



**CONDENSED GENERAL PURPOSE  
FINANCIAL STATEMENTS**

Year Ended December 31, 2020  
With Report of Independent Auditors



Condensed General Purpose Financial Statements

Year Ended December 31, 2020

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## Report of Independent Auditors

The Board of Directors  
Carolina Re Ltd

We have audited the accompanying condensed financial statements of Carolina Re Ltd (the “Company”), which comprise the condensed balance sheets and condensed statements of capital and surplus as of December 31, 2020 and 2019, and the related condensed statements of income for the years then ended, and the related notes to the condensed financial statements.

### **Management’s Responsibility for the Condensed Financial Statements**

Management is responsible for the preparation and fair presentation of the condensed financial statements in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the “Legislation”). Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of condensed financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors’ Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company’s preparation and fair presentation of the condensed 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 Company’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 condensed financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Reference: Report of Independent Auditors on the Condensed Financial Statements of Carolina Re Ltd as at December 31, 2020 and 2019 for the years then ended.*

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 3 of the condensed financial statements, the condensed financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

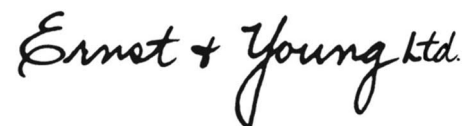
The effects on the condensed financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for adverse opinion on U.S. generally accepted accounting principles” paragraph, the condensed financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the condensed financial statements referred to above present fairly, in all material respects, the financial position of Carolina Re Ltd as of December 31, 2020 and 2019, and the results of its operations for the years then ended in accordance with the financial reporting provisions of the Legislation described in Note 3.



April 7, 2021

Chartered Professional Accountants

**CONDENSED BALANCE SHEET**

Carolina Re Ltd

As at **December 31, 2020**

expressed in ['000s] **United States Dollars**

LINE No.		2020 ( <i>'000s</i> )	2019 ( <i>'000s</i> )
1.	CASH AND CASH EQUIVALENTS	6,751	315
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other	674,122	537,970
(b)	Total Bonds and Debentures	674,122	537,970
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks	2,635	1,097
	iii. Mutual Funds		
(d)	Total equity investments	2,635	1,097
(e)	Other quoted investments		
(f)	Total quoted investments	676,757	539,067
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other		
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks		
	iii. Mutual Funds		
(d)	Total equity investments	-	-
(e)	Other unquoted investments		
(f)	Total unquoted investments	-	-
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES (EQUITY METHOD):		
(a)	Unregulated entities that conduct ancillary services		
(b)	Unregulated non-financial operating entities		
(c)	Unregulated financial operating entities		
(d)	Regulated non-insurance financial operating entities		
(e)	Regulated insurance financial operating entities		
(f)	Total investments in affiliates (equity method)	-	-
(g)	Advances to affiliates	8,956	3,998
(h)	Total investments in and advances to affiliates (equity method)	8,956	3,998
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:		
(a)	First liens		
(b)	Other than first liens		
(c)	Total investments in mortgage loans on real estate	-	-
6.	POLICY LOANS		
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)		
(b)	Other properties (less encumbrances)		
(c)	Total real estate	-	-
8.	COLLATERAL LOANS		
9.	INVESTMENT INCOME DUE AND ACCRUED	3,357	2,943
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection	51,573	107,617
(b)	Deferred - not yet due		
(c)	Receivables from retrocessional contracts		
(d)	Total accounts and premiums receivable	51,573	107,617
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Foreign affiliates		
(b)	Domestic affiliates		
(c)	Pools & associations		
(d)	All other insurers		
(e)	Total reinsurance balances receivable	-	-
12.	FUNDS HELD BY CEDING REINSURERS:		

**CONDENSED BALANCE SHEET**

Carolina Re Ltd

As at **December 31, 2020**

expressed in ['000s] **United States Dollars**

LINE No.		2020	2019
13.	<b>SUNDRY ASSETS:</b>		
(a)	Derivative instruments		
(b)	Segregated accounts companies - long-term business - variable annuities		
(c)	Segregated accounts companies - long-term business - others		
(d)	Segregated accounts companies - general business		
(e)	Deposit assets		
(f)	Deferred acquisition costs	46,444	38,942
(g)	Net receivables for investments sold		
(h)	Deferred Tax Assets	-	1,976
(i)	Income Tax Receivable	5,232	-
(j)			
(k)	Total sundry assets	51,676	40,918
14.	<b>LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:</b>		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(e)	Total letters of credit, guarantees and other instruments	-	-
15.	<b>TOTAL</b>	799,070	694,858
	<b>INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS</b>		
	<b>INSURANCE RESERVES</b>		
16.	<b>UNEARNED PREMIUM RESERVE</b>		
(a)	Gross unearned premium reserves	173,261	146,729
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates		
	ii. Domestic affiliates	18,486	14,904
	iii. Pools & associations		
	iv. All other insurers		
(c)	Total ceded unearned premium reserve	18,486	14,904
(d)	Net unearned premium reserves	154,775	131,825
17.	<b>LOSS AND LOSS EXPENSE PROVISIONS:</b>		
(a)	Gross loss and loss expense provisions	502,187	426,336
(b)	Less: Reinsurance recoverable balance		
	i. Foreign affiliates		
	ii. Domestic affiliates	29,569	28,466
	iii. Pools & associations		
	iv. All other insurers		
(c)	Total reinsurance recoverable balance	29,569	28,466
(d)	Net loss and loss expense provisions	472,618	397,870
18.	<b>OTHER INSURANCE RESERVES</b>		
19.	<b>TOTAL GENERAL BUSINESS - INSURANCE RESERVES</b>	627,393	529,695
	<b>LONG-TERM BUSINESS INSURANCE RESERVES</b>		
	20 RESERVES FOR REPORTED CLAIMS		
	21 RESERVES FOR UNREPORTED CLAIMS		
	22 POLICY RESERVES - LIFE		
	23 POLICY RESERVES - ACCIDENT AND HEALTH		
	24 POLICYHOLDER'S FUNDS ON DEPOSIT		
	25 LIABILITY FOR FUTURE POLICYHOLDER DIVIDENDS		
	26 OTHER LONG-TERM BUSINESS INSURANCE RESERVES		
	27 <b>TOTAL LONG-TERM BUSINESS INSURANCE RESERVES</b>		
(a)	Total Gross Long-Term Business Insurance Reserves	-	-
(b)	Less: Reinsurance Recoverable Balance:		
	(i) Foreign Affiliates		
	(ii) Domestic Affiliates		
	(iii) Pools and Associations		

**CONDENSED BALANCE SHEET**

Carolina Re Ltd

As at **December 31, 2020**

expressed in ['000s] **United States Dollars**

LINE No.		2020	2019
	(iv) All Other Insurers		
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	<b>Net Long-Term Business Insurance Reserves</b>	-	-
	<b>OTHER LIABILITIES</b>		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	51,829	37,097
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE	131	132
30.	LOANS AND NOTES PAYABLE		
31.	(a) INCOME TAXES PAYABLE	-	4,224
	(b) DEFERRED INCOME TAXES	1,021	-
32.	AMOUNTS DUE TO AFFILIATES		
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	153	136
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments		
(b)	Segregated accounts companies		
(c)	Deposit liabilities		
(d)	Net payable for investments purchased	-	400
(e)			
(f)			
(g)			
(h)	Total sundry liabilities	-	400
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(d)	Total letters of credit, guarantees and other instruments	-	-
38.	TOTAL OTHER LIABILITIES	53,134	41,989
39.	TOTAL INSURANCE PROVISIONS AND OTHER LIABILITIES	680,527	571,684
	<b>STATUTORY CAPITAL AND SURPLUS</b>		
40.	TOTAL STATUTORY CAPITAL AND SURPLUS	118,543	123,174
41.	TOTAL	799,070	694,858

**CONDENSED STATEMENT OF INCOME**

Carolina Re Ltd

As at

December 31, 2020

expressed in ['000s]

United States Dollars

LINE No.	2020 ('000s)	2019 ('000s)
<b>GENERAL BUSINESS UNDERWRITING INCOME</b>		
1.		
	352,980	517,173
	352,980	517,173
2.	47,652	54,303
3.	305,328	462,870
4.	(22,950)	(41,397)
5.	282,378	421,473
6.		
7.	282,378	421,473
<b>GENERAL BUSINESS UNDERWRITING EXPENSES</b>		
8.	198,912	291,514
9.	86,852	79,591
10.	285,764	371,105
11.	(3,386)	50,368
29.	(3,386)	50,368
<b>UNDERNOTED ITEMS</b>		
30.		
	-	-
31.	15,559	12,028
32.		
33.	12,173	62,396
34.		
	3,381	14,993
	(1,002)	(1,802)
	2,379	13,191
35.	9,794	49,205
36.	530	529
37.		
38.	10,324	49,734



**CONDENSED STATEMENT OF CAPITAL AND SURPLUS**

Carolina Re Ltd

As at

December 31, 2020

expressed in ['000s]

United States Dollars

LINE No.		2020 ( <i>'000s</i> )	2019 ( <i>'000s</i> )
1.	<b>STATUTORY CAPITAL</b>		
(a)	Capital Stock		
	(i) Common Shares	120	120
	authorized _____ shares of par		
	value \$ 1,000 each issued and		
	fully paid 120,000 shares		
	(ii) Preferred Shares		
	authorized _____ shares of par		
	value _____ each issued and		
	fully paid _____ shares		
	aggregate liquidation value for –		
	_____		
	_____		
	(iii) Treasury Shares		
	repurchased _____ shares of par		
	value _____ each issued		
(b)	Contributed surplus	49,000	49,000
(c)	Any other fixed capital		
	(i) Hybrid capital instruments		
	(ii) Guarantees and others		
	(iii) Total any other fixed capital	-	-
(d)	Total Statutory Capital	49,120	49,120
2.	<b>STATUTORY SURPLUS:</b>		
(a)	Statutory Surplus - Beginning of Year	74,054	37,647
(b)	Add: Income for Year	10,324	49,734
(c)	Less: Dividends paid and payable	(30,000)	(21,000)
(d)	Add (Deduct): Change in unrealized appreciation	15,045	7,673
(e)	Add (Deduct): Change in non-admitted assets		
(f)	Add (Deduct): Change in appraisal of real estate		
(g)	Add (Deduct): Change in any other statutory capital		
(h)	Statutory Surplus - End of Year	69,423	74,054
3.	<b>MINORITY INTEREST</b>		
4.	<b>TOTAL STATUTORY CAPITAL AND SURPLUS</b>	118,543	123,174

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
**As of December 31, 2020**

**Matters to be set forth in a General Note  
to the Condensed Financial Statements**

**1. Organization**

Carolina Re Ltd (“Carolina Re” or the “Company”) is a wholly owned subsidiary of James River Group, Inc (“JRG Holdings”), a holding company registered in Delaware. Carolina Re was incorporated and began operations in January 2018. The Company is registered as a Class 3A insurer with the Bermuda Monetary Authority (“BMA”) and made an irrevocable election to be taxed as a U.S. domestic corporation under Section 953(d) of the United States (“U.S.”) Internal Revenue Code.

**2. Business**

The Company was incorporated for the sole purpose of providing non-catastrophe, predominantly casualty reinsurance to its affiliated U.S. insurance companies. During 2018, 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 the Company. The Company also entered into a stop loss reinsurance agreement with JRG Reinsurance Company Ltd. (“JRG Re”), an affiliate and a registered Class 3B insurer with the BMA.

**3. Accounting Standards and Principles**

The condensed general purpose financial statements (“condensed financial statements”) are based on U.S. generally accepted accounting principles (“GAAP”) but have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978 and the Insurance Account Rules 2016 with respect to Condensed Financial Statements (the “Legislation”), which varies in certain respects from GAAP.

**4. Significant Accounting Policies**

**Estimates and Assumptions**

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

**Quoted Investments**

**Bonds and Debentures – “Other” and Equities**

Bonds and debentures classified as “Other” include “available for sale” fixed maturity securities that are carried at fair value, with unrealized gains and losses on such securities reported as a separate component in the condensed statement of capital and surplus. The Company does not have any securities classified as “held-to-maturity”.

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 fixed maturity securities not backed by other loans are amortized using the effective interest method. 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 combined investment income – net using the retrospective method.

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
**As of December 31, 2020**

Realized investment gains or losses are determined on a specific identification basis. Interest income is recognized as earned.

The Company is required to determine whether unrealized losses on fixed maturity securities are due to credit-related factors when assessing impairment of its fixed maturity securities. An allowance for credit losses is established for any credit-related impairments, limited to the amount by which fair value is below amortized cost. Changes in the allowance for credit losses are recognized in earnings and included in net realized gains or losses. Unrealized losses that are not credit-related will continue to be recognized in change in unrealized appreciation (depreciation) of investments.

The Company considers the extent to which fair value is below amortized cost in determining whether a credit-related loss exists. The Company also considers the credit quality rating of the security, with a special emphasis on securities downgraded below investment grade. A comparison is made between the present value of expected future cash flows for a security and its amortized cost. If the present value of future expected cash flows is less than amortized cost, a credit loss is presumed to exist and an allowance for credit losses is established. Management may conclude that a qualitative analysis is sufficient to support its conclusion that the present value of the expected cash flows equals or exceeds a security's amortized cost.

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. The fair values of fixed maturity securities and equity securities have been determined using fair value prices provided by the Company's investment accounting services provider or investment managers, who utilize internationally recognized independent pricing services. The prices provided by the independent pricing services are generally based on observable market data in active markets (e.g. broker quotes and prices observed for comparable 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, 2018.

The Company reviews fair value prices provided by its outside investment accounting service provider or investment managers for reasonableness by comparing the fair values provided by the managers to those provided by its 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.

Equity securities are measured at fair value with changes in fair value recognized in net realized gains or losses.

Bonds and debentures – "other" also include short-term investments, which are carried at cost and approximate fair value. Short-term investments have maturities greater than three months but less than one year at the date of purchase.

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
**As of December 31, 2020**

**Cash and Cash Equivalents**

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

**Accounts and Premiums Receivable**

Accounts and premiums receivable are carried at face value net of any allowance for credit losses. The allowance for credit losses 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 credit losses was \$0 at December 31, 2020. Bad debt expense was \$0 for the year ended December 31, 2020, and no receivables were written off against the allowance for credit losses in 2020. 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 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 ceding commissions paid on reinsurance assumed. 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.

**Loss and Loss Expense Provisions**

The loss and loss expense provisions represent 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 loss and loss expense provisions are 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 condensed 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.

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
**As of December 31, 2020**

**5. Basis of Recognition of Premium, Investment Income and Commission Income**

**Premium**

Assumed gross written premiums are recognized on a pro rata basis over the terms of the policies. Written premiums that relate to future periods are reflected as unearned premiums.

**Investment Income**

Investment income comprises income earned on cash and cash equivalents, fixed maturity and equity securities and short term investments.

**Commission Income**

Not applicable.

**6. Foreign Exchange**

Not applicable.

**7. Foreign Exchange Control Restrictions**

Not applicable.

**8. Contingencies and Commitments**

Refer to Note 1 – Cash and Cash Equivalents, Note 2 – Quoted Investments and Note 9 – Investment Income Due and Accrued of the condensed balance sheet for the amounts of restricted assets.

**9. Defaults**

Not applicable.

**10. Arrears of Dividends**

Not applicable.

**11. Loans to Directors and Officers**

Not applicable.

**12. Retirement Benefits**

Not applicable.

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
**As of December 31, 2020**

**13. Fair Value Amounts for Investments**

See Note 4(a) – Significant Accounting Policies of general notes to the condensed financial statements regarding the three levels of inputs used to measure fair value of investments.

Fair value amounts for investments as of December 31, 2020 are summarized below:

	<b>Fair Value Measurements Using</b>			<b>Total</b>
	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	
	<i>(in thousands)</i>			
Available-for-sale securities				
Fixed maturity securities:				
State and municipal	\$ –	\$ 91,129	\$ –	\$ 91,129
Residential mortgage-backed	–	97,893	–	97,893
Corporate	–	305,135	–	305,135
Commercial mortgage and asset-backed	–	152,341	–	152,341
U.S. Treasury securities and obligations guaranteed by the U.S. government	5,332	–	–	5,332
Total available-for-sale securities	<u>\$ 5,332</u>	<u>\$ 646,498</u>	<u>\$ –</u>	<u>\$ 651,830</u>
Equity securities - preferred	–	\$ 2,635	–	\$ 2,635
Short-term investments	<u>\$ 300</u>	<u>\$ 21,992</u>	<u>\$ –</u>	<u>\$ 22,292</u>
Total quoted investments	<u>\$ 5,632</u>	<u>\$ 671,125</u>	<u>\$ –</u>	<u>\$ 676,757</u>

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
**As of December 31, 2020**

Fair value amounts for investments as of December 31, 2019 are summarized below:

	<b>Fair Value Measurements Using</b>			<b>Total</b>
	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	
	<i>(in thousands)</i>			
Available-for-sale securities				
Fixed maturity securities:				
State and municipal	\$ -	\$ 53,114	\$ -	\$ 53,114
Residential mortgage-backed	-	83,024	-	83,024
Corporate	-	254,325	-	254,325
Commercial mortgage and asset-backed	-	103,707	-	103,707
U.S. Treasury securities and obligations guaranteed by the U.S. government	15,162	-	-	15,162
Total available-for-sale securities	<u>\$ 15,162</u>	<u>\$ 494,170</u>	<u>\$ -</u>	<u>\$ 509,332</u>
Equity securities - preferred		<u>\$ 1,097</u>		<u>\$ 1,097</u>
Short-term investments	<u>\$ -</u>	<u>\$ 28,638</u>	<u>\$ -</u>	<u>\$ 28,638</u>
Total quoted investments	<u>\$ 15,162</u>	<u>\$ 523,905</u>	<u>\$ -</u>	<u>\$ 539,067</u>

**14. Contractual Maturity Profile**

The contractual maturity of bonds and debentures at December 31, 2020 are summarized as follows:

	<b>Fair Value</b>
	<i>(in thousands)</i>
One year or less	\$ 41,111
After one year through five years	169,478
After five years through ten years	117,322
After ten years	73,685
Residential mortgage-backed	97,893
Commercial mortgage and asset-backed	152,341
Total	<u>\$ 651,830</u>

**Carolina Re Ltd**  
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**15. Related Party Transactions**

The Company entered into quota share reinsurance agreements with its affiliated U.S. insurance companies (“IQS Agreements”) and a stop loss reinsurance agreement with JRG Re (“Stop Loss Agreement”). Amounts related to these intercompany reinsurance agreements are as follows:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in thousands)</i>	
<b>Income Statement</b>		
Assumed gross premiums written	\$ 352,980	\$ 517,173
Reinsurance premiums ceded	47,652	54,303
Net premiums written	305,328	462,870
Net premiums earned	282,378	421,473
Net losses incurred and loss expenses incurred	198,912	291,514
Commission and brokerage	86,852	79,591
Net income effect of intercompany reinsurance with affiliates	3,386	50,368
<b>Balance Sheet</b>		
Accounts and premiums receivable	51,573	107,617
Deferred acquisition costs	46,444	38,942
Gross loss and loss expense provisions	502,187	426,336
Reinsurance recoverable balance	29,569	28,466
Gross unearned premium reserves	173,261	146,729
Ceded unearned premium reserve	18,486	14,904
Insurance and reinsurance balances payable	51,829	37,097

On December 15, 2020, the Company executed a \$5.0 million promissory note with JRG Holdings for general corporate purposes bearing a 0.48% periodic interest per annum on the outstanding principal amount. On November 30, 2019, the Company executed a \$4.0 million promissory note with JRG Holdings for general corporate purposes bearing a 1.58% periodic interest per annum on the outstanding principal amount. The Company has \$9.0 million and \$4.0 million receivable from these promissory notes which are booked as ‘Advances to Affiliates’ in the condensed balance sheets as at December 31, 2020 and 2019, respectively. The Company has \$70,000 and \$5,000 interest income on these promissory notes which are booked as ‘Combined Investment Income - Net’ in the condensed statement of income for the year ended December 31, 2020 and 2019, respectively. The Company has \$1,000 and \$5,000 accrued interest income on these promissory notes which are booked as ‘Investment Income Due and Accrued’ in the condensed balance sheets as at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the Company had \$44,000 and \$2,000 net payables to James River Group Holdings, Ltd. in the ordinary course of business, respectively. These balances are booked as ‘Advances to Affiliates’ in the condensed balance sheets.



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**16. Subsequent Events**

Subsequent events were evaluated through April 8, 2021, the date that the condensed financial statements were available to be issued. There were no subsequent events that impacted the condensed financial statements.

**17. Any Other Information**

None.

**Carolina Re Ltd**  
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**Matters to be set forth in Notes**  
**to the Condensed Statement of Capital and Surplus**

**1(a) Capital Stock**

Authorized capital stock

- a. Authorized 120,000 common shares of \$1.00 par value each.
- b. Preference share dividends – Not applicable.
- c. Redemption of preference shares – Not applicable.
- d. Conversion provisions – Not applicable.

Issued capital stock

- a. Issued 120,000 common shares of \$1.00 par value each.
- b. Amounts called and unpaid – Not applicable.
- c. Amounts not called – Not applicable.

Issued capital stock

- a. Shares repurchased – Not applicable.

**1(b) Contributed Surplus**

Not applicable.

**2(c) Dividends paid and payable**

During 2020 and 2019, the Company declared and paid dividends of \$30.0 million and \$21.0 million, respectively.

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**Matters to be set forth in Notes  
to the Condensed Balance Sheet**

**1. Cash and Cash Equivalents**

Cash and cash equivalents are comprised of cash and highly liquid money market funds. Under the IQS Agreements, the Company is required to collateralize its reinsurance obligations. At December 31, 2020, \$6.2 million of cash and cash equivalents was held in trust to support these collateralized obligations.

**2. Quoted Investments**

See Note 4 – Significant Accounting Policies of the general notes to the condensed financial statements regarding the method of investments valuation.

At December 31, 2020, \$667.9 million of quoted investments was held in trust to support the Company’s collateralized obligations under the IQS Agreements.

**3. Unquoted Investments**

Not applicable.

**4. Investments in and Advances to Affiliates**

See Note 15 – Related Party Transactions of general notes to the condensed financial statements regarding the advances to affiliates.

**5. Investments in Mortgage Loans on Real Estate**

Not applicable.

**6. Policy Loans**

Not applicable.

**7. Real Estate**

Not applicable.

**8. Collateral Loans**

Not applicable.

**9. Investment Income Due and Accrued**

At December 31, 2020, the amount of accrued investment income was \$3.4 million, of which \$3.3 million was held in trust to support the Company’s collateralized obligations under the IQS Agreements.

**10. Accounts and Premium Receivable**

At December 31, 2020 and 2019, the amount of premiums receivable was \$51.6 million and \$107.6 million, respectively, which are all due from affiliates and not collateralized.

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
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**11. Reinsurance Balances Receivable**

Not applicable.

**12. Funds Held by Ceding Reinsurers**

Not applicable.

**13. Sundry Assets**

At year-end, sundry assets were comprised of deferred acquisition costs (2020: \$46.4 million; 2019: \$38.9 million) and income tax receivable (2020: \$5.2 million; 2019: nil).

Deferred taxes are provided for the future tax consequences attributable to temporary differences between the condensed financial statement carrying amounts of assets and liabilities and their respective U.S. tax bases. Deferred taxes are measured using enacted U.S. corporate tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance only when management believes it is more likely than not that some, or all, of the deferred tax assets will not be realized.

**14. Letters of Credit, Guarantees and Other**

Not applicable.

**16. Unearned Premium**

See Note 5 – Basis of Recognition of Premium, Investment Income and Commission Income of general notes to the condensed financial statements regarding the method of calculating unearned premium.

At December 31, 2020, the amounts of gross and ceded unearned premium were \$173.3 million and \$18.5 million, respectively. At December 31, 2019, the amounts of gross and ceded unearned premium were \$146.7 million and \$14.9 million, respectively.

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
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**17. Loss and Loss Expense Provisions**

a. Movements in loss and loss expense provisions

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in thousands)</i>	
Gross loss and loss expense provisions at beginning of year	\$ 426,336	\$ 207,698
Less: Reinsurance recoverable at beginning of year	28,466	18,224
Net loss and loss expense provisions at beginning of year	397,870	189,474
Net losses incurred and net loss expenses incurred related to:		
Current year	177,488	301,870
Prior years	21,424	(10,356)
Total net incurred losses and loss expenses	198,912	291,514
Net loss and loss expenses paid or payable related to:		
Current year	(10,377)	(24,550)
Prior years	(113,787)	(58,568)
Total net loss and loss expenses paid or payable	(124,164)	(83,118)
Net loss and loss expense provisions at end of year	472,618	397,870
Add: Reinsurance recoverable at end of year	29,569	28,466
Gross loss and loss expense provisions at end of year	\$ 502,187	\$ 426,336

b. Reason for change in net losses and loss expenses incurred related to prior years

The foregoing reconciliation shows that \$21.4 million of adverse development was experienced in 2020 on the loss and loss expense provisions held at December 31, 2019. This adverse reserve development included \$3.3 million of net adverse development on assumed business from affiliated U.S. insurance companies and lower estimated losses on stop loss reinsurance of \$18.1 million.

The foregoing reconciliation shows that \$10.4 million of favorable development was experienced in 2019 on the loss and loss expense provisions held at December 31, 2018. This favorable reserve development included \$20.2 million of favorable development on assumed business from affiliated U.S. insurance companies, which primarily related to the 2018 contract year with one insured. This was partially offset by lower estimated losses on stop loss reinsurance of \$9.8 million due to lower than expected reported losses in 2019.

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
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c. Collateralized Balances

Gross loss and loss expense provisions and gross unearned premium reserves represent obligations assumed under the IQS Agreements. The following are the amounts of assets held in trust to support these collateralized obligations:

	<b>At December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in thousands)</i>	
Cash and cash equivalents	\$ 6,185	\$ 283
Quoted investments	667,869	511,210
Investment income due and accrued	3,337	2,878
Total	\$ 677,391	\$ 514,371

At December 31, 2020, the Company had no unsecured policyholder obligations.

**20. Reserves for Reported Claims**

Not applicable.

**21. Reserves for Unreported Claims**

Not applicable.

**22. Policy Reserves - Life**

Not applicable.

**23. Policy Reserves Accident and Health**

Not applicable.

**24. Policyholders' Funds on Deposit**

Not applicable.

**25. Liability for Future Policyholders' Dividends**

Not applicable.

**26. Other Insurance Reserves – Long Term**

Not applicable.

**27. Total Long-Term Business Insurance Reserves**

Not applicable.

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
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**28. Insurance and Reinsurance Balances Payable**

At year-end, the insurance and reinsurance balances payable are comprised of losses and loss expenses payable under the IQS Agreements (2020: \$38.9 million and 2019: \$24.0 million) and premium payable under the Stop Loss Agreement (2020: \$12.9 million and 2019: \$13.1 million), which are all due to affiliates.

**29. Commissions, Expenses, Fees and Taxes Payable**

At December 31, 2020 and 2019, the commissions, expenses, fees and taxes payable represent withholding U.S. federal excise tax payable amounting to \$131,000 and \$132,000, respectively.

**30. Loans and Notes Payable**

Not applicable.

**31. Income Taxes**

(a) Income Taxes Payable

The Company is not subject to income tax in Bermuda. Under current Bermuda law, Carolina 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. However, the Company made an irrevocable election to be taxed as a U.S. domestic corporation under Section 953(d) of the U.S. Internal Revenue Code. Therefore, income tax expense has been provided to record the Company's U.S. income taxes. At December 31, 2020 and 2019, the income tax payable was nil and \$4.2 million, respectively.

(b) Deferred Income Taxes

Refer to Note 13 – Sundry Assets of the condensed balance sheet for the measurement of deferred taxes. The Company has \$1.0 million and nil deferred tax liabilities at December 31, 2020 and 2019.

**32. Amounts Due to Affiliates**

Not applicable.

**33. Accounts Payable and Accrued Liabilities**

At December 31, 2020 and 2019, the accounts payable and accrued liabilities represent accruals for investment management and accounting fees amounting to \$153,000 and \$136,000, respectively.

**34. Funds Held under Reinsurance Contracts**

Not applicable.

**35. Dividends Payable**

Not applicable.

**Carolina Re Ltd**  
**Notes to Condensed General Purpose Financial Statements**  
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**36. Sundry Liabilities**

The Company has nil sundry liabilities at December 31, 2020.

**37. Letters of Credit, Guarantees and Other Instruments**

Not applicable.



**Carolina Re Ltd**  
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**Matters to be set forth in Notes**  
**to the Condensed Statement of Income**

**6. Other Insurance Income**

Not applicable.

**15. Other Insurance Income**

Not applicable.

**32. Combined Other Income (Deductions)**

Not applicable.

**36. Combined Realized Gains (Losses)**

For the year ending December 31, 2020, the realized gain represents \$291,000 realized gain from the sale of quoted investments – bonds and debentures and \$239,000 mark to market gains on equities. For the year ending December 31, 2019, the realized gain represents \$430,000 realized gain from the sale of quoted investments – bonds and debentures and \$99,000 mark to market gains on equities.