JRG REINSURANCE COMPANY LTD.

FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

JRG REINSURANCE COMPANY LTD.

Financial Statements

Years Ended December 31, 2018 and 2017

Contents

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Report of Independent Auditors

The Board of Directors
JRG Reinsurance Company Ltd.

We have audited the accompanying financial statements of JRG Reinsurance Company Ltd., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income and comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JRG Reinsurance Company Ltd. at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States ("US GAAP") require that the incurred losses and loss adjustment expenses, net of reinsurance and cumulative paid losses and loss adjustment expenses, net of reinsurance, for the year ended 2017 and prior, and the average annual percentage payouts of incurred claims by age, net of reinsurance which are on pages 21 through 24 be presented to supplement the consolidated financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young Ltd.

April 15, 2019

JRG Reinsurance Company Ltd.

Balance Sheets

	December 31,	
	2018	**2017**
	(in thousands)	
Assets		
Invested assets:		
Fixed maturity securities:		
Available-for-sale, at fair value (amortized cost: 2018 − $813,799; 2017 − $868,287)	$ 798,377	$ 870,652
Equity securities, at fair value (cost: 2018: $1,911; 2017 - $nil)	1,867	-
Bank loan participations held-for-investment, at amortized cost, net of allowance	166,063	150,135
Short-term investments	12,141	32,576
Total invested assets	978,448	1,053,363
Cash and cash equivalents	37,016	63,686
Accrued investment income	5,729	5,589
Premiums receivable, net	118,422	191,035
Premiums receivable from affiliates	24,576	33,889
Reinsurance recoverable on unpaid losses	4,735	8,608
Deferred policy acquisition costs	40,434	82,757
Due from JRG Holdings	18,586	18,597
Other assets	64	626
Total assets	$ 1,228,010	$ 1,458,150

See accompanying notes.

JRG Reinsurance Company Ltd.

Balance Sheets (continued)

	December 31, 2018	December 31, 2017
	(in thousands, except share amounts)	
Liabilities and shareholder's equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 692,363	$ 741,017
Unearned premiums	139,328	287,315
Payables to reinsurers	201	15
Payables to affiliate insurance companies	39,829	14,407
Payables to insurance companies	1,873	3,900
Accrued expenses	1,689	1,751
Total liabilities	875,283	1,048,405
Commitments and contingent liabilities	-	-
Shareholder's equity:		
Common Shares – 2018 and 2017: $1.00 par value; 120,000 shares authorized, issued and outstanding	120	120
Additional paid-in capital	259,880	259,880
Retained earnings	108,149	147,380
Accumulated other comprehensive (loss) income	(15,422)	2,365
Total shareholder's equity	352,727	409,745
Total liabilities and shareholder's equity	$ 1,228,010	$ 1,458,150

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Income and Comprehensive Income

	Year Ended December 31, 2018	2017
	(in thousands)	
Revenues:		
Assumed written premiums	$ 188,359	$ 605,740
Ceded written premiums	(154)	423
Net written premiums	188,205	606,163
Change in net unearned premiums	147,987	(25,752)
Net earned premiums	336,192	580,411
Net investment income	36,281	31,507
Net realized investment losses	(3,099)	(234)
Total revenues	369,374	611,684
Expenses:		
Losses and loss adjustment expenses	221,094	411,490
Other underwriting and operating expenses	98,511	180,071
Total expenses	319,605	591,561
Net income	$ 49,769	$ 20,123
Other comprehensive (loss) income:		
Net unrealized (losses) gains	(17,787)	4,183
Total comprehensive income	$ 31,982	$ 24,306

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Changes in Shareholder's Equity
(in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balances at December 31, 2016	$ 120	$ 259,880	$ 162,257	$ (1,818)	$ 420,439
Net income	–	–	20,123	–	20,123
Other comprehensive income	–	–	–	4,183	4,183
Dividends	–	–	(35,000)	–	(35,000)
Balances at December 31, 2017	$ 120	$ 259,880	$ 147,380	$ 2,365	$ 409,745
Net income	–	–	49,769	–	49,769
Other comprehensive loss	–	–	–	(17,787)	(17,787)
Dividends	–	–	(89,000)	–	(89,000)
Balances at December 31, 2018	$ 120	$ 259,880	$ 108,149	$ (15,422)	$ 352,727

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
	(in thousands)	
Operating activities		
Net income	$ 49,769	$ 20,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred policy acquisition costs	(51,069)	(180,741)
Amortization of policy acquisition costs	93,392	172,856
Net realized investment losses	3,099	234
Depreciation and amortization	1,368	(82)
Change in operating assets and liabilities:		
Reserve for losses and loss adjustment expenses	(48,654)	170,418
Unearned premiums	(147,987)	25,752
Premiums receivable (1)	75,517	(31,546)
Reinsurance balances	4,145	839
Payable to insurance companies (1)	93,094	4,738
Other (1)	(71)	(2,110)
Net cash provided by operating activities	72,603	180,481
Investing activities		
Fixed maturity securities, available-for-sale:		
Purchases	(340,781)	(235,099)
Sales	9,102	42,485
Maturities and calls	318,479	104,687
Bank loan participations:		
Purchases	(130,214)	(151,881)
Sales	78,258	85,119
Maturities	36,337	42,778
Equity securities, gross	(1,911)	-
Securities receivable or payable, net	27	(164)
Short-term investments, net	20,430	(8,969)
Other	-	(30)
Net cash provided by (used in) investing activities	(10,273)	(121,074)
Financing activities		
Dividends paid	(89,000)	(35,000)
Net cash used in financing activities	(89,000)	(35,000)
Change in cash and cash equivalents	(26,670)	24,407
Cash and cash equivalents at beginning of year	63,686	39,279
Cash and cash equivalents at end of year	$ 37,016	$ 63,686
Supplemental information		
Income taxes paid, net of refunds	$ –	$ –
Interest paid	$ –	$ –

(1) For the year ended December 31, 2018, the Company settled premiums receivable ($6.4 million) and payable to insurance companies ($70.0 million) through transfer of fixed maturity securities ($63.0 million) and accrued investment income ($262,000).

See accompanying notes.

JRG Reinsurance Company Ltd.

Notes to Financial Statements
December 2018 and 2017

1. Organization

JRG Reinsurance Company Ltd. ("JRG Re" or the "Company") is a wholly owned subsidiary of James River Group Holdings, Ltd. ("JRG Holdings"), a holding company registered in Bermuda. JRG Re was formed in 2007 and began operations in 2008. JRG Re primarily provides non-catastrophe casualty reinsurance to U.S. third parties and through December 31, 2017 to JRG Holdings' U.S.-based insurance subsidiaries, and commencing during 2018 to Carolina Re Ltd ("Carolina Re"), a Bermuda-based affiliate.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which vary in some respects from statutory accounting practices ("SAP") which are prescribed or permitted by the insurance regulator in Bermuda, the Bermuda Monetary Authority ("BMA").

To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

Estimates and Assumptions

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Those estimates are inherently subject to change, and actual results may ultimately differ from those estimates.

Fixed Maturity and Equity Securities

Fixed maturity securities classified as "available-for-sale" are carried at fair value, and unrealized gains and losses on such securities are reported as a separate component of accumulated other comprehensive income. The Company does not have any securities classified as "held-to-maturity" or "trading".

Fair value generally represents quoted market value prices for securities traded in the public marketplace or prices analytically determined using bid or closing prices for securities not traded in the public marketplace.

Premiums and discounts on mortgage-backed securities and asset-backed securities are amortized or accrued using the constant yield method which considers anticipated prepayments at the date of purchase. To the extent that the estimated lives of such securities change as a result of changes in estimated prepayment rates, the adjustments are included in net investment income using the retrospective method.

Realized investment gains or losses are determined on a specific identification basis. Interest income is recognized as earned, and dividend income is recognized on the ex-dividend date.

The Company evaluates its available-for-sale fixed maturity investments regularly to determine whether there are declines in value that are other-than-temporary. The Company's outside investment managers assist the Company in this evaluation. When the Company determines that a security has experienced an other-than-temporary impairment, the impairment loss is recognized as a realized investment loss. The factors that the Company considers in evaluating whether such an other-than-temporary impairment has occurred include the amount and percentage that fair value is below amortized cost and the length of time that fair value has been below amortized cost. In addition, the Company considers the credit quality rating of the security, with a special emphasis on securities downgraded below investment grade. Management does not intend to sell available-for-sale fixed maturity securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in fair value to their amortized cost basis occurs.

2. Summary of Significant Accounting Policies (continued)

Effective January 1, 2018, with the adoption of ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net realized gains or losses. Prior to the adoption of ASU 2016-01, changes in the fair value of equity securities were recognized as a component of accumulated other comprehensive income.

Bank Loan Participations Held-for-Investment and Allowance for Credit Losses

Bank loan participations held-for-investment are managed by a specialized outside investment manager and are generally stated at their outstanding unpaid principal balances net of unamortized premiums or discounts and net of any allowance for credit losses. Interest income is accrued on the unpaid principal balance. Discounts and premiums are amortized to income using the interest method.

Generally, the accrual of interest on a bank loan participation is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest. A bank loan participation may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Interest received on nonaccrual loans generally is reported as investment income. There were no bank loans on nonaccrual status at December 31, 2018 or 2017.

Generally, bank loan participations are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The allowance for credit losses is maintained at a level believed adequate by management to absorb estimated probable credit losses. Management's periodic evaluation of the adequacy of the allowance is based on consultations and advice of the Company's specialized investment manager, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions, and other relevant factors. When an observable market price for a loan is available, the Company has recorded an allowance equal to the difference between the fair value and the amortized cost of bank loans that it has determined to be impaired as a practical expedient for an estimate of probable future cash flows to be collected on those bank loans. If an observable market price for a loan is not available, the Company records an allowance equal to the difference between the present value of expected future cash flows discounted at the loan's effective interest rate and the amortized cost of the loan. Bank loans are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Short-term Investments

Short-term investments are carried at cost, which approximates fair value. Short-term investments have maturities greater than three months but less than one year at the date of purchase.

Cash Equivalents

The Company considers highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents.

Assumed Reinsurance Premiums

Assumed reinsurance written premiums include amounts reported by brokers and ceding companies, supplemented by the Company's own estimates of premiums when reports have not been received. Premiums on the Company's

2. Summary of Significant Accounting Policies (continued)

excess of loss and pro rata reinsurance contracts are estimated when the business is underwritten. For excess of loss contracts, the deposit premium, as defined in the contract, is generally recorded as an estimate of premiums written at the inception date of the treaty. Estimates of premiums written under pro rata contracts are recorded in the period in which the underlying risks are expected to begin and are based on information provided by the brokers and the ceding companies.

Reinsurance premium estimates are reviewed by management periodically. Any adjustment to these estimates is recorded in the period in which it becomes known.

Reinsurance premiums assumed are earned over the terms of the underlying policies or reinsurance contracts. Contracts and policies written on a "losses occurring" basis cover claims that may occur during the term of the contract or policy, which is typically 12 months. Accordingly, the premium is earned evenly over the term. Contracts which are written on a "risks attaching" basis cover claims which attach to the underlying insurance policies written during the terms of such contracts. Premiums earned on such contracts usually extend beyond the original term of the reinsurance contract, typically resulting in recognition of premiums earned over a 24-month period in proportion to the level of underlying exposure. Contracts are accounted for on an individual basis, with no aggregation by counterparty.

Premiums Receivable, Net

Premiums receivable are carried at face value net of any allowance for doubtful accounts. The allowance for doubtful accounts represents an estimate of amounts considered uncollectible based on the Company's assessment of the collectability of receivables that are past due. The allowance for doubtful accounts was $0 at December 31, 2018 and 2017. Bad debt expense was $0 for the years ended December 31, 2018 and 2017, and no receivables were written off against the allowance for doubtful accounts in 2018 or 2017. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Deferred Policy Acquisition Costs

Costs which are incrementally or directly related to the successful acquisition of new or renewal insurance business are deferred. These deferred costs are primarily commissions to agents, ceding commissions paid on reinsurance assumed and premium taxes, net of ceding commissions related to reinsurance ceded. Amortization of such policy acquisition costs is charged to expense in proportion to premium earned over the estimated policy life. To the extent that unearned premiums on existing policies are not adequate to cover projected related costs and expenses, deferred policy acquisition costs are charged to earnings. The Company considers anticipated investment income in determining whether a premium deficiency exists.

Reinsurance and Adjustable Features of Reinsurance Contracts

Certain premiums and losses are ceded to other insurance companies or assumed from other insurance companies under various excess of loss and quota-share reinsurance contracts. The Company enters into ceded reinsurance contracts to limit its exposure to large losses and to provide additional capacity for growth.

Premiums, commissions, and losses and loss adjustment expenses on reinsured business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance recoverables and prepaid reinsurance premiums are reported as assets. Other amounts payable to insurance companies and reinsurers or receivable from insurance companies and reinsurers are netted where the right of offset exists. The Company receives ceding commissions in connection with certain ceded reinsurance. The ceding commissions are recorded as a reduction of other underwriting and operating expenses.

2. Summary of Significant Accounting Policies (continued)

Certain of the Company's reinsurance contracts include provisions that adjust premiums or acquisition expenses based upon the experience under the contracts. Premiums written and earned, as well as related acquisition expenses are recorded based upon the projected experience under the contracts.

Property and Equipment, Net

Property and equipment, which is included in "other assets" in the accompanying balance sheets, is reported at cost less accumulated depreciation and is depreciated principally on a straight-line basis over the estimated useful lives of the depreciable assets, generally three to ten years.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents the estimated ultimate cost of all reported and unreported losses and loss adjustment expenses incurred and unpaid at the balance sheet date. The Company does not discount this reserve. The process of estimating the reserve for losses and loss adjustment expenses requires a high degree of judgment and is subject to a number of variables. The reserve for losses and loss adjustment expenses is estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency.

The Company utilizes various actuarially-accepted reserving methodologies in determining the continuum of expected outcomes for its reserves. These methodologies utilize various inputs, including management's initial expected loss ratio (the ratio of losses and loss adjustment expenses incurred to net earned premiums), expected reporting patterns and payment patterns for losses and loss adjustment expenses (based on insurance industry data and the Company's own experience), and the Company's actual paid and reported losses and loss adjustment expenses. An internal actuary reviews these results and (after applying appropriate professional judgment and other actuarial techniques that are considered necessary) presents recommendations to the Company's management. Management uses this information and its judgment to make decisions on the final recorded reserve for losses and loss adjustment expenses. Management believes that the use of judgment is necessary to arrive at a best estimate for the reserve for losses and loss adjustment expenses given the long-tailed nature of the business generally written by the Company and the limited operating experience of the Company.

Although management believes that the reserve for losses and loss adjustment expenses is reasonable, it is possible that the Company's actual incurred losses and loss adjustment expenses will not develop in a manner consistent with the assumptions inherent in the determination of these reserves. Specifically, the Company's actual ultimate loss ratio could differ from management's initial expected loss ratio and/or the Company's actual reporting patterns for losses could differ from the expected reporting patterns. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimates included in the Company's financial statements. These estimates are reviewed continually by management and are adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Adopted Accounting Standards

Effective January 1, 2018, the Company adopted ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Among other things, this ASU requires equity investments (except 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 changes in fair value recognized in net income. The Company had no equity securities as of January 1, 2018 hence the adoption of ASU 2016-01 had no impact in the Company's financial position, cash flows, or total comprehensive income at that time. The Company's results of operations were impacted as changes in fair value of equity instruments acquired during 2018 are now presented in net income rather than other comprehensive (loss) income. For the year ended December 31, 2018, the respective impact on net income was a reduction of $44,000.

2. Summary of Significant Accounting Policies (continued)

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance applies to all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards, such as insurance contracts. Under this guidance, a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Judgments required in adopting this update included identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The adoption of ASU 2014-09 had no impact on net income and there was no cumulative effect of initially applying the update.

Prospective Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under current guidance for lessees, leases are only included on the balance sheet if they are designated as capital leases. This update will require the recognition of a right-of-use asset and a corresponding lease liability, discounted to the present value, for all leases that extend beyond 12 months. This ASU is effective for annual and interim reporting periods beginning after December 15, 2018. In the third quarter of 2018, the FASB issued ASU 2018-10 to clarify certain aspects of the guidance and ASU 2018-11, which provides an optional alternative transition method to initially apply the new leases standard at the adoption date (collectively, with ASU 2016-02, Topic 842). Topic 842 now allows for the use of either the modified retrospective adoption method or the alternative transition method. The Company has completed its evaluation and will adopt the new standard on January 1, 2019 using a modified retrospective transition method, applying the transition provisions at the beginning of the period of adoption. The Company will elect the package of practical expedients permitted under the transition guidance within the new standard and will not elect to use hindsight in determining the lease term. The new standard will not be applied to leases with an initial term of 12 months or less. The lease will be classified as an operating lease under the new standard. The Company will record right-of-use assets and lease liabilities of $497,000 at adoption of the new standard. The new standard will not materially impact the Company's results of operations or cash flows and will not impact compliance under the covenants of our current credit agreements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Current GAAP delays the recognition of credit losses until it is probable a loss has been incurred. The update will require financial assets measured at amortized cost, such as bank loan participations held for investment, to be presented at the net amount expected to be collected by means of an allowance for credit losses that runs through net income. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses, with the amount of the allowance limited to the amount by which fair value is below amortized cost. This ASU is effective for annual and interim reporting periods beginning after December 15, 2019. Upon adoption, this ASU will be applied using the modified-retrospective approach, by which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period presented. The Company has not yet completed the analysis of how adopting this ASU will affect the Company's financial statements.

3. Investments

The Company's available-for-sale investments in fixed maturity securities are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
December 31, 2018				
Fixed maturity securities:				
State and municipal	$ 84,372	$ 490	$ (993)	$ 83,869
Residential mortgage-backed	139,839	366	(4,237)	135,968
Corporate	377,709	825	(8,944)	369,590
Commercial mortgage and asset-backed	152,051	124	(2,471)	149,704
U.S. Treasury securities and obligations guaranteed by the U.S. government	59,828	43	(625)	59,246
Total fixed maturity securities	$ 813,799	$ 1,848	$ (17,270)	$ 798,377
December 31, 2017				
Fixed maturity securities:				
State and municipal	$ 86,230	$ 1,294	$ (415)	$ 87,109
Residential mortgage-backed	145,021	610	(2,249)	143,382
Corporate	371,951	6,236	(2,543)	375,644
Commercial mortgage and asset-backed	170,349	626	(631)	170,344
Obligations of U.S. government corporations and agencies	33,804	-	(100)	33,704
U.S. Treasury securities and obligations guaranteed by the U.S. government	60,932	-	(463)	60,469
Total fixed maturity securities	$ 868,287	$ 8,766	$ (6,401)	$ 870,652

3. Investments (continued)

The amortized cost and fair value of available-for-sale investments in fixed maturity securities at December 31, 2018 are summarized, by contractual maturity, as follows:

	Amortized Cost	Fair Value
	(in thousands)	
One year or less	$ 41,445	$ 41,263
After one year through five years	250,584	247,614
After five years through ten years	155,997	151,730
After ten years	73,883	72,098
Residential mortgage-backed	139,839	135,968
Commercial mortgage and asset-backed	152,051	149,704
Total	$ 813,799	$ 798,377

Actual maturities may differ for some securities because borrowers have the right to call or prepay obligations with or without penalties.

The following table shows the Company's gross unrealized losses and fair value for available-for-sale securities aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position:

3. Investments (continued)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(in thousands)			
December 31, 2018						
Fixed maturity securities:						
State and municipal	$ 15,724	$ (234)	$ 38,820	$ (759)	$ 54,544	$ (993)
Residential mortgage-backed	31,225	(391)	86,270	(3,846)	117,495	(4,237)
Corporate	195,689	(4,661)	121,579	(4,283)	317,268	(8,944)
Commercial mortgage and asset-backed	80,425	(1,028)	48,129	(1,443)	128,554	(2,471)
U.S. Treasury securities and obligations guaranteed by the U.S. government	6,832	(32)	41,573	(593)	48,405	(625)
Total fixed maturity securities	$ 329,895	$ (6,346)	$336,371	$ (10,924)	$ 666,266	$ (17,270)
December 31, 2017						
Fixed maturity securities:						
State and municipal	$ 37,946	$ (293)	$ 3,694	$ (122)	$ 41,640	$ (415)
Residential mortgage-backed	45,971	(239)	75,531	(2,010)	121,502	(2,249)
Corporate	110,234	(806)	64,245	(1,737)	174,479	(2,543)
Commercial mortgage and asset-backed	49,113	(223)	23,588	(408)	72,701	(631)
Obligations of U.S. government corporations and agencies	1,800	-	31,904	(100)	33,704	(100)
U.S. Treasury securities and obligations guaranteed by the U.S. government	41,622	(374)	18,050	(89)	59,672	(463)
Total fixed maturity securities	$ 286,686	$ (1,935)	$ 217,012	$ (4,466)	$ 503,698	$ (6,401)

The Company held securities of 181 issuers that were in an unrealized loss position at December 31, 2018 with a total fair value of $666.3 million and gross unrealized losses of $17.3 million. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment.

At December 31, 2018, 100% of the Company's fixed maturity security portfolio was rated "BBB-" or better ("investment grade") by Standard & Poor's or received an equivalent rating from another nationally recognized rating agency.

3. Investments (continued)

Management concluded that none of the securities in its fixed maturity portfolio with an unrealized loss at December 31, 2018 and 2017 experienced an other-than-temporary impairment. Management does not intend to sell available-for-sale securities in an unrealized loss position, and it is not “more likely than not” that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs.

Bank loan participations generally have a credit rating that is below investment grade (i.e. below “BBB-” for Standard & Poor’s) at the date of purchase. These bank loans are primarily senior, secured floating-rate debt rated “BB”, “B”, or “CCC” by Standard & Poor’s or an equivalent rating from another nationally recognized rating agency. These bank loans include assignments of, and participations in, performing and non-performing senior corporate debt generally acquired through primary bank syndications and in secondary markets. Bank loans consist of, but are not limited to, term loans, the funded and unfunded portions of revolving credit loans, and other similar loans and investments. Management believed that it was probable at the time that these loans were acquired that the Company would be able to collect all contractually required payments receivable.

Management concluded that none of the loans in the Company's bank loan portfolio were impaired as of December 31, 2018. At December 31, 2017, management concluded that three of four loans to oil and gas companies were impaired due to declining energy prices, and accordingly, an allowance for credit losses of $1.4 million was established on the loans. After recording this impairment, the loans had a carrying value of $2.7 million at December 31, 2017 and unpaid principal of $4.1 million. Management also concluded that one non-energy sector loan was impaired at December 31, 2017. The impaired loan had a carrying value of $331,000, unpaid principal of $416,000 and an allowance for credit losses of $86,000.

The average recorded investment in impaired bank loans was $1.5 million and $4.0 million during the years ended December 31, 2018 and 2017, respectively, on which investment income of $102,000 and $295,000, respectively, was recognized during the time that the loans were impaired. The Company recorded realized losses of $535,000 and $2.8 million during the years ended December 31, 2018 and 2017, respectively, for changes in the fair value of impaired bank loans.

At December 31, 2018, unamortized discounts on bank loan participations were $1.2 million, and unamortized premiums on bank loan participations were $11,000. At December 31, 2017, unamortized discounts on bank loan participations were $1.7 million, and unamortized premiums on bank loan participations were $2,000.

3. Investments (continued)

Major categories of the Company's net investment income are summarized as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
	(in thousands)	
Fixed maturity securities	$ 25,214	$ 21,774
Bank loan participations	11,510	10,865
Cash, cash equivalents, short-term investments, and other	2,192	1,445
Gross investment income	38,916	34,084
Investment expense	(2,635)	(2,577)
Net investment income	$ 36,281	$ 31,507

The Company's realized gains and losses on investments are summarized as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
	(in thousands)	
Fixed maturity securities:		
Gross realized gains	$ 259	$ 448
Gross realized losses	(3,510)	(331)
	(3,251)	117
Equity securities:		
Gross realized gains	–	–
Gross realized losses	(44)	–
	(44)	–
Bank loan participations:		
Gross realized gains	923	1,347
Gross realized losses	(721)	(1,695)
	202	(348)
Short-term investments and other:		
Gross realized gains	–	–
Gross realized losses	(6)	(3)
	(6)	(3)
Total	$ (3,099)	$ (234)

At December 31, 2018 and 2017, the Company held an investment in a collateralized loan obligation ("CLO") where one of the underlying loans was issued by a bank holding company that is affiliated with JRG Holdings (the Chairman of JRG Holdings was previously the Lead Independent Director of the bank holding company and an investor in the bank holding company and one of JRG Holdings' directors is a former investor in the bank holding company and is currently a lender to the bank holding company). The investment, with a carrying value of $4.2 million at December 31, 2018 ($4.7 million at December 31, 2017), is classified as an available-for-sale fixed maturity.

The Company maintains fixed maturity securities, short-term investments, cash and cash equivalents and accrued investment income amounting to $471.4 million at December 31, 2018 ($472.0 million at December 31, 2017) in trust accounts or on deposit as collateral for outstanding letters of credit issued as security to third-party reinsureds on

3. Investments (continued)

reinsurance assumed. The Company also maintains fixed maturity securities, bank loan participations, short-term investments, cash and cash equivalents and accrued investment income amounting to $453.8 million at December 31, 2018 ($559.3 million at December 31, 2017) in trust accounts as security to the Company's U.S. insurance affiliates on reinsurance assumed under intercompany quota-share reinsurance contracts.

At December 31, 2018 and 2017, the Company held no sub-prime mortgages or alternative-A mortgages.

4. Deferred Policy Acquisition Costs

An analysis of deferred policy acquisition costs is as follows:

	Year Ended December 31,	
	2018	**2017**
	(in thousands)	
Balance at beginning of period	$ 82,757	$ 74,872
Policy acquisition costs deferred:		
Commissions, brokerage and federal excise taxes	51,069	180,741
	51,069	180,741
Amortization of policy acquisition costs	(93,392)	(172,856)
Net change	(42,322)	7,885
Balance at end of period	$ 40,434	$ 82,757

5. Reserve for Losses and Loss Adjustment Expenses

In establishing the reserve for losses and loss adjustment expenses, the "internal actuaries" (the Company's internal actuaries and/or affiliated actuaries) estimate an initial expected ultimate loss ratio for each of the product lines by accident year (or for the Third Party Reinsurance, on a contract by contract basis). Input from the underwriting and claims departments, including premium pricing assumptions and historical experience, are considered in estimating the initial expected loss ratios. The internal actuaries generally utilize five actuarial methods in their estimation process for the reserve for losses and loss adjustment expenses. These five methods utilize, to varying degrees, the initial expected loss ratio, detailed statistical analysis of past claims reporting and payment patterns, claims frequency and severity, paid loss experience, industry loss experience, and changes in market conditions, policy forms, exclusions, and exposures.

In applying these methods to develop an estimate of the reserve for losses and loss adjustment expenses, the internal actuaries use judgment to determine three key parameters for each accident year and line of business: the initial expected loss ratios, the incurred and paid loss development factors and the weighting of the five actuarial methods to be used for each accident year and line of business. For the Affiliated Excess and Surplus Lines and Affiliated Specialty Admitted Lines, the internal actuary performs a study on each of these parameters annually in the third quarter and makes recommendations for the initial expected loss ratios, the incurred and paid loss development factors and the weighting of the five actuarial methods by accident year and line of business. Members of management's Reserve Committee review and approve the parameter review actuarial recommendations, and these approved parameters are used in the reserve estimation process for the next four quarters at which time a new parameter study is performed. For the Third Party Reinsurance, periodic assessments are made on a contract by contract basis with the goal of keeping the initial expected loss ratios and the incurred and paid loss development factors as constant as possible until sufficient evidence presents itself to support adjustments. Method weights are generally less rigid for the Third Party Reinsurance given the heterogeneous nature of the various contracts, and the potential for significant changes in mix of business within individual treaties.

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Different reserving methods are appropriate in different situations, and internal actuaries use their judgment and experience to determine the weighting of the methods to use for each accident year and each line of business and, for the Third Party Reinsurance, on a contract by contract basis. For example, the current accident year has very little incurred and paid loss development data on which to base reserve projections. As a result, the Company relies heavily on the initial expected loss ratio in estimating reserves for the current accident year. The Company generally sets the initial expected loss ratio for the current accident year consistent with the internal actuaries' pricing assumptions. The management believes that this is a reasonable and appropriate reserving assumption for the current accident year since the Company's pricing assumptions are actuarially driven and since the Company expects to make an acceptable return on the new business written. If actual loss emergence is better than the initial expected loss ratio assumptions, the Company will experience favorable development and if it is worse than the initial expected loss ratio assumptions, the Company will experience adverse development. Conversely, sufficient incurred and paid loss development is available for the oldest accident years, so more weight is given to this development data and less weight is given to the initial expected loss ratio.

Historically, the Company's reserve selections for the Affiliated Excess and Surplus Lines gave more weight to industry indications due to the Company's limited operating history. When reviewing the Affiliated Excess and Surplus Lines' reserve parameters in 2013, the internal actuaries' felt that there was enough Company history to give more weight to the Company's own experience. Accordingly, the initial expected loss ratios, the paid loss development factors and the incurred loss development factors were adjusted to more closely resemble the Company's own internal indications. Method weights were also changed as management, in consultation with the Company's actuaries, deemed appropriate. These changes had the cumulative effect of reducing the Company's then best estimate for the reserve for losses and loss adjustment expenses.

For the Affiliated Stop Loss Reinsurance between Carolina Re and JRG Re, a simulation model is used to determine the initial expected loss and LAE ratio at the inception of the contract. After 15 months from the inception of the treaty and in each successive year following, the latest ultimate loss ratios for the business covered by the stop loss are updated and the simulation model is re-run to determine the appropriate reserves for the contract.

5. Reserve for Losses and Loss Adjustment Expenses (continued)

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses, net of reinsurance, to the gross amounts reported in the balance sheets:

	Year Ended December 31,	
	2018	2017
	(in thousands)	
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period	$ 732,409	$ 561,244
Add: Incurred losses and loss adjustment expenses net of reinsurance:		
Current year	202,544	386,923
Prior years	18,550	24,567
Total incurred losses and loss and adjustment expenses	221,094	411,490
Deduct: Loss and loss adjustment expense payments net of reinsurance:		
Current year	34,378	73,465
Prior years	231,497	166,860
Total loss and loss adjustment expense payments	265,875	240,325
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at end of period	687,628	732,409
Add: Reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	4,735	8,608
Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	$ 692,363	$ 741,017

The foregoing reconciliation shows that $18.6 million of unfavorable development was experienced in 2018 on the reserve for losses and loss adjustment expenses held at December 31, 2017. This unfavorable reserve development included $10.3 million of adverse development on assumed business from affiliated U.S. insurance companies, which primarily related to the 2016 contract year with one insured and $8.3 million of adverse development on assumed business from third parties, primarily due to several treaties from 2012 and 2013 underwriting years that had higher than expected reported losses in 2018.

The foregoing reconciliation shows that $24.6 million of unfavorable development was experienced in 2017 on the reserve for losses and loss adjustment expenses held at December 31, 2016. This unfavorable reserve development included $20.4 million of adverse development on assumed business from affiliated U.S. insurance companies, which primarily related to the 2016 contract year with one insured and $4.2 million of adverse development on assumed business from third parties, primarily due to two contracts from 2010 and 2013 underwriting years that had higher than expected reported losses in 2017.

The following tables present incurred and paid losses and loss adjustment expenses, net of reinsurance as of December 31, 2018 for: (1) the Affiliated Excess and Surplus Lines, (2) the Affiliated Specialty Admitted Lines, (3) Stop Loss Reinsurance and (4) the Third Party Reinsurance. The information provided herein about incurred and paid accident year claims development for the years ended December 31, 2016 and prior is presented as unaudited supplementary information.

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Affiliated Excess and Surplus Lines

Incurred losses and loss adjustment expenses, net of reinsurance (in thousands)

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 75,553	$ 72,882	$ 70,286	$ 65,329	$ 57,825	$ 54,755	$ 56,115	$ 56,432	$ 57,620	$ 57,864
2010		51,228	52,776	51,289	48,496	46,059	45,523	47,158	47,671	47,963
2011			73,862	80,108	76,730	72,235	72,449	72,250	72,770	72,869
2012				63,790	64,639	65,508	65,261	66,191	68,032	69,348
2013					61,622	61,305	57,390	52,691	54,553	55,390
2014						86,384	75,873	68,818	65,830	68,369
2015							98,359	89,393	88,620	88,031
2016								128,092	148,053	162,094
2017									220,773	214,630
2018										51,485
Total										$ 888,043

Cumulative paid losses and loss adjustment expenses, net of reinsurance (in thousands)

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 20,445	$ 28,190	$ 34,889	$ 41,513	$ 45,324	$ 47,987	$ 51,302	$ 53,293	$ 55,002	$ 55,722
2010		9,218	17,680	23,923	30,543	34,966	37,222	41,220	43,226	43,931
2011			19,001	36,305	49,655	55,978	62,254	65,010	67,547	68,428
2012				4,437	22,600	34,261	43,525	51,453	56,743	61,068
2013					910	8,640	21,519	28,790	39,273	44,003
2014						4,963	15,272	25,469	38,790	51,031
2015							5,099	17,708	35,260	54,332
2016								9,047	44,332	83,890
2017									20,674	73,932
2018										1,730
Total										$ 538,067
All outstanding losses and loss adjustment expenses prior to 2009, net of reinsurance										$ 2,767
Total outstanding losses and loss adjustment expenses, net of reinsurance										$ 352,743

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Affiliated Specialty Admitted Lines

Incurred losses and loss adjustment expenses, net of reinsurance (in thousands)

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 19,511	$ 19,533	$ 18,844	$ 19,311	$ 19,108	$ 18,065	$ 18,069	$ 18,133	$ 18,119	$ 17,672
2010		18,197	19,333	20,585	20,537	19,642	19,628	18,718	18,432	18,423
2011			25,464	27,993	27,136	26,436	25,983	25,406	24,839	24,821
2012				21,735	21,780	21,197	19,999	19,023	19,015	19,036
2013					8,482	9,238	8,584	7,775	7,351	7,366
2014						13,448	13,422	12,216	11,509	10,675
2015							19,163	21,314	19,936	18,930
2016								22,688	24,880	23,739
2017									31,522	31,936
2018										11,305
Total										$ 183,903

Cumulative paid losses and loss adjustment expenses, net of reinsurance (in thousands)

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 4,573	$ 11,308	$ 14,323	$ 15,446	$ 16,574	$ 16,575	$ 16,700	$ 16,756	$ 17,647	$ 17,654
2010		4,445	10,737	14,636	16,100	17,029	17,220	17,833	17,842	17,850
2011			6,614	15,451	19,511	22,450	23,198	23,272	23,310	23,507
2012				5,926	13,306	16,440	17,661	18,049	18,111	18,139
2013					2,580	5,547	6,418	6,752	6,812	6,866
2014						3,099	7,796	9,336	9,788	9,973
2015							5,422	11,837	14,277	15,470
2016								3,920	10,007	13,657
2017									5,052	13,136
2018										1,745
Total										$ 137,997
All outstanding losses and loss adjustment expenses prior to 2009, net of reinsurance										$ 908
Total outstanding losses and loss adjustment expenses, net of reinsurance										$ 46,814

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Affiliated Stop Loss Reinsurance

The following tables present incurred and paid losses and loss adjustment expenses, net of reinsurance as of December 31, 2018 for 2018 accident year (in thousands):

Incurred losses and loss adjustment expenses, net of reinsurance	$ 18,224
Cumulative paid losses and loss adjustment expenses, net of reinsurance	-
Total outstanding losses and loss adjustment expenses, net of reinsurance	18,224

Third Party Reinsurance

Incurred losses and loss adjustment expenses, net of reinsurance (in thousands)

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$34,587	$ 28,244	$ 24,125	$ 26,458	$ 27,078	$ 27,116	$ 26,989	$ 26,931	$ 26,980	$ 27,168
2010		64,413	60,476	61,068	62,714	61,344	60,949	60,978	61,619	62,605
2011			114,908	103,123	97,366	97,812	98,993	99,282	101,276	103,196
2012				148,251	132,388	131,281	135,594	136,813	139,978	143,305
2013					133,230	130,361	131,352	134,446	137,801	143,124
2014						118,881	115,927	114,636	116,981	121,200
2015							119,157	108,870	108,699	109,117
2016								112,759	105,533	103,544
2017									134,628	128,472
2018										121,529
Total										$ 1,063,260

Cumulative paid losses and loss adjustment expenses, net of reinsurance (in thousands)

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 6,487	$ 9,926	$ 12,956	$ 16,466	$ 19,672	$ 21,646	$ 23,024	$ 23,796	$ 24,649	$ 25,209
2010		21,918	31,500	38,430	44,921	49,263	52,761	54,659	57,013	58,707
2011			48,688	61,922	68,616	78,164	87,267	90,287	94,627	97,716
2012				73,124	81,859	97,215	113,943	121,026	128,567	133,606
2013					59,756	75,094	93,902	108,396	119,256	127,733
2014						41,421	58,601	76,302	89,899	101,366
2015							40,021	53,986	68,002	80,208
2016								36,268	50,905	65,409
2017									47,739	72,891
2018										30,903
Total										$ 793,748
All outstanding losses and loss adjustment expenses prior to 2009, net of reinsurance										$ 335
Total outstanding losses and loss adjustment expenses, net of reinsurance										$ 269,847

5. Reserve for Losses and Loss Adjustment Expenses (continued)

The reconciliation of the net incurred and paid claims development tables to the reserve for losses and loss adjustment expenses in the balance sheet at December 31, 2018 is as follows (in thousands):

Affiliated Excess and Surplus Lines	$ 352,743
Affiliated Specialty Admitted Lines	46,814
Affiliated Stop Loss Reinsurance	18,224
Third Party Reinsurance	269,847
Net reserve for losses and loss adjustment expenses	687,628
Reinsurance recoverables on unpaid losses	4,735
Gross reserve for losses and loss adjustment expenses	$ 692,363

The following is unaudited supplementary information about average annual percentage payouts of incurred claims by age, net of reinsurance, for the Affiliated Excess and Surplus Lines, Affiliated Specialty Admitted Lines, Affiliated Stop Loss Reinsurance and Third Party Reinsurance as of December 31, 2018:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Affiliated Excess and Surplus	13.2%	17.8%	16.3%	16.2%	13.3%	7.2%	5.6%	3.4%	1.1%	2.3%
Affiliated Specialty Admitted	24.8%	30.7%	12.6%	5.3%	2.7%	1.1%	0.8%	0.2%	0.4%	0.0%
Affiliated Stop Loss Reinsurance	0.0%	0.0%	0.0%	0.0%	0.0%	36.8%	28.6%	17.3%	5.7%	11.6%
Third Party Reinsurance	27.5%	17.7%	12.5%	8.7%	6.1%	4.5%	3.4%	2.7%	2.2%	1.9%

The Third Party Reinsurance typically assumes written premium under quota share arrangements. The Company typically does not have direct access to claim frequency information underlying its assumed quota share arrangements given the nature of that business. In addition, multiple claims are often aggregated by the ceding company before being reported to the Company. Third Party Reinsurance claim frequency information is not used in the determination of loss reserves or for other internal purposes. Based on these considerations, the Company does not believe providing claims frequency information is practicable as it relates to the Third Party Reinsurance.

The table below provides information on IBNR liabilities and/or claims frequency for: (1) the Affiliated Excess and Surplus Lines, (2) the Affiliated Specialty Admitted Lines, (3) Affiliated Stop Loss Reinsurance, and (4) Third Party Reinsurance. The Company measures claim counts by claim event, except for individual risk workers compensation claims, which are measured by individual claimant. The claim counts include all claims reported, even if the Company does not establish a liability for the claim (i.e. reserve for loss and loss adjustment expenses).

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Excess and Surplus Lines

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR	Cumulative # of Reported Claims
		($ in thousands)	
2009	$ 57,864	$ 1,399	1,655
2010	47,963	1,809	1,358
2011	72,869	2,467	1,445
2012	69,348	2,596	1,744
2013	55,390	6,450	2,345
2014	68,369	8,024	9,858
2015	88,031	14,033	44,150
2016	162,094	33,713	91,487
2017	214,630	66,014	134,808
2018	51,485	41,134	26,871

Specialty Admitted

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR	Cumulative # of Reported Claims
		($ in thousands)	
2009	$ 17,672	$ 15	912
2010	18,423	487	1,604
2011	24,821	1,204	1,814
2012	19,036	728	1,323
2013	7,366	401	562
2014	10,675	529	1,706
2015	18,930	2,342	2,330
2016	23,739	5,749	3,625
2017	31,936	11,218	7,659
2018	11,305	5,835	3,333

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Affiliated Stop Loss Reinsurance

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR
2018	$ 18,224	$ 18,224

Third Party Reinsurance

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR
2009	$ 27,168	$ 431
2010	62,605	937
2011	103,196	1,427
2012	143,305	2,397
2013	143,124	3,330
2014	121,200	5,450
2015	109,117	14,595
2016	103,544	26,675
2017	128,472	52,785
2018	121,529	55,052

The Company has not provided insurance coverage that could reasonably be expected to produce material levels of asbestos claims activity. In addition, management does not believe that the Company is exposed to any environmental liability claims other than those which it has specifically underwritten and priced as an environmental exposure.

6. Reinsurance

The Company remains liable to policyholders if its reinsurers are unable to meet their contractual obligations under applicable reinsurance agreements. To minimize exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk. The Company's ceded reinsurance contracts generally require reinsurers with financial strength ratings below specified levels to fund their share of the Company's ceded outstanding losses and loss adjustment expense reserves, typically through the use of irrevocable and unconditional letters of credit or trust accounts.

At December 31, 2018, the Company had reinsurance recoverables on unpaid losses of $4.7 million. All material reinsurance recoverable amounts are from companies with A.M. Best Company ratings of "A-" (Excellent) or better, or are collateralized by a trust agreement.

At December 31, 2018, reinsurance recoverables on unpaid losses from the Company's two largest reinsurers were $2.1 million and $2.0 million, representing 85.3% of the total balance. There were no prepaid reinsurance premiums at December 31, 2018.

Premiums earned and losses and loss adjustment expenses incurred are summarized as follows:

	Year Ended December 31, 2018	2017
	(in thousands)	
Earned premiums:		
Assumed	$ 336,346	$ 579,988
Ceded	(154)	423
Net	$ 336,192	$ 580,411
Losses and loss adjustment expenses:		
Assumed	$ 220,220	$ 413,758
Ceded	874	(2,268)
Net	$ 221,094	$ 411,490

7. Related Party Transactions

The Company entered into quota share reinsurance agreements with its affiliated U.S. insurance companies: James River Insurance Company, James River Casualty Company, Falls Lake National Insurance Company, Stonewood Insurance Company, Falls Lake General Insurance Company, and Falls Lake Fire and Casualty Company, under which 70% of the premiums written by the affiliated U.S. insurance companies are ceded to JRG Re. Effective January 1, 2018, all intercompany reinsurance agreements between the Company and its affiliated U.S. insurance companies were discontinued and the Company entered into a stop loss reinsurance agreement with Carolina Re, a Bermuda-domiciled, wholly owned subsidiary of James River Group, Inc. and a Class 3A reinsurer. Carolina Re will instead assume 70% of the written premium of the affiliated U.S. insurance companies. Total written premium ceded to JRG Re under the intercompany reinsurance agreements was \$52.5 million and \$370.4 million for the years ended December 31, 2018 and 2017, respectively. Amounts related to the intercompany reinsurance agreements are as follows:

	Year Ended December 31,	
	2018	**2017**
	(in thousands)	
Income Statement		
Assumed premiums written	$ 52,471	$ 370,385
Assumed premiums earned	131,623	370,934
Assumed losses and loss adjustment expenses	91,345	272,694
Assumed other underwriting expenses	27,479	103,916
Net loss effect of quota share reinsurance with affiliates	(12,799)	(5,676)
Balance Sheet		
Assumed premiums receivable	14,922	33,889
Assumed deferred policy acquisition costs	764	25,798
Assumed reserves for losses and loss adjustment expenses	417,781	479,157
Assumed unearned premiums	12,744	91,897
Assumed payables to affiliate insurance companies	39,829	14,407

In 2018, the Company provided funds withheld of \$9.7 million as collateral under the quota share reinsurance agreement with Falls Lake Fire and Casualty. At December 31, 2018, the accrued interest on funds withheld was \$0.1 million. The interest income from the funds withheld was \$0.1 million for the year ended December 31, 2018.

The Company paid dividends to JRG Holdings of \$89.0 million and \$35.0 million in December 2018 and 2017, respectively.

The Company had \$18.6 million and \$18.6 million receivable from JRG Holdings as at December 31, 2018 and 2017, respectively.

8. Income Taxes

Under current Bermuda law, JRG Re is not required to pay any Bermuda taxes on its income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

FASB ASC Topic 740, *Income Taxes*, defines how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements and requires entities to recognize a tax benefit from an uncertain tax position

8. Income Taxes (continued)

only if it is "more likely than not" that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. The Company has evaluated its tax positions taken to determine whether the tax positions are more likely than not to be sustained by the applicable tax authority. Based on this analysis, there were no tax positions deemed to meet a "more likely than not" threshold. Therefore, no tax expense, including any interest and penalties, was recorded for the periods covered by this report.

The U.S. imposes a 1% excise tax on reinsurance premiums paid to non-U.S. reinsurers with respect to risks located in the U.S. The rates of tax are established based on the nature of the risk, unless reduced by an applicable U.S. tax treaty. For the years ended December 31, 2018 and 2017, the Company paid $823,000 and $3.4 million, respectively, of federal excise taxes on its intercompany reinsurance transactions.

The Company also paid excise taxes of $2.1 million and $2.2 million for the years ended December 31, 2018 and 2017, respectively, on written premiums assumed from third-party insurers with respect to risks located in the U.S. These excise taxes are reflected as "other underwriting and operating expenses" in the Company's income statements.

9. Other Underwriting and Operating Expenses

Other underwriting and operating expenses consist of the following:

	Year Ended December 31,	
	2018	**2017**
	(in thousands)	
Amortization of policy acquisition costs	$ 93,392	$ 172,856
General and administration expenses	5,119	7,215
Total	$ 98,511	$180,071

10. Employee Benefits

JRG Holdings offers a savings plan (the "Savings Plan") which qualifies under Section 401(k) of the U.S. Internal Revenue Code. Participants may contribute certain percentages of their pre-tax salary to the Savings Plan subject to statutory limitations. The Company matches employee contributions at various rates up to a maximum contribution of 6.0% of the participant's earnings subject to certain statutory limits. For the years ended December 31, 2018 and 2017, the expense associated with the Savings Plan totaled $95,000 and $93,000, respectively.

11. Commitments and Contingent Liabilities

The Company is a party to various lawsuits arising in the ordinary course of its operations. The Company believes that the ultimate resolution of these matters will not materially impact its financial position, cash flows, or results of operations.

The Company leases certain office space under an operating lease that expires at June 30, 2021 and is subject to renewal option at market rates prevailing at the time of renewal. Rental expense for such lease was $293,000 and $264,000 for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, future minimum payments under non-cancelable operating leases are $323,000, $328,000 and $164,000 due in 2019, 2020 and 2021, respectively.

11. Commitments and Contingent Liabilities (continued)

The Company has entered into three letter of credit facilities with banks as security to third-party reinsureds on reinsurance assumed by the Company. The Company has established custodial accounts to secure these letters of credit. Under a $100.0 million facility, $52.6 million of letters of credit were issued through December 31, 2018 which were secured by deposits of $65.7 million. Under a $102.5 million facility, $75.5 million of letters of credit were issued through December 31, 2018 which were secured by deposits of 94.0 million. Under the $100.0 million facility described below, $7.6 million of letters of credit were issued through December 31, 2018 which were secured by deposits of $10.2 million. The Company also has established trust accounts to secure its obligations to selected reinsureds. The total amount deposited in the trust accounts for the benefit of third-party reinsureds was $301.5 million at December 31, 2018. Another $453.8 million was also in trust accounts at December 31, 2018 securing the Company's obligations under quota share reinsurance agreements with its affiliated U.S. insurance companies.

The Company and JRG Holdings are borrowers on a $112.5 million unsecured revolving credit facility. The facility was placed for the benefit of JRG Holdings to meet working capital needs. At December 31, 2018, a $73.3 million drawn and outstanding balance on the revolver was carried as debt at JRG Holdings. The credit facility contains certain financial and other covenants with which JRG Holdings and the Company are in compliance at December 31, 2018.

On August 2, 2017, the Company and JRG Holdings ("Borrowers") entered into a new credit agreement. The credit agreement provides the Borrowers with a revolving line of credit of up to $100.0 million, which may be used for loans and letters of credit made or issued, at Borrowers' option, on a secured or unsecured basis. The loans and letters of credit made or issued under the revolving line of credit may be used to finance the Borrowers' general corporate purposes. At December 31, 2018, a $30.0 million unsecured loan was carried as debt at JRG Holdings. The credit agreement contains certain financial and other covenants which the Company is in compliance with at December 31, 2018.

12. Other Comprehensive (Loss) Income

The following table summarizes the components of other comprehensive (loss) income:

	Year Ended December 31, 2018	2017
	(in thousands)	
Unrealized (losses) gains arising during the period	$ (21,038)	$ 4,300
Less: reclassification adjustment for net investment (losses) gains realized in net income	(3,251)	117
Other comprehensive (loss) income	$ (17,787)	$ 4,183

In addition to the $3.3 million of realized investment losses and $117,000 of realized investment gains on available-for-sale securities for the years ended December 31, 2018 and 2017, respectively, the Company recognized $202,000 of realized gains and $348,000 of realized loss in the respective years on its investments in bank loan participations.

13. Broker and Ceding Company Concentrations

The Company conducts business with two brokers that generated $54.0 million and $42.3 million of assumed written premiums for the Company for the year ended December 31, 2018, representing 39.8% and 31.1%, respectively, of the assumed written premiums from unaffiliated cedents. No other broker generated 10.0% or more of the assumed written premiums for the Company for the year ended December 31, 2018. The Company assumes business from three unaffiliated ceding companies that generated $83.4 million, $22.1 million and $20.8 million of assumed written premiums for the year ended December 31, 2018, representing 61.4%, 16.2% and 15.3%, respectively, of the assumed written premiums from unaffiliated cedents.

14. Fair Value Measurements

Three levels of inputs are used to measure fair value of financial instruments: (1) Level 1: quoted price (unadjusted) in active markets for identical assets, (2) Level 2: inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument, and (3) Level 3: inputs to the valuation methodology are unobservable for the asset or liability.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date.

To measure fair value, the Company obtains quoted market prices for its investment securities from its outside investment managers. If a quoted market price is not available, the Company uses prices of similar securities. Values for U.S. Treasury and publicly-traded equity securities are generally based on Level 1 inputs which use the market approach valuation technique. The values for all other fixed maturity securities (including state and municipal securities and obligations of U.S. government corporations and agencies) generally incorporate significant Level 2 inputs, and in some cases, Level 3 inputs, using the market approach and income approach valuation techniques. There have been no changes in the Company's use of valuation techniques since December 31, 2017.

The Company reviews fair value prices provided by its outside investment managers for reasonableness by comparing the fair values provided by the managers to those provided by our investment custodian. The Company also reviews and monitors changes in unrealized gains and losses. The Company has not historically adjusted security prices. The Company obtains an understanding of the methods, models and inputs used by the investment managers and independent pricing services, and controls are in place to validate that prices provided represent fair values. The Company's control process includes, but is not limited to, initial and ongoing evaluation of the methodologies used, a review of specific securities and an assessment for proper classification within the fair value hierarchy, and obtaining and reviewing internal control reports for our investment manager that obtains fair values from independent pricing services.

14. Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis as of December 31, 2018 are summarized below:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
		(in thousands)		
Available-for-sale securities				
Fixed maturity securities:				
State and municipal	$ –	$ 83,869	$ –	$ 83,869
Residential mortgage-backed	–	135,968	–	135,968
Corporate	–	369,590	–	369,590
Commercial mortgage and asset-backed	–	145,476	4,228	149,704
U.S. Treasury securities and obligations guaranteed by the U.S. government	59,246	–	–	59,246
Total available-for-sale securities	$ 59,246	$ 734,903	$ 4,228	$ 798,377
Equity securities - common	$ 1,734	$ –	$ 133	$ 1,867
Short-term investments	$ –	$ 12,141	$ –	$ 12,141

14. Fair Value Measurements (continued)

Fixed maturity securities measured at fair value on a recurring basis as of December 31, 2017 are summarized below:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
		(in thousands)		
Available-for-sale securities				
Fixed maturity securities:				
State and municipal	$ –	$ 87,109	$ –	$ 87,109
Residential mortgage-backed	–	143,382	–	143,382
Corporate	–	375,644	–	375,644
Commercial mortgage and asset-backed	–	165,664	4,680	170,344
Obligations of U.S. government corporations and agencies	–	33,704	–	33,704
U.S. Treasury securities and obligations guaranteed by the U.S. government	60,469	–	–	60,469
Total available-for-sale securities	$ 60,469	$ 805,503	$ 4,680	$ 870,652
Short-term investments	$ -	$ 32,576	$ –	$ 32,576

A reconciliation of the beginning and ending balances of available-for-sale fixed maturity securities and equity securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is shown below:

	Year Ended December 31,	
	2018	2017
	(in thousands)	
Beginning balance	$ 4,680	$ 5,000
Transfers out of Level 3	–	–
Transfers in to Level 3	–	–
Purchases	133	–
Sales	–	–
Maturities and calls	(452)	(320)
Amortization of discount	–	–
Total gains or losses (realized/unrealized):	–	–
Included in earnings	–	–
Included in other comprehensive income	–	–
Ending balance	$ 4,361	$ 4,680

14. Fair Value Measurements (continued)

The Company held one available-for-sale fixed maturity security at December 31, 2018 and 2017 for which the fair value was determined using significant unobservable inputs (Level 3). A market approach using prices in trades of comparable securities was utilized to determine a fair value of $4.2 million and $4.7 million for the security at December 31, 2018 and 2017, respectively. At December 31, 2018, the Company held one equity security for which the fair value was determined using significant unobservable inputs (Level 3). A market approach using prices in trades of comparable securities was utilized to determine a fair value of $133,000 for the security at December 31, 2018.

Transfers out of Level 3 occur when the Company is able to obtain reliable prices from pricing vendors for which the Company was previously unable to obtain reliable prices. Transfers in to Level 3 occur when the Company is unable to obtain reliable prices for securities from pricing vendors and instead must use broker price quotes.

There were no transfers between Level 1 and Level 2 during 2018 or 2017. The Company recognizes transfers between levels at the beginning of the reporting period.

There were no realized gains or losses included in earnings for the year ended December 31, 2018 attributable to the change in unrealized gains or losses relating to Level 3 assets valued at fair value on a recurring basis that are still held at December 31, 2018.

The Company measures certain bank loan participations at fair value on a non-recurring basis during the year as part of the Company's impairment evaluation when loans are determined by management to be impaired.

Assets measured at fair value on a nonrecurring basis are summarized below:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	(in thousands)			
December 31, 2018				
Bank loan participations held-for-investment	$ –	$ –	$ –	$ –
December 31, 2017				
Bank loan participations held-for-investment	$ –	$ –	$ 3,016	$ 3,016

Management concluded that none of the bank loan participations held-for-investment were impaired as of December 31, 2018. At December 31, 2017, bank loan participations held for investment that were determined to be impaired were written down to their fair value of $3.0 million.

In the determination of the fair value for bank loan participations and certain high yield bonds, the Company's investment manager endeavors to obtain data from multiple external pricing sources. External pricing sources may include brokers, dealers and price data vendors that provide a composite price based on prices from multiple dealers. Such external pricing sources typically provide valuations for normal institutional size trading units of such securities using methods based on market transactions for comparable securities, and various relationships between securities, as generally recognized by institutional dealers. For investments in which the investment manager determines that only one external pricing source is appropriate or if only one external price is available, the relevant investment is generally recorded at fair value based on such price.

14. Fair Value Measurements (continued)

Investments for which external sources are not available or are determined by the investment manager not to be representative of fair value are recorded at fair value as determined by the Company, with input from its investment managers and valuation specialists as considered necessary. In determining the fair value of such investments, the Company considers one or more of the following factors: type of security held, convertibility or exchangeability of the security, redeemability of the security (including the timing of redemptions), application of industry accepted valuation models, recent trading activity, liquidity, estimates of liquidation value, purchase cost, and prices received for securities with similar terms of the same issuer or similar issuers. At December 31, 2018 and 2017, there were no investments for which external sources were unavailable to determine fair value.

The carrying values and fair values of financial instruments are summarized below:

	December 31,			
	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Assets				
Fixed maturity securities, available-for sale	$ 798,377	$ 798,377	$ 870,652	$ 870,652
Equity securities - common	1,867	1,867	-	-
Bank loan participations held-for-investment	166,063	159,548	150,135	149,111
Cash and cash equivalents	37,016	37,016	63,686	63,686
Short-term investments	12,141	12,141	32,576	32,576

The fair values of fixed maturity and equity securities have been determined using quoted market prices for securities traded in the public market or prices using bid or closing prices for securities not traded in the public marketplace. The fair values of bank loan participations held-for-investment were determined using inputs to the valuation methodology that are unobservable (Level 3). The fair values of cash and cash equivalents and short-term investments approximate their carrying values due to their short-term maturity.

15. Statutory Matters

Under the Bermuda Insurance Act 1978 and related regulations, an insurer must maintain minimum statutory capital and surplus at the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR"), which is the higher of the MSM and capital calculated by the Bermuda Solvency Capital Requirement ("BSCR") model or an approved internal model. The Company's minimum statutory solvency margin required at December 31, 2018 was approximately $103.1 million (2017: $109.9 million). Actual statutory capital and surplus at December 31, 2018 was $352.6 million (2017: $409.2 million). The Company had statutory net income of $49.8 million for 2018, $20.1 million for 2017, and $74.7 million for 2016. The ECR for the year ended December 31, 2017 was $275.4 million. The BSCR model for the year ended December 31, 2018 will not be filed with the Bermuda Monetary Authority until April 30, 2019. The Company believes that the minimum statutory capital and surplus requirements will be met.

An insurer must also maintain a minimum liquidity ratio in which the value of its relevant assets is not less than 75.0% of the amount of its relevant liabilities for general business. Relevant assets include cash and cash equivalents, fixed maturities, quoted alternative investments, accrued interest income, premiums receivable, losses recoverable from reinsurers, and funds withheld. The relevant liabilities include total insurance provisions and other liabilities less deferred income taxes and letters of credit, guarantees and other instruments. As of December 31, 2018 the minimum liquidity ratio requirements were met.

The difference between GAAP shareholder's equity and statutory capital and surplus at December 31, 2018 of $99,000 (2017: $548,000) represents non-admitted assets which are eliminated for statutory reporting purposes.

14. Statutory Matters (continued)

The encumbered assets for securing policyholder obligations are summarized below:

	December 31,	
	2018	2017
	(in thousands)	
Cash and cash equivalents	$ 31,060	$ 38,231
Fixed maturity securities	889,502	988,139
Funds held	66,399	56,572
Accrued investment income	4,707	-
Total	$ 991,668	$1,082,942

16. Dividend Restrictions

The Bermuda Insurance Act of 1978 prohibits an insurer from declaring or paying a dividend if it is in breach of its minimum solvency margin, its enhanced capital requirement, or its minimum liquidity ratio, or if the declaration or payment of such dividend would cause such a breach. An insurer can declare or pay dividends without prior regulatory approval up to 25% of the total statutory capital and surplus. At December 31, 2018, the maximum amount of dividends that can be paid without prior regulatory approval was approximately $88.2 million. However, this dividend amount is subject to annual enhanced solvency requirement calculations.

17. Subsequent Events

Subsequent events were evaluated through April 15, 2019, the date that the financial statements were available to be issued. There were no subsequent events that impacted the financial statements.