 2018**	**December 31, 2017**
Net unrealized gains (losses) from:		
Fixed maturities	$ (18,958)	$ (1,707)
Common stock		15,314
Foreign currency fluctuations	179	551
Deferred taxes	2,248	(5,175)
Accumulated other comprehensive income, net of tax	$ (16,531)	$ 8,983

The following tables present the changes in accumulated other comprehensive income, net of tax, by component for the quarters ended March 31, 2018 and 2017:

Quarter Ended March 31, 2018

(Dollars in thousands)	Unrealized Gains and Losses on Available for Sale Securities, Net of Tax	Foreign Currency Items, Net of Tax	Accumulated Other Comprehensive Income, Net of Tax
Beginning balance	$ 8,272	$ 711	$ 8,983
Other comprehensive income (loss) before reclassification	(15,189)	(372)	(15,561)
Amounts reclassified from accumulated other comprehensive income (loss)	75		75
Other comprehensive income (loss)	(15,114)	(372)	(15,486)
Cumulative-effect adjustment	(9,868)	(160)	(10,028)
Ending balance	$ (16,710)	$ 179	$ (16,531)

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

Quarter Ended March 31, 2017 **(Dollars in thousands)**	**Unrealized Gains and Losses on Available for Sale Securities, Net of Tax**	**Foreign Currency Items, Net of Tax**	**Accumulated Other Comprehensive Income, Net of Tax**
Beginning balance	$ (554)	$ (64)	$ (618)
Other comprehensive income (loss) before reclassification	5,171	185	5,356
Amounts reclassified from accumulated other comprehensive income (loss)	(399)	(7)	(406)
Other comprehensive income (loss)	4,772	178	4,950
Ending balance	$ 4,218	$ 114	$ 4,332

The reclassifications out of accumulated other comprehensive income for the quarters ended March 31, 2018 and 2017 were as follows:

(Dollars in thousands)		**Amounts Reclassified from Accumulated Other Comprehensive Income Quarters Ended March 31,**	
Details about Accumulated Other Comprehensive Income Components	**Affected Line Item in the Consolidated Statements of Operations**	**2018**	**2017**
Unrealized gains and losses on available for sale securities	Other net realized investment (gains) losses	$ 93	$ (701)
	Other than temporary impairment losses on investments		110
	Total before tax	93	(591)
	Income tax (benefit)	(18)	192

	Unrealized gains and losses on available for sale securities, net of tax		75		(399)
Foreign currency items	Other net realized investment (gains)				(11)
	Income tax expense				4
	Foreign currency items, net of tax				(7)
Total reclassifications	Total reclassifications, net of tax	$	75	$	(406)

14

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

Net Realized Investment Gains (Losses)

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

(Dollars in thousands)	Quarters Ended March 31, 2018	2017
Fixed maturities:		
Gross realized gains	$ 24	$ 189
Gross realized losses	(117)	(83)
Net realized gains (losses)	(93)	106
Common stock:		
Gross realized gains	3,453	575
Gross realized losses	(7,827)	(79)
Net realized gains (losses)	(4,374)	496
Derivatives:		
Gross realized gains	4,801	1,236
Gross realized losses	(650)	(1,063)
Net realized gains [(1)]	4,151	173
Total net realized investment gains (losses)	$ (316)	$ 775

(1) Includes $0.7 million and $1.1 million of periodic net interest settlements related to the derivatives for the quarters ended March 31, 2018 and 2017, respectively.

New accounting guidance regarding equity securities was implemented during the quarter ended March 31, 2018 which requires companies to disclose realized gains and losses for equity securities still held at period end and gains and losses from securities sold during the period. See Note 13 for additional information regarding new accounting pronouncements. The following table shows the calculation of the portion of realized gains and losses related to common stock being held as of March 31, 2018:

(Dollars in thousands)	Quarter Ended March 31, 2018
Net gains and losses recognized during the period on equity securities	$ (4,374)
Less: Net gains and losses recognized during the period on equity securities sold during the period	554
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$ (4,928)

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

(Dollars in thousands)	Quarters Ended March 31, 2018	2017
Fixed maturities	$ 47,148	$ 139,350
Equity securities	9,283	5,626

15

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

Net Investment Income

The sources of net investment income for the quarters ended March 31, 2018 and 2017 were as follows:

(Dollars in thousands)	Quarters Ended March 31, 2018	2017
Fixed maturities	$ 8,528	$ 6,678
Equity securities	999	990
Cash and cash equivalents	264	84
Other invested assets	2,323	1,692
Total investment income	12,114	9,444
Investment expense	(710)	(800)
Net investment income	$ 11,404	$ 8,644

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

(Dollars in thousands)	Quarters Ended March 31, 2018	2017
Net investment income	$ 11,404	$ 8,644
Net realized investment gains (losses)	(316)	775
Change in unrealized holding gains (losses)	(17,623)	7,017
Net realized and unrealized investment returns	(17,939)	7,792
Total investment return	$ (6,535)	$ 16,436
Total investment return % [(1)]	(0.4%)	1.1%
Average investment portfolio [(2)]	$ 1,538,651	$ 1,559,965

(1) Not annualized.

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

Insurance Enhanced Asset-Backed and Credit Securities

As of March 31, 2018, the Company held insurance enhanced asset-backed, commercial mortgage-backed, and credit securities with a market value of approximately $33.0 million. Approximately $1.1 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 March 31, 2018, 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	$ 1,136	$	$	$ 1,136
Total backed by financial guarantors	1,136			1,136
Other credit enhanced municipal bonds				
Total	$ 1,136	$	$	$ 1,136

In addition to the tax-free municipal bonds, the Company held $31.9 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 $21.6 million of taxable municipal bonds, $10.2 million of commercial

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

mortgage-backed securities, and $0.1 million of asset-backed securities. The financial guarantors of the Company s $31.9 million of insurance enhanced asset-backed, commercial-mortgage-backed, and taxable municipal securities include Municipal Bond Insurance Association ($6.3 million), Assured Guaranty Corporation ($15.4 million), and Federal Home Loan Mortgage Corporation ($10.2 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, 2018.

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 March 31, 2018 and December 31, 2017:

	Estimated Fair Value	
(Dollars in thousands)	**March 31, 2018**	**December 31, 2017**
On deposit with governmental authorities	$ 26,412	$ 26,852
Intercompany trusts held for the benefit of U.S. policyholders	291,974	328,494
Held in trust pursuant to third party requirements	96,803	94,098
Letter of credit held for third party requirements	2,707	3,944
Securities held as collateral for borrowing arrangements [1]	78,053	88,040
Total	$ 495,949	$ 541,428

(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 $22.9 million and $26.3 million as of March 31, 2018 and December 31, 2017, respectively. The Company s maximum exposure to loss from this VIE, which factors in future funding commitments, was $37.2 million and $40.5 million at March 31, 2018 and December 31, 2017, respectively. The fair value of a second VIE that provides financing for middle market companies, was $36.4 million and $33.8 million at March 31, 2018 and December 31, 2017, respectively. The Company s maximum exposure to loss from this VIE, which factors in future funding commitments, was $41.6 million and $43.8 million at March 31, 2018 and December 31, 2017, respectively. The fair value of a third VIE that also invests in distressed securities and assets, was $22.9 million and $17.8 million as of March 31, 2018 and December 31, 2017, respectively. The Company s maximum exposure to loss from this VIE, which factors in future funding commitments, was $52.1 million and $51.3 million at March 31, 2018 and December 31, 2017, respectively. 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.

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

3. 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 March 31, 2018 and December 31, 2017:

(Dollars in thousands)		March 31, 2018		December 31, 2017	
Derivatives Not Designated as Hedging Instruments under ASC 815	Balance Sheet Location	Notional Amount	Fair Value	Notional Amount	Fair Valu
terest rate swap agreements	Other liabilities	$ 200,000	$ (3,168)	$ 200,000	$ (7,968

The following table summarizes the net gain 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 quarters ended March 31, 2018 and 2017:

(Dollars in thousands)	Consolidated Statements of Operations Line	Quarters Ended March 31, 2018	2017
Interest rate swap agreements	Net realized investment gain	$ 4,151	$ 173

As of March 31, 2018 and December 31, 2017, the Company is due $2.9 million and $3.1 million, respectively, for funds it needed to post to execute the swap transaction and $3.6 million and $9.5 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.

4. 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.

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

The following table presents information about the Company s invested assets and derivative instruments measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

As of March 31, 2018		**Fair Value Measurements**		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Fixed maturities:				
U.S. treasury and agency obligations	$ 98,129	$	$	$ 98,129
Obligations of states and political subdivisions		95,411		95,411
Mortgage-backed securities		173,785		173,785
Commercial mortgage-backed securities		147,841		147,841
Asset-backed securities		202,745		202,745
Corporate bonds		424,807		424,807
Foreign corporate bonds		120,278		120,278
Total fixed maturities	98,129	1,164,867		1,262,996
Common stock	133,911			133,911
Total assets measured at fair value [(1)]	$ 232,040	$ 1,164,867	$	$ 1,396,907
Liabilities:				
Derivative instruments	$	$ 3,168	$	$ 3,168
Total liabilities measured at fair value	$	$ 3,168	$	$ 3,168

(1) Excluded from the table above are limited partnerships of $82.2 million at March 31, 2018 whose fair value is based on net asset value as a practical expedient.

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	$ 104,680	$	$	$ 104,680
Obligations of states and political subdivisions		95,114		95,114

Mortgage-backed securities		149,350		149,350
Commercial mortgage-backed securities		139,795		139,795
Asset-backed securities		203,701		203,701
Corporate bonds		423,390		423,390
Foreign corporate bonds		125,407		125,407
Total fixed maturities	104,680	1,136,757		1,241,437
Common stock	140,229			140,229
Total assets measured at fair value [(1)]	$ 244,909	$ 1,136,757	$	$ 1,381,666
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.

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

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

used to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of asset-backed securities, collateralized mortgage obligations, and mortgage-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. The estimated fair value of the derivative instruments, consisting of interest rate swaps, is obtained from a third party financial institution that utilizes observable inputs such as the forward interest rate curve.

For the Company s material debt arrangements, the current fair value of the Company s debt at March 31, 2018 and December 31, 2017 was as follows:

	March 31, 2018		December 31, 2017	
(Dollars in thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Margin Borrowing Facility	$ 64,018	$ 64,018	$ 72,230	$ 72,230
7.75% Subordinated Notes due 2045 (1)	96,650	99,770	96,619	100,059
7.875% Subordinated Notes due 2047 (2)	125,899	129,175	125,864	130,429
Total	$ 286,567	$ 292,963	$ 294,713	$ 302,718

(1) As of March 31, 2018 and December 31, 2017, the carrying value and fair value of the 7.75% Subordinated Notes due 2045 are net of unamortized debt issuance cost of $3.4 million.

(2) As of March 31, 2018 and December 31, 2017, the carrying value and fair value of the 7.875% Subordinated Notes due 2047 are net of unamortized debt issuance cost of $4.1 million.

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

There were no transfers between Level 1 and Level 2 during the quarters ended March 31, 2018 and 2017.

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

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 March 31, 2018 and December 31, 2017.

	March 31, 2018		December 31, 2017	
(Dollars in thousands)	Fair Value	Future Funding Commitment	Fair Value	Future Funding Commitment
Real Estate Fund, LP [(1)]	$	$	$	$
European Non-Performing Loan Fund, LP [(2)]	22,938	14,214	26,262	14,214
Private Middle Market Loan Fund, LP [(3)]	36,361	5,200	33,760	10,000
Distressed Debt Fund, LP [(4)]	22,860	29,250	17,798	33,500
Total	$ 82,159	$ 48,664	$ 77,820	$ 57,714

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

(2) This limited partnership invests in distressed securities and assets through senior and subordinated, secured and unsecured debt and equity, in both public and private large-cap and middle-market companies. The Company does not have the ability to sell or transfer its limited partnership interest without consent from the general partner. The Company does not have the contractual option to redeem its limited partnership interest but receives distributions based on the liquidation of the underlying assets. Based on the terms of the partnership agreement, the Company anticipates its interest in this partnership to be redeemed by 2020.

(3) 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.

(4) 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 $2.3 million and $1.7 million for the quarters ended March 31, 2018 and 2017, respectively.

Pricing

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

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

- 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.

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

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 the quarters ended March 31, 2018 and 2017, the Company has not adjusted quotes or prices obtained from the pricing vendors.

5. Income Taxes

As of March 31, 2018, the statutory income tax rates of the countries where the Company conducts business are 21% in the United States, 0% in Bermuda, 0% in the Cayman Islands, 26.01% for companies with a registered office in 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 expected annual taxable income of the Company in each country to estimate the annual income tax expense. Generally, during interim periods, the Company will divide total estimated annual income tax expense by total estimated annual pre-tax income to determine the expected annual income tax rate used to compute the income tax provision. The expected annual income tax rate is then applied against interim pre-tax income, excluding net realized gains and losses and limited partnership distributions, and that amount is then added to the actual income taxes on net realized gains and losses, discrete items and limited partnership distributions. However, when there is significant volatility in the expected effective tax rate, the Company records its actual income tax provision in lieu of the estimated effective income tax rate.

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

The Company s income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries for the quarters ended March 31, 2018 and 2017 were as follows:

Quarter Ended March 31, 2018:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 10,315	$ 113,932	$	$ 124,247
Net premiums written	$ 10,314	$ 97,556	$	$ 107,870
Net premiums earned	48,022	59,980		108,002
Net investment income	15,221	7,188	(11,005)	11,404
Net realized investment losses	(5)	(311)		(316)
Other income	51	503		554
Total revenues	63,289	67,360	(11,005)	119,644
Losses and Expenses:				
Net losses and loss adjustment expenses	20,565	35,507		56,072
Acquisition costs and other underwriting expenses	21,140	23,863		45,003
Corporate and other operating expenses	4,399	4,861		9,260
Interest expense	4,841	11,025	(11,005)	4,861
Income (loss) before income taxes	$ 12,344	$ (7,896)	$	$ 4,448

Quarter Ended March 31, 2017:

(Dollars in thousands)	Non-U.S. Subsidiaries	U.S. Subsidiaries	Eliminations	Total
Revenues:				
Gross premiums written	$ 54,102	$ 107,936	$ (38,287)	$ 123,751
Net premiums written	$ 54,087	$ 57,419	$	$ 111,506
Net premiums earned	$ 50,933	$ 62,193	$	$ 113,126
Net investment income	12,328	4,959	(8,643)	8,644

Net realized investment gains	41	734		775
Other income	87	1,281		1,368
Total revenues	63,389	69,167	(8,643)	123,913
Losses and Expenses:				
Net losses and loss adjustment expenses	20,860	41,701		62,561
Acquisition costs and other underwriting expenses	22,688	23,863		46,551
Corporate and other operating expenses	1,207	1,847		3,054
Interest expense	2,324	8,786	(8,643)	2,467
Income (loss) before income taxes	$ 16,310	$ (7,030)	$	$ 9,280

For the quarter ended March 31, 2017, the Company s income before income taxes from its non-U.S. subsidiaries and U.S. subsidiaries, as reported in the table above, includes the results of the quota share agreement between Global Indemnity Reinsurance and the Insurance Operations. This quota share agreement was cancelled on a runoff basis effective January 1, 2018.

The following table summarizes the components of income tax benefit:

	Quarters Ended March 31,	
(Dollars in thousands)	**2018**	**2017**
Current income tax expense:		
Foreign	$ 179	$ 96
U.S. Federal	566	
Total current income tax expense	745	96
Deferred income tax benefit:		
U.S. Federal	(1,998)	(3,098)
Total income tax benefit	$ (1,253)	$ (3,002)

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

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

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)	**Quarters Ended March 31, 2018**		**2017**	
	Amount	**% of Pre-Tax Income**	**Amount**	**% of Pre-Tax Income**
Expected tax provision at weighted average rate	$ (1,536)	(34.5%)	$ (2,364)	(25.5%)
Adjustments:				
Tax exempt interest	(1)	(0.0)	(84)	(0.9)
Dividend exclusion	(65)	(1.5)	(193)	(2.1)
Base Erosion Anti-Abuse Tax	566	12.7		
Other	(217)	(4.9)	(361)	(3.8)
Actual tax on continuing operations	$ (1,253)	(28.2%)	$ (3,002)	(32.3%)

The effective income tax benefit rate for the quarter ended March 31, 2018 was 28.2%, compared with an effective income tax benefit rate of 32.3%, for the quarter ended March 31, 2017. The decrease in the effective income tax benefit rate in the quarter ended March 31, 2018 compared to the quarter ended March 31, 2017 is due to the change in the U.S. statutory tax rate from 35% to 21% effective January 1, 2018 and the Base Erosion Anti-Abuse Tax (BEAT) that became effective upon the passage of the Tax Cuts and Jobs Act (TCJA). Taxes were computed using a discrete period computation because a reliable estimate of an effective tax rate could not be made.

Financial results for the quarter ended March 31, 2018 reflect provisional tax estimates related to 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 (SEC) or the Financial Accounting Standards Board (FASB), these estimates may be adjusted during 2018. During the quarter ended March 31, 2018, there were no adjustments to provisional tax estimates recorded in prior periods.

The Company had an alternative minimum tax (AMT) credit carryforward of $11.0 million as of December 31, 2017. The TCJA repealed the corporate AMT. The AMT credit carryforward of $11.0 million was 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 $14.7 million as of March 31, 2018, which begins to expire in 2036 based on when the original NOL was generated. The Company s NOL carryforward as of December 31, 2017 was $16.3 million. The Company has a Section 163(j) (163(j)) carryforward of $7.9 million as of March 31, 2018 and December 31, 2017 which can be carried forward indefinitely. The 163(j) carryforward is for disqualified interest paid

or accrued.

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

6. Liability for Unpaid Losses and Loss Adjustment Expenses

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

(Dollars in thousands)	Quarters Ended March 31, 2018	2017
Balance at beginning of period	$ 634,664	$ 651,042
Less: Ceded reinsurance receivables	97,243	130,439
Net balance at beginning of period	537,421	520,603
Purchased reserves gross		2,496
Purchased reserves ceded		549
Purchased reserves, net of third party reinsurance		3,045
Incurred losses and loss adjustment expenses related to:		
Current year	61,999	72,691
Prior years	(5,927)	(10,130)
Total incurred losses and loss adjustment expenses	56,072	62,561
Paid losses and loss adjustment expenses related to:		
Current year	17,454	24,384
Prior years	53,228	42,383
Total paid losses and loss adjustment expenses	70,682	66,767
Net balance at end of period	522,811	519,442
Plus: Ceded reinsurance receivables	92,314	102,646
Balance at end of period	$ 615,125	$ 622,088

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 the first quarter of 2018, the Company reduced its prior accident year loss reserves by $5.9 million, which consisted of a $2.7 million decrease related to Commercial Lines, $1.1 million decrease related to Personal Lines, and a $2.1 million decrease related to Reinsurance Operations.

The $2.7 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

General Liability: A $1.4 million reduction primarily due to lower than expected claims severity in the 2004 through 2014 accident years partially offset by increases in the 2015 through 2017 accident years.

Commercial Auto Liability: A $1.0 million reduction in the 2010 and 2012 accident years reflects lower than anticipated claims severity.

Property: A $0.4 million decrease in the non-catastrophe property reserve category. The decrease reflects slightly lower than expected claims frequency and severity, primarily in the 2015 and 2017 accident years, partially offset by an increase in the 2016 accident year for the property catastrophe reserve category.

The $1.1 million reduction of prior accident year loss reserves related to Personal Lines primarily consisted of the following:

Property: A $0.9 million reduction primarily in the agriculture reserve category for the 2015 and 2017 accident years, partially offset by an increase in the 2016 accident year. The decrease reflects lower than expected claims frequency and severity.

The $2.1 million reduction of prior accident year loss reserves related to Reinsurance Operations was from the property lines for accident years 2015 and 2016, partially offset by increases in the 2013, 2014 and 2017 accident years. Ultimate losses were adjusted in these accident years based on a review of the experience reported from cedants.

In the first quarter of 2017, the Company reduced its prior accident year loss reserves by $10.1 million, which consisted of a $5.3 million decrease related to Commercial Lines, a $3.2 million decrease related to Personal Lines, and a $1.7 million decrease related to Reinsurance Operations.

Table of Contents

GLOBAL INDEMNITY LIMITED

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

(Unaudited)

The $5.3 million reduction of prior accident year loss reserves related to Commercial Lines primarily consisted of the following:

Property: A $1.7 million reduction in the property catastrophe reserve categories. The decrease recognizes a lower than expected claims severity, primarily in the 2016 accident year.

General Liability: A $4.0 million reduction in the reserve categories excluding construction defect. Lower than expected claims severity was the driver of the favorable development, primarily in the 2007 through 2013 accident years.

The $3.2 million reduction of prior accident year loss reserves related to Personal Lines primarily consisted of the following:

Property: A $2.7 million reduction in the property reserve categories, both including and excluding catastrophes. The decrease reflects lower than expected case incurred emergence, primarily in the 2016 accident year.

General Liability: A $0.5 million reduction in the agriculture reserve categories. Lower than expected case incurred emergence in the 2016 accident year was the driver of the favorable development.

The $1.7 million reduction related to Reinsurance Operations was from the property lines. Ultimate losses were lowered in the 2013 through 2015 accident years based on a review of the experience reported from cedants.

Loss indemnification related to Purchase of American Reliable

On March 8, 2018, the Company settled its final reserve calculation which resulted in $41.5 million being due to Global Indemnity Group, 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, which were included in other assets on the consolidated balance sheets as of December 31, 2017, were received on March 9, 2018.

7. Shareholders Equity

Repurchases of the Company s Ordinary Shares

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the quarter ended March 31, 2018:

Period [1]	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2018	26,639 [2]	$ 42.02		
March 1-31, 2018	18,594 [2]	$ 37.27		
Total	45,233	$ 40.07		

(1) Based on settlement date.

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

26

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

The following table provides information with respect to the A ordinary shares that were surrendered or repurchased during the quarter ended March 31, 2017:

Period [1]	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2017	13,656 [2]	$ 38.21		
February 1-28, 2017	15,309 [2]	$ 40.18		
Total	28,965	$ 39.25		

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

There were no B ordinary shares that were surrendered or repurchased during the quarters ended March 31, 2018 or 2017.

Please see Note 13 of the notes to the consolidated financial statements in Item 8 Part II of the Company s 2017 Annual Report on Form 10-K for more information on the Company s repurchase program.

Dividends

On March 4, 2018, the Company s Board of Directors approved a dividend payment of $0.25 per ordinary share to all shareholders of record on the close of business on March 21, 2018. On March 29, 2018, dividends totaling $3.5 million were paid to shareholders. As of March 31, 2018, accrued dividends on unvested shares, which were included in other liabilities on the consolidated balance sheets, were $0.05 million.

Please see Note 13 of the notes to the consolidated financial statements in Item 8 Part II of the Company s 2017 Annual Report on Form 10-K for more information on the Company s dividend program.

8. Related Party Transactions

Fox Paine & Company (Fox Paine)

As of March 31, 2018, Fox Paine beneficially owned shares having approximately 82% of the Company s total outstanding voting power. Fox Paine has the right to appoint a number of the Company s Directors equal in aggregate to the pro rata percentage of the voting shares of the Company beneficially held by Fox Paine for so long as Fox Paine holds an aggregate of 25% or more of the voting power in the Company. Fox Paine controls the election of all of the Company s Directors due to its controlling share ownership. The Company s Chairman is a member of Fox Paine.

The Company relies on Fox Paine to provide management services and other services related to the operations of the Company, and 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. The Company incurred management fees of $0.5 million during each of the quarters ended March 31, 2018 and 2017 as part of the annual management fee paid to Fox Paine. As of March 31, 2018 and December 31, 2017, unpaid management fees, which were included in other liabilities on the consolidated balance sheets, were $7.3 million and $6.8 million, respectively. During the quarter ended March 31, 2018, Fox Paine also performed advisory services for the Company in relation to a transaction whereby one of the Company s indirect wholly owned subsidiaries became a co-obligor on the Company s subordinated notes during the second quarter of 2018. The advisory services were performed during the first and second quarter of 2018. The total fee for these services is estimated to be $12.5 million. The Company estimates that 50% of the services were provided in the first quarter of 2018 and has included $6.25 million in corporate expense and accrued $6.25 million in other liabilities as of March 31, 2018. The remainder of the fee will be recorded in the second quarter of 2018.

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

9. Commitments and Contingencies

Legal Proceedings

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

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

Commitments

In 2014, the Company entered into a $50 million commitment to purchase an alternative investment vehicle which is comprised of European non-performing loans. As of March 31, 2018, 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 March 31, 2018, the Company has completely funded the $40.0 million commitment. Of this amount, $5.2 million is still recallable.

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 March 31, 2018, the Company has funded $20.8 million of this commitment leaving $29.2 million as unfunded.

10. Share-Based Compensation Plans

Options

On March 6, 2018, the Company entered into a Chief Executive Agreement (the Employment Agreement) with Cynthia Y. Valko, the Company s Chief Executive Officer. In accordance with the Employment Agreement, the vesting schedule on the 300,000 stock options issued in 2014 (Tranche 2 Options) was modified. The Tranche 2 Options will now vest on each December 31 of 2018, 2019 and 2020 in an amount based on Ms. Valko s attainment of Return on Equity criteria specified in the Employment Agreement. As a result of applying modification accounting, stock based compensation was reduced by $0.3 million during the quarter ended March 31, 2018.

Under the terms of the Employment Agreement, Ms. Valko was also granted an additional 300,000 Time-Based Options (Tranche 3 Options) with an exercise price of $50 per share. Tranche 3 Options vest 1/3 on December 31 of 2018, 2019 and 2020, if Ms. Valko remains employed and in good standing as of such date. Tranche 3 Options expire on the earlier of December 31, 2027 and 90 calendar days after Ms. Valko is neither employed by Global Indemnity nor a member of the Board of Directors.

Other than the Tranche 3 Options granted to Ms. Valko, no additional stock options were awarded during the quarter ended March 31, 2018. No stock options were awarded during the quarter ended March 31, 2017. No unvested stock options were forfeited during the quarters ended March 31, 2018 or 2017.

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

Restricted Shares

During the quarter ended March 31, 2018, the Company granted 38,778 A ordinary shares, with a weighted average grant date value of $40.57 per share, to key employees under the Plan. 11,843 of these shares vested immediately. The remainder will vest as follows

16.5%, 16.5%, and 17.0% of the granted stock vest on January 1, 2019, January 1, 2020, and January 1, 2021, respectively.

Subject to Board approval, 50% of granted stock vests 100%, no later than March 15, 2021, following a re-measurement of 2017 results as of December 31, 2020.

During the quarter ended March 31, 2017, the Company granted 22,503 A ordinary shares, with a weighted average grant date value of $38.21 per share, to key employees under the Plan. These shares will vest as follows:

16.5%, 16.5%, and 17.0% of the granted stock vest on January 1, 2018, January 1, 2019, and January 1, 2020, respectively.

Subject to Board approval, 50% of granted stock vests 100%, no later than March 15, 2020, following a re-measurement of 2016 results as of December 31, 2019.

During the quarters ended March 31, 2018 and 2017, the Company granted 9,142 and 6,700 A ordinary shares, respectively, at a weighted average grant date value of $34.52 and $38.49 per share, respectively, to non-employee directors of the Company under the Plan. All of the shares granted to non-employee directors of the Company in 2018 and 2017 were fully vested but are subject to certain restrictions.

11. Earnings Per Share

Earnings per share have been computed using the weighted average number of ordinary shares and ordinary share equivalents outstanding during the period.

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

(Dollars in thousands, except share and per share data)		Quarters Ended March 31, 2018	2017
Net income		$ 5,701	$ 12,282
Basic earnings per share:			
Weighted average shares outstanding	basic	14,055,022	17,316,015
Net income per share		$ 0.41	$ 0.71
Diluted earnings per share:			
Weighted average shares outstanding	diluted	14,285,837	17,646,080
Net income per share		$ 0.40	$ 0.70

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

	Quarters Ended March 31, 2018	2017
Weighted average shares for basic earnings per share	14,055,022	17,316,015
Non-vested restricted stock	68,782	136,380
Options	162,033	193,685
Weighted average shares for diluted earnings per share	14,285,837	17,646,080

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

The weighted average shares outstanding used to determine dilutive earnings per share for the quarter ended March 31, 2018 does not include 600,000 shares which were deemed to be anti-dilutive. There were no anti-dilutive shares for the quarter ended March 31, 2017.

12. 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.

The following are tabulations of business segment information for the quarters ended March 31, 2018 and 2017.

Quarter Ended March 31, 2018:

(Dollars in thousands)	Commercial Lines [1]	Personal Lines [1]	Reinsurance Operations [2]	Total
Revenues:				
Gross premiums written	$ 53,773	$ 60,165 [6]	$ 10,309	$ 124,247
Net premiums written	$ 48,306	$ 49,255	$ 10,309	$ 107,870
Net premiums earned	$ 47,362	$ 50,612	$ 10,028	$ 108,002
Other income		503	51	554
Total revenues	47,362	51,115	10,079	108,556
Losses and Expenses:				
Net losses and loss adjustment expenses	25,029	27,621	3,422	56,072
Acquisition costs and other underwriting expenses	19,205 [3]	22,179 [4]	3,619	45,003
Income from segments	$ 3,128	$ 1,315	$ 3,038	$ 7,481
Unallocated Items:				
Net investment income				11,404
Net realized investment loss				(316)
Corporate and other operating expenses				(9,260)

Interest expense				(4,861)
Income before income taxes				4,448
Income tax benefit				1,253
Net income				$ 5,701
Total assets	$ 893,115	$ 494,908	$ 575,691 (5)	$ 1,963,714

(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 $174 relating to cessions from Commercial Lines to Reinsurance Operations.
(4) Includes federal excise tax of $206 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 ($867) of business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

Quarter Ended March 31, 2017:

(Dollars in thousands)	Commercial Lines [1]	Personal Lines [1]	Reinsurance Operations [2]	Total
Revenues:				
Gross premiums written	$ 45,911	$ 62,017 [6]	$ 15,823	$ 123,751
Net premiums written	$ 41,115	$ 54,583	$ 15,808	$ 111,506
Net premiums earned	$ 44,992	$ 58,663	$ 9,471	$ 113,126
Other income		1,281	87	1,368
Total revenues	44,992	59,944	9,558	114,494
Losses and Expenses:				
Net losses and loss adjustment expenses	20,424	38,715	3,422	62,561
Acquisition costs and other underwriting expenses	19,019 [3]	24,534 [4]	2,998	46,551
Income (loss) from segments	$ 5,549	$ (3,305)	$ 3,138	$ 5,382
Unallocated Items:				
Net investment income				8,644
Net realized investment gain				775
Corporate and other operating expenses				(3,054)
Interest expense				(2,467)
Income before income taxes				9,280
Income tax benefit				3,002
Net income				12,282
Total assets	$ 877,798	$ 479,640	$ 714,947 [5]	$ 2,072,385

(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 $120 relating to cessions from Commercial Lines to Reinsurance Operations.
(4) Includes federal excise tax of $293 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 $1,051 of business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement.

13. New Accounting Pronouncements

Accounting Standards Adopted in 2018

In March, 2018, the FASB issued new accounting guidance whereby the SEC provided clarification to address any uncertainty or diversity of views in practice related to the application of ASC Topic 740, Income Taxes, in situations where a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting under Account Standards Codification (ASC) Topic 740 for certain income tax effects of the TCJA for the reporting period in which the Act was enacted. This guidance is effective immediately. Accordingly, provisional estimates were recorded based on the Company s initial analysis and current interpretation of the legislation and disclosed in the notes above. The adoption of this new accounting guidance did not have a material impact to the Company s financial condition, results of operation, or cash flows.

In February, 2018, the FASB issued new accounting guidance which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA. The amendments in this Update also require certain disclosures related to stranded tax effects. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company early adopted the provisions of this new guidance on January 1, 2018 and made an election to reclassify, in its entirety, all stranded tax effects related to TCJA. As a result, the Company recorded a cumulative effect adjustment of $0.1 million which was reclassified from accumulated other comprehensive income to retained earnings. The adoption of this new accounting guidance did not have a material impact to the Company s financial condition, results of operation, or cash flows.

Table of Contents

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

In May, 2017, the FASB issued updated accounting guidance which clarified 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. The Company adopted this guidance during the first quarter of 2018. The provisions of this guidance were adopted on a prospective basis. As a result of adopting this guidance, stock based compensation was reduced by $0.3 million during the quarter ended March 31, 2018. The adjustment was due to the Company entering into an Employment Agreement with its Chief Executive Officer which modified the vesting schedule on 300,000 options issued in 2014. The Company did not record a cumulative effect adjustment to shareholders equity as a result of adopting this guidance and the adoption of this new accounting guidance did not have a material impact to the Company s financial condition, results of operation, or cash flows.

In October, 2016, the FASB issued new accounting guidance regarding intra-entity transfers of assets other than inventory. Prior to adoption, the tax effects of intra-entity asset transfers (intercompany sales) were deferred until the transferred asset was 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. Upon adoption on January 1, 2018, the Company applied the provisions of this guidance on a modified retrospective basis resulting in a cumulative-effect adjustment which increased retained earnings by $0.2 million. The adoption of this new accounting guidance did not have a material impact to the Company s financial condition, results of operation, or cash flows.

In 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. Upon adoption on January 1, 2018, the Company made an accounting policy election to use the cumulative earnings approach for presenting distributions received from equity method investees. Under this approach, distributions up to the amount of cumulative equity in earnings recognized will be treated as returns on investment and presented in operating activities and those in excess of that amount will be treated as returns of investment and presented in the investing section. Prior to adoption, all distributions received from equity method investees were presented in the investing section of the consolidated statements of cash flows. The other cash flow issues addressed by the new guidance did not impact the Company. The provisions of this accounting guidance were adopted on a retrospective basis. The adoption of this new accounting guidance did not have a material impact to the Company s financial condition, results of operation, or cash flows.

In 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. Upon adoption on January 1, 2018, the Company recorded a cumulative effect adjustment, net of tax, of $10.0 million which reduced accumulated other comprehensive income and increased retained earnings. During the quarter ended March 31, 2018, net realized investment gains (losses) included a loss of $4.9 million related to the change in the fair value of equity investments in accordance with this new accounting guidance.

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. This guidance is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted the standard and all related amendments using the modified retrospective method. Long and short duration insurance contracts, which comprise the majority of the Company s revenues, are excluded from this accounting guidance. As such,

32

GLOBAL INDEMNITY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *(Continued)*

(Unaudited)

revenue within the scope of the new guidance primarily includes fee income. The adoption of this new accounting guidance did not have a material impact to the Company s financial condition, results of operation, or cash flows. There were no material changes in the timing or measurement of revenues based upon the guidance. As a result, there is no cumulative effect on retained earnings.

Recently Issued Accounting Guidance Not Yet Adopted

Please see Note 22 of the notes to the consolidated financial statements in Item 8 Part II of the Company s 2017 Annual Report on Form 10-K for more information on accounting pronouncements issued in 2017 which have not been implemented in 2018.

14. Subsequent Events

On April 25, 2018, Global Indemnity Group, Inc. (GIGI), an indirect wholly owned subsidiary of the Company, became a subordinated co-obligor with respect to the 7.75% Subordinated Notes due in 2045 and the 7.875% Subordinated Notes due in 2047 with the same obligations and duties as the Company under the Indenture (including the due and punctual performance and observance of all of the covenants and conditions to be performed by the Company, including, without limitation, the obligation to pay the principal of and interest on the Notes of any series when due whether at maturity, by acceleration, redemption or otherwise), and with the same rights, benefits and privileges of the Company thereunder. Notwithstanding the foregoing, GIGI s obligations (including the obligation to pay the principal of and interest in respect of the Notes of any series) are subject to subordination to all monetary obligations or liabilities of GIGI owing to Global Indemnity Reinsurance, Ltd., a wholly owned subsidiary of the Company, and/or any other regulated reinsurance or insurance company that is a direct or indirect subsidiary of the Company, in addition to indebtedness of GIGI for borrowed money.

In conjunction with the co-obligor transaction discussed above, Fox Paine performed advisory services during the first and second quarters of 2018. The total fee for these services is estimated to be $12.5 million. The Company estimates that 50% of the services were provided in the first quarter of 2018 and has included $6.25 million in corporate expense and accrued $6.25 million in other liabilities. The remainder of the fee will be recorded in the second quarter of 2018.

GLOBAL INDEMNITY LIMITED

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

The following discussion and analysis of the Company s financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes of Global Indemnity included elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to the Company s plans and strategy, constitutes forward-looking statements that involve risks and uncertainties. Please see Cautionary Note Regarding Forward-Looking Statements at the end of this Item 2 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein. For more information regarding the Company s business and operations, please see the Company s Annual Report on Form 10-K for the year ended December 31, 2017.

Recent Developments

During the quarter ended March 31, 2018, the Company received regulatory approval to terminate the quota share agreement between Global Indemnity Reinsurance and the Company s U.S. insurance companies effective January 1, 2018.

On March 4, 2018, the Company s Board of Directors approved a dividend payment of $0.25 per ordinary share to all shareholders of record on the close of business on March 21, 2018. On March 29, 2018, dividends totaling $3.5 million were paid to shareholders. As of March 31, 2018, accrued dividends on unvested shares, which were included in other liabilities on the consolidated balance sheets, were $0.05 million.

On April 25, 2018 the Company and Global Indemnity Group, Inc., an indirect wholly owned subsidiary of the Company, entered into an agreement pursuant to which Global Indemnity Group, Inc. agreed to become a subordinated co-obligor with respect to the 7.75% subordinated notes due 2045 and the 7.875% subordinated notes due 2047. Please see Note 14 of the notes to the consolidated financial statements in Item 1 of Part I of this report for further discussion on this transaction.

Overview

The Company s Commercial Lines segment distribute property and casualty insurance products through a group of approximately 120 professional general agencies that have limited quoting and binding authority, as well as a number of wholesale insurance brokers who in turn sell the Company s insurance products to insureds through retail insurance brokers. Commercial Lines operates predominantly in the excess and surplus lines marketplace. The Company manages its Commercial Lines segment via product classifications. These product classifications are: 1) Penn-America, which includes property and general liability products for small commercial businesses distributed through a select network of wholesale general agents with specific binding authority; 2) United National, which includes property, general liability, and professional lines products distributed through program administrators with specific binding authority; 3) Diamond State, which includes property, casualty, and professional lines products distributed through wholesale brokers and program administrators with specific binding authority; and 4) Vacant Express, which primarily insures dwellings which are currently vacant, undergoing renovation, or are under

construction and is distributed through aggregators, brokers, and retail agents.

The Company s Personal Lines segment, via American Reliable, offers specialty personal lines and agricultural coverage through a group of approximately 250 agents, primarily comprised of wholesale general agents, with specific binding authority in the admitted marketplace.

GLOBAL INDEMNITY LIMITED

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

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

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

Critical Accounting Estimates and Policies

The Company s consolidated financial statements are prepared in conformity with GAAP, which require it to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions.

The most critical accounting policies involve significant estimates and include those used in determining the liability for unpaid losses and loss adjustment expenses, recoverability of reinsurance receivables, investments, fair value measurements, goodwill and intangible assets, deferred acquisition costs, and taxation. For a detailed discussion on each of these policies, please see the Company s Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes to any of these policies or underlying methodologies during the current year except for the following:

The Company adopted new accounting guidance which requires equity investments, except for those accounted for under the equity method of accounting or those that result in consolidation of the investee, to

be measured at fair value with the changes in fair value recognized in net income.

The Company adopted new accounting guidance regarding the classification of certain cash receipts and cash payments within the statement of cash flows. Upon adoption, the Company made a policy election to use the cumulative earnings approach for presenting distributions received from equity method investees. Under this approach, distributions up to the amount of cumulative equity in earnings recognized will be treated as returns on investment and presented in operating activities and those in excess of that amount will be treated as returns of investment and presented in the investing section.

Table of Contents

GLOBAL INDEMNITY LIMITED

Results of Operations

The following table summarizes the Company s results for the quarters ended March 31, 2018 and 2017:

(Dollars in thousands)	Quarters Ended March 31, 2018	Quarters Ended March 31, 2017	% Change
Gross premiums written	$ 124,247	$ 123,751	0.4%
Net premiums written	$ 107,870	$ 111,506	(3.3%)
Net premiums earned	$ 108,002	$ 113,126	(4.5%)
Other income	554	1,368	(59.5%)
Total revenues	108,556	114,494	(5.2%)
Losses and expenses:			
Net losses and loss adjustment expenses	56,072	62,561	(10.4%)
Acquisition costs and other underwriting expenses	45,003	46,551	(3.3%)
Underwriting income	7,481	5,382	39.0%
Net investment income	11,404	8,644	31.9%
Net realized investment gains (losses)	(316)	775	(140.8%)
Corporate and other operating expenses	(9,260)	(3,054)	203.2%
Interest expense	(4,861)	(2,467)	97.0%
Income before income taxes	4,448	9,280	(52.1%)
Income tax benefit	1,253	3,002	(58.3%)
Net income	$ 5,701	$ 12,282	(53.6%)
Underwriting Ratios:			
Loss ratio (1):	51.9%	55.3%	
Expense ratio (2)	41.7%	41.1%	
Combined ratio (3)	93.6%	96.4%	

(1) The loss ratio is a GAAP financial measure that is generally viewed in the insurance industry as an indicator of underwriting profitability and is calculated by dividing net losses and loss adjustment expenses by net premiums earned.

(2)

The expense ratio is a GAAP financial measure that is calculated by dividing the sum of acquisition costs and other underwriting expenses by net premiums earned.

(3) The combined ratio is a GAAP financial measure and is the sum of the Company s loss and expense ratios.

36

Table of Contents

GLOBAL INDEMNITY LIMITED

Premiums

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

(Dollars in thousands)	Quarters Ended March 31, 2018	Quarters Ended March 31, 2017	% Change
Gross premiums written [1]			
Commercial Lines	$ 53,773	$ 45,911	17.1%
Personal Lines [3]	60,165	62,017	(3.0%)
Reinsurance [5]	10,309	15,823	(34.8%)
Total gross premiums written	$ 124,247	$ 123,751	0.4%
Ceded premiums written			
Commercial Lines	$ 5,467	$ 4,796	14.0%
Personal Lines	10,910	7,434	46.8%
Reinsurance [5]		15	NM
Total ceded premiums written	$ 16,377	$ 12,245	33.7%
Net premiums written [2]			
Commercial Lines	$ 48,306	$ 41,115	17.5%
Personal Lines	49,255	54,583	(9.8%)
Reinsurance [5]	10,309	15,808	(34.8%)
Total net premiums written	$ 107,870	$ 111,506	(3.3%)
Net premiums earned			
Commercial Lines [4]	$ 47,362	$ 44,992	5.3%
Personal Lines [4]	50,612	58,663	(13.7%)
Reinsurance [5]	10,028	9,471	5.9%
Total net premiums earned	$ 108,002	$ 113,126	(4.5%)

NM not meaningful

(1) Gross premiums written represent the amount received or to be received for insurance policies written without reduction for reinsurance costs or other deductions.

(2) Net premiums written equal gross premiums written less ceded premiums written.

(3) Includes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement of ($867) and $1,051 during the quarters ended March 31, 2018 and 2017, respectively.

(4) Includes business ceded to the Company s Reinsurance Operations.

(5) External business only, excluding business assumed from affiliates.

Gross premiums written increased by 0.4% for the quarter ended March 31, 2018 as compared to same period in 2017. Gross premiums written include business written by American Reliable that is ceded to insurance entities owned by Assurant under a 100% quota share reinsurance agreement in the amount of ($0.9) million and $1.1 million for the quarters ended March 31, 2018 and 2017, respectively. Excluding the business that is ceded 100% to insurance entities owned by Assurant, gross premiums written increased by 2.0% for the quarter March 31, 2018 as compared to same period in 2017. The increase is mainly due to the premium growth within the Company s Commercial Lines offset by a reduction in premiums written within the Company s Reinsurance Operations due to the cancellation of a treaty. The growth experienced in Commercial Lines is primarily being driven by rate increases primarily due to catastrophes experienced in the prior year, new programs, and increased interactions with agents.

GLOBAL INDEMNITY LIMITED

Net Retention

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

(Dollars in thousands)	Quarters Ended March 31,		
	2018	**2017**	Change
Commercial Lines	89.8%	89.6%	0.2
Personal Lines [(1)]	80.7%	89.5%	(8.8)
Reinsurance	100.0%	99.9%	0.1
Total [(1)]	86.2%	90.9%	(4.7)

(1) Excludes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement of ($867) and $1,051 during the quarters ended March 31, 2018 and 2017, respectively.

The net premium retention for the quarter ended March 31, 2018 decreased by 8.8 points for Personal Lines as compared to 2017 primarily due to the Property Catastrophe Quota Share Treaty that became effective on April 15, 2017. Please see the Liquidity section within Item 7 of Part II in the Company s 2017 Annual Report on Form 10-K for additional information on the Property Catastrophe Quota Share.

Net Premiums Earned

Net premiums earned within the Commercial Lines segment increased by 5.3% for the quarter ended March 31, 2018 as compared to the same period in 2017. The increase in net premiums earned was primarily due to an increase in gross premiums written. Property net premiums earned were $23.7 million in each of the quarters ended March 31, 2018 and 2017, respectively. Casualty net premiums earned were $23.7 million and $21.3 million for the quarters ended March 31, 2018 and 2017, respectively.

Net premiums earned within the Personal Lines segment decreased by 13.7% for the quarter ended March 31, 2018 as compared to the same period in 2017 primarily due to a decline in gross premiums written as well as additional premiums being ceded due to the Property Catastrophe Quota Share Treaty that became effective on April 15, 2017. Property net premiums earned were $42.7 million and $50.2 million for the quarters ended March 31, 2018 and 2017, respectively. Casualty net premiums earned were $7.9 million and $8.5 million for the quarters ended March 31, 2018 and 2017, respectively.

Net premiums earned within the Reinsurance Operations segment increased by 5.9% for the quarter ended March 31, 2018 as compared to the same period in 2017. The increase in net premiums earned was primarily due to the mortgage

treaty which earns out over an eight year period. Property net premiums earned were $8.7 million and $8.3 million for the quarters ended March 31, 2018 and 2017, respectively. Casualty net premiums earned were $1.3 million and $1.2 million for the quarters ended March 31, 2018 and 2017, respectively.

Reserves

Management s best estimate at March 31, 2018 was recorded as the loss reserve. Management s best estimate is as of a particular point in time and is based upon known facts, the Company s actuarial analyses, current law, and the Company s judgment. This resulted in carried gross and net reserves of $615.1 million and $522.8 million, respectively, as of March 31, 2018. A breakout of the Company s gross and net reserves, as of March 31, 2018, is as follows:

	Gross Reserves		
(Dollars in thousands)	**Case**	**IBNR [1]**	**Total**
Commercial Lines	$ 116,283	$ 296,506	$ 412,789
Personal Lines	33,648	80,208	113,856
Reinsurance Operations	30,965	57,515	88,480
Total	$ 180,896	$ 434,229	$ 615,125

38

Table of Contents

GLOBAL INDEMNITY LIMITED

(Dollars in thousands)	Net Reserves [2]		
	Case	IBNR [1]	Total
Commercial Lines	$ 90,491	$ 247,836	$ 338,327
Personal Lines	28,035	68,032	96,067
Reinsurance Operations	30,965	57,452	88,417
Total	$ 149,491	$ 373,320	$ 522,811

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

Each reserve category has an implicit frequency and severity for each accident year as a result of the various assumptions made. If the actual levels of loss frequency and severity are higher or lower than expected, the ultimate losses will be different than management s best estimate. For most of its reserve categories, the Company believes that frequency can be predicted with greater accuracy than severity. Therefore, the Company believes management s best estimate is more likely influenced by changes in severity than frequency. The following table, which the Company believes reflects a reasonable range of variability around its best estimate based on historical loss experience and management s judgment, reflects the impact of changes (which could be favorable or unfavorable) in frequency and severity on the Company s current accident year net loss estimate of $62.0 million for claims occurring during the quarter ended March 31, 2018:

(Dollars in thousands)		Severity Change				
		-10%	**-5%**	**0%**	**5%**	**10%**
Frequency Change	**-5%**	$ (8,990)	$ (6,045)	$ (3,100)	$ (155)	$ 2,790
	-3%	(7,874)	(4,867)	(1,860)	1,147	4,154
	-2%	(7,316)	(4,278)	(1,240)	1,798	4,836
	-1%	(6,758)	(3,689)	(620)	2,449	5,518
	0%	(6,200)	(3,100)		3,100	6,200
	1%	(5,642)	(2,511)	620	3,751	6,882
	2%	(5,084)	(1,922)	1,240	4,402	7,564
	3%	(4,526)	(1,333)	1,860	5,053	8,246
	5%	(3,410)	(155)	3,100	6,355	9,610

The Company s net reserves for losses and loss adjustment expenses of $522.8 million as of March 31, 2018 relate to multiple accident years. Therefore, the impact of changes in frequency and severity for more than one accident year could be higher or lower than the amounts reflected above.

Table of Contents

GLOBAL INDEMNITY LIMITED

Underwriting Results

Commercial Lines

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

(Dollars in thousands)	Quarters Ended March 31, 2018 [2]	2017 [2]	% Change
Gross premiums written	$ 53,773	$ 45,911	17.1%
Net premiums written	$ 48,306	$ 41,115	17.5%
Net premiums earned	$ 47,362	$ 44,992	5.3%
Total revenues	47,362	44,992	5.3%
Losses and expenses:			
Net losses and loss adjustment expenses	25,029	20,424	22.5%
Acquisition costs and other underwriting expenses [1]	19,205	19,019	1.0%
Underwriting income (loss)	$ 3,128	$ 5,549	(43.6%)

	Quarters Ended March 31, 2018	2017	Point Change
Underwriting Ratios:			
Loss ratio:			
Current accident year	58.6%	57.1%	1.5
Prior accident year	(5.7)	(11.7%)	6.0
Calendar year loss ratio	52.9%	45.4%	7.5
Expense ratio	40.5%	42.3%	(1.8)
Combined ratio	93.4%	87.7%	5.7

(1) Includes excise tax related to cessions from the Company s Commercial Lines to its Reinsurance Operations of $174 and $120 for the quarters ended March 31, 2018 and 2017, respectively.
(2) Includes business ceded to the Company s Reinsurance Operations.

GLOBAL INDEMNITY LIMITED

Reconciliation of non-GAAP financial measures and ratios

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

	Quarters Ended March 31,			
	2018		2017	
	Losses $	Loss Ratio	Losses $	Loss Ratio
Property				
Non catastrophe property losses and ratio excluding the effect of prior accident year (1)	$ 11,792	49.8%	$ 10,132	42.8%
Effect of prior accident year	(421)	(1.8%)	(235)	(1.0%)
Non catastrophe property losses and ratio (2)	$ 11,371	48.0%	$ 9,897	41.8%
Catastrophe losses and ratio excluding the effect of prior accident year (1)	$ 1,775	7.5%	$ 2,897	12.2%
Effect of prior accident year	8	0.0%	(1,459)	(6.2%)
Catastrophe losses and ratio (2)	$ 1,783	7.5%	$ 1,438	6.0%
Total property losses and ratio excluding the effect of prior accident year (1)	$ 13,567	57.3%	$ 13,029	55.0%
Effect of prior accident year	(413)	(1.8%)	(1,694)	(7.2%)
Total property losses and ratio (2)	$ 13,154	55.5%	$ 11,335	47.8%
Casualty				
Total Casualty losses and ratio excluding the effect of prior accident year (1)	$ 14,167	59.9%	$ 12,646	59.3%
Effect of prior accident year	(2,292)	(9.7%)	(3,557)	(16.7%)
Total Casualty losses and ratio (2)	$ 11,875	50.2%	$ 9,089	42.6%
Total				
Total net losses and loss adjustment expense and total loss ratio excluding the effect of prior accident year (1)	$ 27,734	58.6%	$ 25,675	57.1%

Effect of prior accident year	(2,705)	(5.7%)	(5,251)	(11.7%)
Total net losses and loss adjustment expense and total loss ratio [2]	$ 25,029	52.9%	$ 20,424	45.4%

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

Premiums

See Result of Operations above for a discussion on premiums.

41

Table of Contents

GLOBAL INDEMNITY LIMITED

Loss Ratio

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

(Dollars in thousands)	Quarters Ended March 31, 2018	Quarters Ended March 31, 2017	% Change
Property losses			
Catastrophe	$ 1,775	$ 2,897	(38.7%)
Non-catastrophe	11,792	10,132	16.4%
Property losses	13,567	13,029	4.1%
Casualty losses	14,167	12,646	12.0%
Total accident year losses	$ 27,734	$ 25,675	8.0%

	Quarters Ended March 31, 2018	Quarters Ended March 31, 2018	Point Change
Current accident year loss ratio:			
Property			
Catastrophe	7.5%	12.2%	(4.7)
Non-catastrophe	49.8%	42.8%	7.0
Property loss ratio	57.3%	55.0%	2.3
Casualty loss ratio	59.9%	59.3%	0.6
Total accident year loss ratio	58.6%	57.1%	1.5

The current accident year catastrophe loss ratio improved by 4.7 points during the quarter ended March 31, 2018 as compared to the same period in 2017. The loss ratio improvement reflects a lower claims frequency and severity for the first accident quarter compared to last year.

The current accident year non-catastrophe property loss ratio increased by 7.0 points during the quarter ended March 31, 2018 as compared to the same period in 2017. The increase in the loss ratio reflects a higher claims severity in the first accident quarter compared to the same quarter last year.

The calendar year loss ratio for the quarter ended March 31, 2018 includes a decrease of $2.7 million, or 5.7 percentage points, related to reserve development on prior accident years. The calendar year loss ratio for the quarter ended March 31, 2017 includes a decrease of $5.3 million, or 11.7 percentage points related to reserve development on prior accident years. Please see Note 6 of the notes to the consolidated financial statements in Item 1 of Part I of

this report for further discussion on prior accident year development.

Expense Ratios

The expense ratio for the Company s Commercial Lines improved by 1.8 points from 42.3% for the quarter ended March 31, 2017 to 40.5% for the quarter ended March 31, 2018. The improvement in the expense ratio is primarily due to an increase in the net earned premiums as discussed above.

42

Table of Contents

GLOBAL INDEMNITY LIMITED

Personal Lines

The components of income and loss from the Company s Personal Lines segment and corresponding underwriting ratios are as follows:

(Dollars in thousands)	Quarters Ended March 31, 2018 [3]	Quarters Ended March 31, 2017 [3]	% Change
Gross premiums written [1]	$ 60,165	$ 62,017	(3.0%)
Net premiums written	$ 49,255	$ 54,583	(9.8%)
Net premiums earned	$ 50,612	$ 58,663	(13.7%)
Other income	503	1,281	(60.7%)
Total revenues	51,115	59,944	(14.7%)
Losses and expenses:			
Net losses and loss adjustment expenses	27,621	38,715	(28.7%)
Acquisition costs and other underwriting expenses [2]	22,179	24,534	(9.6%)
Underwriting income (loss)	$ 1,315	$ (3,305)	139.8%

	Quarters Ended March 31, 2018	Quarters Ended March 31, 2017	Point Change
Underwriting Ratios:			
Loss ratio:			
Current accident year	56.7%	71.5%	(14.8)
Prior accident year	(2.1%)	(5.5%)	3.4
Calendar year loss ratio	54.6%	66.0%	(11.4)
Expense ratio	43.8%	41.8%	2.0
Combined ratio	98.4%	107.8%	(9.4)

(1) Includes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement of ($867) and $1,051 during the quarters ended March 31, 2018 and 2017, respectively.

(2) Includes excise tax related to cessions from the Company s Personal Lines to its Reinsurance Operations of $206 and $293 for the quarters ended March 31, 2018 and 2017, respectively.

(3) Includes business ceded to the Company s Reinsurance Operations.

GLOBAL INDEMNITY LIMITED

Reconciliation of non-GAAP financial measures and ratios

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

	Quarters Ended March 31,			
	2018		2017	
	Losses $	Loss Ratio	Losses $	Loss Ratio
Property				
Non catastrophe property losses and ratio excluding the effect of prior accident year (1)	$ 19,786	46.4%	$ 24,655	49.1%
Effect of prior accident year	(459)	(1.1%)	(2,683)	(5.3%)
Non catastrophe property losses and ratio (2)	$ 19,327	45.3%	$ 21,972	43.8%
Catastrophe losses and ratio excluding the effect of prior accident year (1)	$ 5,230	12.2%	$ 11,552	23.0%
Effect of prior accident year	(486)	(1.1%)		
Catastrophe losses and ratio (2)	$ 4,744	11.1%	$ 11,552	23.0%
Total property losses and ratio excluding the effect of prior accident year (1)	$ 25,016	58.6%	$ 36,207	72.1%
Effect of prior accident year	(945)	(2.2%)	(2,683)	(5.3%)
Total property losses and ratio (2)	$ 24,071	56.4%	$ 33,524	66.8%
Casualty				
Total Casualty losses and ratio excluding the effect of prior accident year (1)	$ 3,684	46.6%	$ 5,716	67.9%
Effect of prior accident year	(134)	(1.7%)	(525)	(6.2%)
Total Casualty losses and ratio (2)	$ 3,550	44.9%	$ 5,191	61.7%
Total				
Total net losses and loss adjustment expense and total loss ratio excluding the effect of prior accident year (1)	$ 28,700	56.7%	$ 41,923	71.5%

Effect of prior accident year	(1,079)	(2.1%)	(3,208)	(5.5%)
Total net losses and loss adjustment expense and total loss ratio [2]	$ 27,621	54.6%	$ 38,715	66.0%

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

Premiums

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

Other Income

Other income was $0.5 million and $1.3 million for the quarters ended March 31, 2018 and 2017, respectively. In 2018, other income is primarily comprised of fee income. In 2017, other income is primarily comprised of fee income, commission income and accrued interest on the anticipated indemnification of unpaid loss and loss adjustment expense reserves. In accordance with a dispute resolution agreement between Global Indemnity Group, Inc. and American Bankers Group, Inc., any variance paid related to the loss indemnification will be subject to interest of 5% compounded semi-annually. The reduction in other income is primarily due to the Company settling its final reserve calculation with American Bankers Group, Inc. with an effective date of December 31, 2017 resulting in no interest on the loss indemnification being accrued in the first quarter of 2018.

Table of Contents

GLOBAL INDEMNITY LIMITED

Loss Ratio

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

(Dollars in thousands)	Quarters Ended March 31, 2018	Quarters Ended March 31, 2017	% Change
Property losses			
Catastrophe	$ 5,230	$ 11,552	(54.7%)
Non-catastrophe	19,786	24,655	(19.7%)
Property losses	25,016	36,207	(30.9%)
Casualty losses	3,684	5,716	(35.5%)
Total accident year losses	$ 28,700	$ 41,923	(31.5%)

	Quarters Ended March 31, 2018	Quarters Ended March 31, 2017	Point Change
Current accident year loss ratio:			
Property			
Catastrophe	12.2%	23.0%	(10.8)
Non-catastrophe	46.4%	49.1%	(2.7)
Property loss ratio	58.6%	72.1%	(13.5)
Casualty loss ratio	46.6%	67.9%	(21.3)
Total accident year loss ratio	56.7%	71.5%	(14.8)

The current accident year catastrophe loss ratio improved by 10.8 points during the quarter ended March 31, 2018 as compared to the same period in 2017 primarily due to lower claims frequency during the first quarter. Much of the loss ratio improvement was experienced in the agriculture reserve category.

The current accident year non-catastrophe property loss ratio improved by 2.7 points during the quarter ended March 31, 2018 as compared to the same period in 2017. The decrease in the loss ratio is driven primarily by a lower claims frequency in the first accident quarter compared to the same accident quarter last year.

The current accident year casualty loss ratio improved by 21.3 points during the quarter ended March 31, 2018 as compared to the same period in 2017. The loss ratio improvement reflects a decrease in claims frequency and severity in the first accident quarter.

The calendar year loss ratio for the quarter ended March 31, 2018 includes a decrease of $1.1 million, or 2.1 percentage points, related to reserve development on prior accident years. The calendar year loss ratio for the quarter ended March 31, 2017 includes a decrease of $3.2 million, or 5.5 percentage points, related to reserve development on prior accident years. Please see Note 6 of the notes to the consolidated financial statements in Item 1 of Part I of this report for further discussion on prior accident year development.

Expense Ratios

The expense ratio for the Company s Personal Lines increased 2.0 points from 41.8% for the quarter ended March 31, 2017 to 43.8% for the quarter ended March 31, 2018. The increase in the expense ratio is primarily due to a reduction in net earned premiums which is the result of a decline in gross premiums written as well as additional premiums being ceded due to the Property Catastrophe Quota Share Treaty that became effective on April 15, 2017.

Table of Contents

GLOBAL INDEMNITY LIMITED

Reinsurance Operations

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

(Dollars in thousands)	Quarters Ended March 31, 2018 [1]	Quarters Ended March 31, 2017 [1]	% Change
Gross premiums written	$ 10,309	$ 15,823	(34.8%)
Net premiums written	$ 10,309	$ 15,808	(34.8%)
Net premiums earned	$ 10,028	$ 9,471	5.9%
Other income	51	87	(41.4%)
Total revenues	10,079	9,558	5.5%
Losses and expenses:			
Net losses and loss adjustment expenses	3,422	3,422	0.0%
Acquisition costs and other underwriting expenses	3,619	2,998	20.7%
Underwriting income	$ 3,038	$ 3,138	(3.2%)

	Quarters Ended March 31, 2018	Quarters Ended March 31, 2017	Point Change
Underwriting Ratios:			
Loss ratio:			
Current accident year	55.5%	53.8%	1.7
Prior accident year	(21.4%)	(17.6%)	(3.8)
Calendar year loss ratio	34.1%	36.2%	(2.1)
Expense ratio	36.1%	31.7%	4.4
Combined ratio	70.2%	67.9%	2.3

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

Reconciliation of non-GAAP financial measures and ratios

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

	Quarters Ended March 31,	
	2018	**2017**
Loss ratio excluding the effect of prior accident year [1]	55.5%	53.8%
Effect of prior accident year	(21.4%)	(17.6%)
Loss ratio [2]	34.1%	36.2%

(1) Non-GAAP measure / ratio

(2) Most directly comparable GAAP measure / ratio

Premiums

See Result of Operations above for a discussion on premiums.

Table of Contents

GLOBAL INDEMNITY LIMITED

Other Income

The Company recognized income of $0.1 million in each of the quarters ended March 31, 2018 and 2017. Other income is comprised of foreign exchange gains and losses.

Loss Ratio

The current accident year loss ratio increased by 1.7 points during the quarter ended March 31, 2018 as compared to the same period in 2017. This increase was mainly attributable to higher loss ratios in the property contracts excluding catastrophes.

The calendar year loss ratio for the quarter ended March 31, 2018 includes a decrease of $2.1 million, or 21.4 percentage points, related to reserve development on prior accident years. The calendar year loss ratio for the quarter ended March 31, 2017 includes a decrease of $1.7 million, or 17.6 percentage points, related to reserve development on prior accident years. Please see Note 6 of the notes to the consolidated financial statements in Item 1 of Part I of this report for further discussion on prior accident year development.

Expense Ratio

The expense ratio for the Company s Reinsurance Operations increased by 4.4 points from 31.7% for the quarter ended March 31, 2017 to 36.1% for the quarter ended March 31, 2018. This was primarily due to the expense ratio for 2017 being lower than otherwise would have been due to receiving a federal excise tax refund related to prior years of $0.4 million.

Unallocated Corporate Items

The Company s investments are managed distinctly according to assets supporting future insurance obligations and assets in excess of those supporting future insurance obligations. Assets supporting insurance obligations are referred to as the Insurance Obligations Portfolio. The Insurance Obligations Portfolio consists of cash and high-quality fixed income investments. Assets in excess of insurance obligations are referred to as the Surplus Portfolio. The Surplus Portfolio targets higher returns and is comprised of cash, fixed income, common stocks, and alternative investments.

The Insurance Obligations Portfolio has a market value of $809.5 million and the fixed income securities within have a credit quality of AA- and duration of 3.1 years. The Surplus Reserve Portfolio has a market value of $732.4 million and the fixed income securities within have a credit quality of A- and duration of 3.5 years.

The Insurance Obligations Portfolio returned (2.8%) for the three months ended March 31, 2018 with net investment income of $4.8 million, offset by realized losses of $0.1 million and unrealized losses of $10.2 million. The Surplus Portfolio returned (2.9%) for the three months ended March 31, 2018 with net investment income of $6.6 million, offset by realized losses of $4.4 million and unrealized losses of $7.4 million.

Net Investment Income

(Dollars in thousands)	Quarters Ended March 31, 2018	2017	% Change
Gross investment income [1]	$ 12,114	$ 9,444	28.3%
Investment expenses	(710)	(800)	(11.3%)
Net investment income	$ 11,404	$ 8,644	31.9%

(1) Excludes realized gains and losses

Gross investment income increased by 28.3% for the quarter ended March 31, 2018, as compared with the quarter ended March 31, 2017. The increase was primarily due to an increase in yield within the fixed maturities portfolio due to extending duration in 2017.

Investment expenses decreased by 11.3% for the quarter ended March 31, 2018, as compared with the quarter ended March 31, 2017. The decrease is primarily due to reduced fees related to the custody of the Company s investment portfolio during 2018.

Table of Contents

GLOBAL INDEMNITY LIMITED

At March 31, 2018, the Company held agency mortgage-backed securities with a market value of $77.9 million. Excluding the agency mortgage-backed securities, the average duration of the Company s fixed maturities portfolio was 3.2 years as of March 31, 2018, compared with 2.2 years as of March 31, 2017. Including cash and short-term investments, the average duration of the Company s fixed maturities portfolio, excluding agency mortgage-backed securities, was 3.0 years as of March 31, 2018, compared with 2.0 years as of March 31, 2017. Changes in interest rates can cause principal payments on certain investments to extend or shorten which can impact duration. At March 31, 2018 and March 31, 2017, the Company s embedded book yield on its fixed maturities, not including cash, was 2.8%, compared with 2.2% at March 31, 2017. The embedded book yield on the $95.4 million of municipal bonds in the Company s portfolio, which includes $94.3 million of taxable municipal bonds, was 3.1 % at March 31, 2018, compared to an embedded book yield of 2.8% on the Company s municipal bond portfolio of $165.6 million at March 31, 2017.

Net Realized Investment Gains (Losses)

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

(Dollars in thousands)	Quarters Ended March 31, 2018	2017
Common stock	$ (4,374)	$ 575
Fixed maturities	(93)	137
Interest rate swap	4,151	173
Other than temporary impairment losses		(110)
Net realized investment gains (losses)	$ (316)	$ 775

See Note 2 of the notes to the consolidated financial statements in Item 1 of Part I of this report for an analysis of total investment return on a pre-tax basis for the quarters ended March 31, 2017 and 2016.

Corporate and Other Operating Expenses

Corporate and other operating expenses consist of outside legal fees, other professional fees, directors fees, management fees & advisory fees, salaries and benefits for holding company personnel, development costs for new products, and taxes incurred which are not directly related to operations. Corporate and other operating expenses were $9.3 million and $3.1 during the quarters ended March 31, 2018 and 2017, respectively. The increase is primarily due to incurring a $6.3 million advisory fee related to the co-obligor transaction. For additional information on the co-obligor transaction, see Note 14 of the notes to the consolidated financial statements in Item 1 of Part I of this report.

Interest Expense

Interest expense increased 97.0% during the quarter ended March 31, 2018 as compared to the same period in 2017. This increase is primarily due to the Company s $130 million debt offering in March, 2017.

Income Tax Benefit

The income tax benefit was $1.3 million for the quarter ended March 31, 2018 compared with income tax benefit of $3.0 million for the quarter ended March 31, 2017. The decrease in the income tax benefit is primarily due to the change in the U.S. statutory tax rate from 35% to 21% effective January 1, 2018 and the Base Erosion Anti-Abuse Tax that became effective upon the passage of the Tax Cuts and Jobs Act.

See Note 5 of the notes to the consolidated financial statements in Item 1 of Part I of this report for a comparison of income tax between periods.

Net Income (Loss)

The factors described above resulted in a net income of $5.7 million and $12.3 million for the quarters ended March 31, 2018 and 2017, respectively.

Table of Contents

GLOBAL INDEMNITY LIMITED

Liquidity and Capital Resources

Sources and Uses of Funds

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

Global Indemnity s short term and long term liquidity needs include the payment of corporate expenses, debt service payments, dividend payments to shareholders, and share repurchases. In order to meet their short term and long term needs, the Company s principal sources of cash includes dividends from subsidiaries, other permitted disbursements from its direct and indirect subsidiaries, reimbursement for equity awards granted to employees and intercompany borrowings. The principal sources of funds at these direct and indirect subsidiaries include underwriting operations, investment income, and proceeds from sales and redemptions of investments. Funds are used principally by these operating subsidiaries to pay claims and operating expenses, to make debt payments, fund margin requirements on interest rate swap agreements, to purchase investments, and to make dividend payments. In addition, the Company periodically reviews opportunities related to business acquisitions and as a result, liquidity may be needed in the future.

As of March 31, 2018, the Company also had future funding commitments of $48.7 million related to investments. The timing of commitments related to investments is uncertain.

The future liquidity of Global Indemnity is dependent on the ability of its subsidiaries to pay dividends. Global Indemnity s U.S. insurance companies are restricted by statute as to the amount of dividends that they may pay without the prior approval of regulatory authorities. The dividend limitations imposed by state laws are based on the statutory financial results of each insurance company within the Insurance Operations that are determined by using statutory accounting practices that differ in various respects from accounting principles used in financial statements prepared in conformity with GAAP. See Regulation Statutory Accounting Principles in Item 1 of Part I of the Company s 2017 Annual Report on Form 10-K. Key differences relate to, among other items, deferred acquisition costs, limitations on deferred income taxes, reserve calculation assumptions and surplus notes. See Note 19 of the notes to the consolidated financial statements in Item 8 of Part II of the Company s 2017 Annual Report on Form 10-K for further information on dividend limitations related to the U.S. Insurance Companies. The U.S. Insurance Companies did not declare or pay any dividends during the quarter ended March 31, 2018.

For 2018, the Company believes that Global Indemnity Reinsurance, including distributions it could receive from its subsidiaries, should have sufficient liquidity and solvency to pay dividends. Global Indemnity Reinsurance is prohibited, without the approval of the Bermuda Monetary Authority (BMA), from reducing by 15% or more its total statutory capital as set out in its previous year s statutory financial statements, and any application for such approval must include such information as the BMA may require. See Regulation Bermuda Insurance Regulation in Item 1 of Part I of the Company s 2017 Annual Report on Form 10-K. During the quarter ended March 31, 2018, Global Indemnity Reinsurance paid a $20.0 million dividend, which was previously declared in 2017, to its parent company, Global Indemnity Limited.

Cash Flows

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

The Company s reconciliation of net income to cash used for operations is generally influenced by the following:

the fact that the Company collects premiums, net of commissions, in advance of losses paid;

the timing of the Company s settlements with its reinsurers; and

the timing of the Company s loss payments.

Table of Contents

GLOBAL INDEMNITY LIMITED

Net cash provided by (used for) operating activities was $41.2 million and ($15.3) million for the quarters ended March 31, 2018 and 2017, respectively. The increase in operating cash flows of approximately $56.5 million from the prior year was primarily a net result of the following items:

(Dollars in thousands)	Quarters Ended March 31, 2018	2017	Change
Net premiums collected	$ 112,573	$ 97,499	$ 15,074
Net losses paid	(68,198)	(54,173)	(14,025)
Underwriting and corporate expenses	(61,633)	(64,664)	3,031
Recovery on loss indemnification (1)	45,045		45,045
Net investment income	18,803	8,340	10,463
Net federal income taxes paid	(570)	(96)	(474)
Interest paid	(4,793)	(2,200)	(2,593)
Net cash provided by (used for) operating activities (1)	$ 41,227	$ (15,294)	$ 56,521

(1) Excludes a $3.5 million payment related to a purchase price adjustment for American Reliable. This payment is included in the net cash used in investing activities on the Company s Consolidated Statement of Cash Flows. The recovery on loss indemnification, net of the purchase price adjustment, is $41.5 million. For additional information on the loss indemnification, please see Note 6 of the notes to the consolidated financial statements in Item 1 of Part I of this report.

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

Liquidity

On March 4, 2018, the Company s Board of Directors approved a dividend payment of $0.25 per ordinary share to all shareholders of record on the close of business on March 21, 2018. On March 29, 2018, dividends totaling $3.5 million were paid to shareholders. Accrued dividends on unvested shares were $0.05 million as of March 31, 2018.

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

Other than the items discussed in the preceding paragraphs, there have been no material changes to the Company s liquidity during the quarter ended March 31, 2018. Please see Item 7 of Part II in the Company s 2017 Annual Report on Form 10-K for information regarding the Company s liquidity.

Capital Resources

On April 25, 2018 the Company and Global Indemnity Group, Inc., an indirect wholly owned subsidiary of the Company, entered into an agreement pursuant to which Global Indemnity Group, Inc. agreed to become a subordinated co-obligor with respect to the 7.75% subordinated notes due 2045 and the 7.875% subordinated notes due 2047. Global Indemnity Group, Inc. has agreed to pay all amounts due and payable in respect of the subordinated note obligations, including, without limitation, the payment of principal of and interest on each series of notes. In consideration for becoming a subordinated co-obligor on the subordinated notes, Global Indemnity Group, Inc. received a promissory note from the Company with a principal amount of $230 million at an interest rate of 7.825% per annum and due on April 15, 2047. Global Indemnity Group, Inc. assigned the $230 million promissory note from the Company to U.A.I. (Luxembourg) Investment S.à.r.l. as payment on $230 million of the outstanding debt owed to U.A.I. (Luxembourg) Investment S.à.r.l. by Global Indemnity Group, Inc.

Other than the items discussed in the preceding paragraph, there have been no material changes to the Company s capital resources during the quarter ended March 31, 2018. Please see Item 7 of Part II in the Company s 2017 Annual Report on Form 10-K for information regarding the Company s capital resources.

Table of Contents

GLOBAL INDEMNITY LIMITED

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements.

Cautionary Note Regarding Forward-Looking Statements

Some of the statements under Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report may include forward-looking statements within the meaning of Section 21E of the Security Exchange Act of 1934, as amended, that reflect the Company s current views with respect to future events and financial performance. Forward-looking statements are statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as believe, expect, may, will, should, project, seek, intend, or anticipate or the negative thereof or comparable terminology, and include discussions of strategy, financial projections and estimates and their underlying assumptions, statements regarding plans, objectives, expectations or consequences of identified transactions or natural disasters, and statements about the future performance, operations, products and services of the companies.

The Company s business and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. See Risk Factors in Item 1A of Part I in the Company s 2017 Annual Report on Form 10-K for risks, uncertainties and other factors that could cause actual results and experience to differ from those projected. The Company s forward-looking statements speak only as of the date of this report or as of the date they were made. The Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For the quarter ending March 31, 2018, global equities registered their first quarterly loss in eight quarters. A sharp correction in global markets and a large spike in volatility were initially triggered by concerns about escalating inflation risks in the US. Fears of a global trade war further unsettled financial markets after US President Donald Trump imposed stiff tariffs on steel and aluminum and announced plans to implement tariffs on Chinese imports, while also enacting tighter restrictions on acquisitions and technology transfers. The European Central Bank (ECB) kept interest rates unchanged but signaled that it will begin to normalize monetary policy. The US Federal Reserve (Fed) increased the benchmark federal funds rate by 25 basis points (bps), noting that the US economic outlook had strengthened in recent months. Tensions in Asia appeared to ease after North Korea s leader Kim Jong Un pledged his commitment to denuclearization and agreed to meet with US officials. Within the S&P 500 Index, nine of the 11 sectors posted negative results for the quarter. The two outperforming sectors, information technology and consumer discretionary, were aided by recent tax reform and high-profile earnings results.

Global fixed income markets posted flat returns in USD terms during the first quarter, while the US fixed income market posted negative returns. Global monetary policy continued along a less accommodative path during the period. The Fed raised interest rates in March and projected two additional hikes in 2018. The ECB adjusted its forward guidance to remove its official easing bias and is expected to cease asset purchases by September. Sovereign yield curves continued to flatten to varying degrees across most developed markets amid shifts to more normalized

monetary policy. Short-term yields in the UK and US increased sharply on expectations of more aggressive monetary policy tightening. Longer-term yields declined in the major developed markets where inflation remained tame.

The Company s investment grade fixed income portfolio continues to maintain high quality with an A+ average rating and a duration of 3.1 years. The Insurance Obligations Portfolio has a credit quality of AA- and duration of 3.0 years. The portion of the Surplus Portfolio comprised of cash and fixed income securities has a credit quality of A and duration of 3.3 years. Portfolio purchases were focused within Agency MBS, U.S. corporate bonds and CMBS. These purchases were funded primarily through sales of ABS and U.S. credit, as well as maturities and paydowns. During the first quarter, the portfolio s allocation to Agency MBS and CMBS increased and cash and equivalents decreased.

There have been no other material changes to the Company s market risk since December 31, 2017. Please see Item 7A of Part II in the Company s 2017 Annual Report on Form 10-K for information regarding the Company s market risk.

GLOBAL INDEMNITY LIMITED

Item 4. CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in the Company s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of March 31, 2018. Based upon that evaluation, and subject to the foregoing, the Company s Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2018, the design and operation of the Company s disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company s internal controls over financial reporting that occurred during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. 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 risks in amounts that it considers adequate. However, there can be no assurance that the insurance and reinsurance coverage that the Company maintains is sufficient or will be available in adequate amounts or at a reasonable cost. The Company does not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material adverse effect on its business, results of operations, cash flows, or financial condition.

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

Item 1A. Risk Factors

The Company s results of operations and financial condition are subject to numerous risks and uncertainties described in Item 1A of Part I in the Company s 2017 Annual Report on Form 10-K, filed with the SEC on March 9, 2018. The risk factors identified therein have not materially changed.

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

The Company s Share Incentive Plan allows employees to surrender the Company s A ordinary shares as payment for the tax liability incurred upon the vesting of restricted stock. There were 45,233 shares surrendered by the Company s employees during the quarter ended March 31, 2018. All A ordinary shares surrendered by the employees by the Company are held as treasury stock and recorded at cost until formally retired.

Item 3. Defaults upon Senior Securities

None.

GLOBAL INDEMNITY LIMITED

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None

Item 6. Exhibits

4.1	Third Supplemental Indenture, dated as of April 25, 2018, by and among the Company, Wells Fargo Bank, National Association, and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K dated April 25, 2018 (File No. 001-34809)).
31.1+	Certification of Chief Executive Officer pursuant to Rule 13a-14 (a) / 15d-14 (a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Chief Financial Officer pursuant to Rule 13a-14 (a) / 15d-14 (a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1+	The following financial information from Global Indemnity Limited s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 formatted in XBRL: (i) Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017; (ii) Consolidated Statements of Operations for the quarters ended March 31, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income for the quarters ended March 31, 2018 and 2017; (iv) Consolidated Statements of Changes in Shareholders Equity for the quarter ended March 31, 2018 and the year ended December 31, 2017; (v) Consolidated Statements of Cash Flows for the quarters ended March 31, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements.

+ Filed or furnished herewith, as applicable.

Table of Contents

GLOBAL INDEMNITY LIMITED

SIGNATURE

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

GLOBAL INDEMNITY LIMITED
Registrant

May 10, 2018
Date: May 10, 2018

By: /s/ Thomas M. McGeehan
Thomas M. McGeehan
Chief Financial Officer
(Authorized Signatory and Principal Financial and Accounting Officer)

54