JRG REINSURANCE COMPANY LTD.

FINANCIAL

STATEMENTS

Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

JRG REINSURANCE COMPANY LTD.

Financial Statements

Years Ended December 31, 2022 and 2021

Contents

Ernst & Young Ltd.
3 Bermudiana Road
Hamilton HM 08
P.O. Box HM 463
Hamilton HM BX
BERMUDA

Tel: +1 441 295 7000
Fax: +1 441 295 5193
ey.com

Report of Independent Auditors

The Board of Directors
JRG Reinsurance Company Ltd.

Opinion

We have audited the financial statements of JRG Reinsurance Company Ltd. (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred losses and loss adjustment expenses, net of reinsurance and the cumulative paid losses and loss adjustment expenses, net of reinsurance for the years ending 2021 and prior and the average annual percentage payout of incurred claims by age disclosed on pages 20 through 22 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young Ltd.

Hamilton, Bermuda
April 18, 2023

JRG Reinsurance Company Ltd.

Balance Sheets

	December 31, 2022	December 31, 2021
	(in thousands)	
Assets		
Invested assets:		
Fixed maturity securities:		
Available-for-sale, at fair value (amortized cost: 2022 − $687,219; 2021 − $731,011)	$ 612,114	$ 744,355
Equity securities, at fair value (cost: 2022: $3,782; 2021 - $2,254)	3,472	1,426
Bank loan participations, at fair value	100,710	104,073
Short-term investments	12,462	27,842
Total invested assets	728,758	877,696
Cash and cash equivalents	13,964	30,589
Accrued investment income	4,650	5,092
Premiums receivable, net	92,426	162,894
Premiums receivable from affiliates	8,154	116,655
Reinsurance recoverable on unpaid losses	260,496	13,177
Prepaid reinsurance	4,723	16,289
Deferred policy acquisition costs	26,766	47,127
Due from JRG Holdings	87,061	19,847
Other assets	5,862	3,724
Total assets	$ 1,232,860	$ 1,293,090

See accompanying notes.

JRG Reinsurance Company Ltd.

Balance Sheets (continued)

	December 31,			
	2022		2021	
	(in thousands, except share amounts)			
Liabilities and shareholder's equity				
Liabilities:				
Reserve for losses and loss adjustment expenses	$	517,583	$	612,425
Unearned premiums		97,820		199,755
Payables to reinsurers		381		8,358
Payables to affiliate insurance companies		16,524		12,817
Funds held		213,594		–
Deferred reinsurance gain		4,349		–
Payables to insurance companies		1,256		4,026
Accrued expenses and accounts payable		2,694		1,165
Other liabilities		3,158		6,938
Total liabilities		857,359		845,484
Shareholder's equity:				
Common Shares – 2022 and 2021: $1.00 par value; 120,000 shares authorized, issued and outstanding		120		120
Additional paid-in capital		511,880		477,880
Retained deficit		(61,394)		(43,738)
Accumulated other comprehensive (loss) income		(75,105)		13,344
Total shareholder's equity		375,501		447,606
Total liabilities and shareholder's equity	$	1,232,860	$	1,293,090

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Loss and Comprehensive Loss

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(in thousands)	
Revenues:		
Assumed written premiums	$ 85,207	$ 234,795
Ceded written premiums	(2,174)	(22,886)
Net written premiums	83,033	211,909
Change in net unearned premiums	53,424	(27,129)
Net earned premiums	136,457	184,780
Net investment income	27,928	24,876
Net realized and unrealized investment (losses) gains	(15,754)	5,495
Other income	430	–
Total revenues	149,061	215,151
Expenses:		
Losses and loss adjustment expenses	114,812	272,429
Other underwriting and operating expenses	42,997	32,078
Other expenses	5,202	–
Interest expense	3,706	–
Total expenses	166,717	304,507
Net loss	$ (17,656)	$ (89,356)
Other comprehensive loss:		
Net unrealized losses	(88,449)	(24,900)
Total comprehensive loss	$ (106,105)	$ (114,256)

See accompanying notes.

JRG Reinsurance Company Ltd.

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

	Common Stock	Additional Paid-in Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2020	$ 120	$ 349,880	$ 108,618	$ 38,244	$ 496,862
Additional capital contribution	–	128,000	–	–	128,000
Net loss	–	–	(89,356)	–	(89,356)
Dividends	–	–	(63,000)	–	(63,000)
Other comprehensive loss	–	–	–	(24,900)	(24,900)
Balances at December 31, 2021	$ 120	$ 477,880	$ (43,738)	$ 13,344	$ 447,606
Additional capital contribution	–	34,000	–	–	34,000
Net loss	–	–	(17,656)	–	(17,656)
Other comprehensive loss	–	–	–	(88,449)	(88,449)
Balances at December 31, 2022	$ 120	$ 511,880	$ (61,394)	$ (75,105)	$ 375,501

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Cash Flows

	Year Ended December 31, 2022	2021
	(in thousands)	
Operating activities		
Net loss	$ (17,656)	$ (89,356)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net realized and unrealized investment losses (gains)	15,754	(5,495)
Depreciation and amortization	278	1,617
Change in operating assets and liabilities:		
Reserve for losses and loss adjustment expenses	(94,842)	50,072
Unearned premiums	(101,935)	33,192
Premiums receivable (1)	162,614	(98,319)
Deferred acquisition costs	20,361	(6,966)
Reinsurance balances	(243,730)	(11,859)
Funds held	213,594	–
Deferred reinsurance gain	4,349	–
Payable to insurance companies (1)	47,064	41,712
Other (1)	(65,398)	(854)
Net cash used in operating activities	(59,547)	(86,256)
Investing activities		
Fixed maturity securities, available-for-sale:		
Purchases	(143,910)	(212,718)
Sales	70,580	47,830
Maturities and calls	78,086	110,811
Bank loan participations:		
Purchases	(57,934)	(84,297)
Sales	36,041	44,968
Maturities	14,626	39,716
Equity securities, net	1,434	453
Securities receivable or payable, net	(6,006)	1,030
Short-term investments, net	16,005	79,902
Net cash provided by investing activities	8,922	27,695
Financing activities		
Dividends paid	–	(63,000)
Additional capital contribution	34,000	128,000
Net cash provided by financing activities	34,000	65,000
Change in cash and cash equivalents	(16,625)	6,439
Cash and cash equivalents at beginning of year	30,589	24,150
Cash and cash equivalents at end of year	$ 13,964	$ 30,589
Supplemental information		
Income taxes paid, net of refunds	$ –	$ –
Interest paid	$ –	$ –

(1) For the year ended December 31, 2022 and 2021, the Company settled premiums receivable (2022: $16.3 million; 2021: $-1.6 million) and payable to insurance companies (2022: $46.1 million; 2021: $33.6 million) through transfer of investments (2022: $29.6 million; 2021: $35.1 million) and accrued investment income (2022: $180,000 and 2021: $219,000).

(2) At December 31, 2022 and 2021, the Company held restricted cash and cash equivalents in collateral accounts amounting to $6,142 and $16,360, respectively.

See accompanying notes.

JRG Reinsurance Company Ltd.

Notes to Financial Statements
December 31, 2022 and 2021

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 from January 1, 2018 through December 31, 2021 to Carolina Re Ltd ("Carolina Re"), a Bermuda-based affiliate. During 2022, Carolina Re commuted the outstanding obligations ceded under the stop loss reinsurance treaty with the Company with effect from January 1, 2022.

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").

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 adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments on January 1, 2020. This update changed the impairment model for available-for-sale fixed maturities and requires the Company to determine whether unrealized losses on available-for-sale fixed maturities are due to credit-related factors. 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 and unrealized gains (losses) on investments. Unrealized losses that are not credit-related will continue to be recognized in other comprehensive income.

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.

Bank Loan Participations

Bank loan participations are managed by a specialized outside investment manager. In connection with the adoption of ASU 2016-13, the Company elected the fair value option in accounting for bank loan participations effective January 1, 2020. Under the fair value option, bank loan participations are measured at fair value, and changes in unrealized gains and losses in bank loan participations are reported in our income statement as net realized and unrealized gains (losses) on investments.

Losses due to credit-related impairments on bank loan participations are determined based upon consultations and advice from the Company's specialized investment manager and consideration of any adverse situations that could affect the borrower's ability to repay, the estimated value of underlying collateral, and other relevant factors.

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, 2022 or 2021.

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.

Short-term Investments

Short-term investments are carried at amortized 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 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 is carried at face value net of any allowance for credit losses. The allowance for credit losses represents the current estimate of expected credit losses based on the Company's assessment of the collectability of receivables that are past due, historical collection percentages, and consideration of current economic conditions and expectations of future conditions that could affect ultimate collections. The allowance for credit losses was \$0 at December 31, 2022 and 2021. Bad debt expense was \$0 for the years ended December 31, 2022 and 2021, and no receivables were written off against the allowance for credit losses in 2022 or 2021. 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

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.

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

There were no new accounting standards adopted during 2022.

Prospective Accounting Standards

There are no prospective accounting standards which are expected to have a material impact on the financial statements subsequent to December 31, 2022.

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, 2022				
Fixed maturity securities:				
State and municipal	$ 122,760	$ –	$ (21,162)	$ 101,598
Residential mortgage-backed	142,002	86	(15,414)	126,674
Corporate	277,933	127	(27,893)	250,167
Commercial mortgage and asset-backed	99,160	–	(8,534)	90,626
U.S. Treasury securities and obligations guaranteed by the U.S. government	45,364	3	(2,318)	43,049
Total fixed maturity securities, available for sale	$ 687,219	$ 216	$ (75,321)	$ 612,114
December 31, 2021				
Fixed maturity securities:				
State and municipal	$ 119,013	$ 2,646	$ (1,141)	$ 120,518
Residential mortgage-backed	138,207	1,331	(1,151)	138,387
Corporate	336,055	13,527	(2,829)	346,753
Commercial mortgage and asset-backed	108,322	1,736	(587)	109,471
U.S. Treasury securities and obligations guaranteed by the U.S. government	29,413	146	(333)	29,226
Total fixed maturity securities, available for sale	$ 731,010	$ 19,386	$ (6,041)	$ 744,355

The amortized cost and fair value of available-for-sale investments in fixed maturity securities at December 31, 2022 are summarized, by contractual maturity, as follows:

	Amortized Cost	Fair Value
	(in thousands)	
One year or less	$ 28,830	$ 28,207
After one year through five years	216,930	203,121
After five years through ten years	99,371	84,047
After ten years	100,926	79,439
Residential mortgage-backed	142,002	126,674
Commercial mortgage and asset-backed	99,160	90,626
Total	$ 687,219	$ 612,114

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

JRG Reinsurance Company Ltd.

Notes to Financial Statements
December 31, 2022 and 2021

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

	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, 2022						
Fixed maturity securities:						
State and municipal	$ 65,545	$ (11,569)	$ 35,053	$ (9,593)	$ 100,598	$ (21,162)
Residential mortgage-backed	65,150	(6,505)	54,454	(8,909)	119,604	(15,414)
Corporate	151,573	(11,768)	90,568	(16,125)	242,141	(27,893)
Commercial mortgage and asset-backed	51,867	(3,683)	38,759	(4,851)	90,626	(8,534)
U.S. Treasury securities and obligations guaranteed by the U.S. government	23,607	(1,026)	16,836	(1,292)	40,443	(2,318)
Total	$ 357,742	$ (34,551)	$ 235,670	$ (40,770)	$ 593,412	$ (75,321)
December 31, 2021						
Fixed maturity securities:						
State and municipal	$ 46,547	$ (1,141)	$ –	$ –	$ 46,547	$ (1,141)
Residential mortgage-backed	82,537	(1,150)	29	(1)	82,566	(1,151)
Corporate	104,019	(2,476)	5,059	(353)	109,078	(2,829)
Commercial mortgage and asset-backed	59,815	(587)	–	–	59,815	(587)
U.S. Treasury securities and obligations guaranteed by the U.S. government	17,786	(333)	–	–	17,786	(333)
Total	$ 310,704	$ (5,687)	$ 5,088	$ (354)	$ 315,792	$ (6,041)

The Company held securities of 296 issuers that were in an unrealized loss position at December 31, 2022 with a total fair value of $593.4 million and gross unrealized losses of $75.3 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, 2022, 99.9% 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. Fixed maturity securities with ratings below investment grade by Standard & Poor's or another nationally recognized rating agency at December 31, 2022 had an aggregate fair value of $653,000 and an aggregate net unrealized loss of $142,000.

The Company adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments on January 1, 2020. This update changed the impairment model for available-for-sale fixed maturities and requires the Company to determine whether unrealized losses on available-for-sale fixed maturities are due to credit-related factors. 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 and unrealized gains (losses) on investments. Unrealized losses that are not credit-related will continue to be recognized in other comprehensive income.

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 expected cash flows equals or exceeds a security's amortized cost. As a result of this review, management concluded that there were no credit-related impairments of fixed maturities at December 31, 2022. Management does not intend to sell the 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.

Management concluded that none of the securities in its fixed maturity portfolio with an unrealized loss at December 31, 2022 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.

In connection with the adoption of ASU 2016-13, the Company elected the fair value option in accounting for bank loan participations effective January 1, 2020. The targeted transition relief offered by ASU 2019-05, Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief was applied to elect the fair value option to account for bank loan participations already held at the January 1, 2020 date of adoption. Under the fair value option, bank loan participations are measured at fair value, and changes in unrealized gains and losses in bank loan participations are reported in our income statement as net realized and unrealized gains (losses) on investments.

Applying the fair value option to the bank loan portfolio increases volatility in the Company's financial statements, but management believes it is less subjective and less burdensome to implement and maintain than ASU 2016-13, which would have otherwise been required. At December 31, 2022, the Company’s bank loan portfolio had an aggregate unpaid principal balance of $114.4 million and an aggregate fair value of $100.7 million. Investment income on bank loan participations included net investment income of $8.4 million and $7.1 million during the years ended December 31, 2022 and 2021, respectively. Net realized and unrealized gains (losses) on investments includes (losses) gains of $(10.5) million and $4.3 million related to changes in unrealized gains and losses on bank loan participations for the years ended December 31, 2022 and 2021, respectively. For the year ended December 31, 2022, management concluded that $1.1 million of the unrealized losses were due to credit-related impairments. Management concluded that none of the unrealized losses were due to credit-related impairments for the year ended December 31, 2021.

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.

Interest income on bank loan participations is accrued on the unpaid principal balance, and discounts and premiums on bank loan participations are amortized to income using the interest method. Generally, the accrual 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. 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. Interest received on nonaccrual loans generally is reported as investment income. There were no bank loans on nonaccrual status at December 31, 2022 or 2021.

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(in thousands)	
Fixed maturity securities	$ 18,580	$ 17,554
Bank loan participations	8,383	7,056
Equity securities	201	–
Cash, cash equivalents, short-term investments, and other	2,617	2,083
Gross investment income	29,781	26,693
Investment expense	(1,853)	(1,817)
Net investment income	$ 27,928	$ 24,876

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(in thousands)	
Fixed maturity securities:		
Gross realized gains	$ 227	$ 1,699
Gross realized losses	(4,351)	(533)
	(4,124)	1,166
Equity securities:		
Gross realized gains	5	109
Gross realized losses	(822)	(453)
Changes in fair value	518	849
	(299)	505
Bank loan participations:		
Gross realized gains	166	399
Gross realized losses	(975)	(923)
Changes in fair value	(10,486)	4,344
	(11,295)	3,820
Short-term investments and other:		
Gross realized gains	–	4
Gross realized losses	(36)	–
	(36)	4
Total	$(15,754)	$ 5,495

The following table summarizes the change in the Company's available-for-sale gross unrealized gains or losses by investment type:

	Year Ended December 31,	
	2022	2021
	(in thousands)	
Change in gross unrealized losses:		
Fixed maturity securities	$(88,449)	$(24,900)
	$(88,449)	$(24,900)

During the year ended December 31, 2021, the Company received the final principal repayment for the investments held in a collateralized loan obligation ("CLO") where one of the underlying loans was issued by a bank holding company (the "bank holding company") that is affiliated with JRG Holdings. The Non-Executive 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 was a lender to the bank holding company. There is no similar transaction for the year ended December 31, 2022.

The Company maintains fixed maturity securities, short-term investments, cash and cash equivalents and accrued investment income amounting to $518.7 million at December 31, 2022 ($478.4 million at December 31, 2021) in trust accounts or on deposit as collateral for outstanding letters of credit issued as security to third-party reinsureds on 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 $92.1 million at December 31, 2022 ($164.7 million at December 31, 2021) 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, 2022 and 2021, the Company held no investments in securitizations of alternative-A mortgages or sub-prime mortgages.

4. Deferred Policy Acquisition Costs

An analysis of deferred policy acquisition costs is as follows:

	Year Ended December 31,	
	2022	2021
	(in thousands)	
Balance at beginning of period	$ 47,127	$ 40,161
Policy acquisition costs deferred:		
Commissions, brokerage and federal excise taxes	18,194	34,742
	18,194	34,742
Amortization of policy acquisition costs	(38,555)	(27,776)
Net change	(20,361)	6,966
Balance at end of period	$ 26,766	$ 47,127

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 actuaries perform a study on each of these parameters annually and make 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.

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.

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. Reinsurance recoverables on unpaid losses and loss adjustment expenses are presented net of an allowance for credit losses on reinsurance balances of $31,000 and $24,000 at December 31, 2022 and 2021, respectively.

	Year Ended December 31,	
	2022	**2021**
	(in thousands)	
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period	$ 599,248	$ 554,450
Add: Incurred losses and loss adjustment expenses net of reinsurance:		
Current year	86,393	104,194
Prior years – loss portfolio transfer	4,349	–
Prior years – non-loss portfolio transfer	24,070	168,235
Total incurred losses and loss and adjustment expenses	114,812	272,429
Deduct: Loss and loss adjustment expense payments net of reinsurance:		
Current year	1,382	2,083
Prior years	128,897	225,548
Total loss and loss adjustment expense payments	130,279	227,631
Deduct: Deferred reinsurance gain - loss portfolio transfer	4,349	–
Deduct: Loss reserves ceded - loss portfolio transfer	299,493	–
Deduct: Commutation - stop loss agreement	39,146	–
Add: Changes in reinsurance recoverable of the loss portfolio transfer unrelated to net reserve activity	16,294	–
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at end of period	257,087	599,248
Add: Reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	260,496	13,177
Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	$ 517,583	$ 612,425

There was $24.1 million of unfavorable development experienced in 2022 on the reserve for losses and loss adjustment expenses held at December 31, 2021. This unfavorable reserve development included $10.6 million of net adverse development on assumed business from affiliated U.S. insurance companies, which primarily related to the 2017 and 2018 contract years, and $13.4 million of adverse development on assumed business from third parties, primarily due to $6.8 million of net adverse reserve development in the three months ended March 31, 2022 associated with the loss portfolio transfer described in Note 6 and several treaties from 2015 to 2018 and 2021 underwriting years that had higher than expected reported losses in 2022.

There was $168.2 million of unfavorable development experienced in 2021 on the reserve for losses and loss adjustment expenses held at December 31, 2020. This unfavorable reserve development included $37.5 million of net adverse development on assumed business from affiliated U.S. insurance companies, which primarily related to the 2017 contract year with one insured, and $137.6 million of adverse development on assumed business from third parties, primarily due to several treaties from 2014 to 2018 underwriting years that had higher than expected reported losses in 2021. Actual reported and paid losses in the Third Party Reinsurance segment significantly exceeded expectations in 2021, particularly in the fourth quarter of 2021, causing us to refine some of the assumptions used to determine our best estimate of ultimate losses for this segment. Specifically, we responded to this highly elevated loss emergence by making significant adjustments to our assumed tail factors, other development factors, initial expected loss ratios, and weights given to various actuarial methods. In particular, we gave significantly more weight to incurred loss development methods and Bornhuetter – Ferguson incurred loss development methods than had been done previously. These actuarial refinements resulted in material deterioration in ultimate loss selections for underwriting years 2014 through 2018. The adverse development was concentrated in four treaties, three of which were general liability and one which was professional liability. Of the $137.6 million of adverse development recognized in 2021, $113.4 million was concentrated in these four treaties. These were partially offset by favorable development on Affiliated Stop Loss Reinsurance of $6.9 million due to lower estimated losses in 2021.

The following tables present incurred and paid losses and loss adjustment expenses, net of reinsurance as of December 31, 2022 for: (1) Affiliated Excess and Surplus Lines, (2) Affiliated Specialty Admitted Lines and (3) Third Party Reinsurance.

Affiliated Excess and Surplus Lines

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

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	61,622	61,305	57,390	52,691	54,553	55,390	54,742	54,674	55,415	55,982
2014		86,384	75,873	68,818	65,830	68,369	70,957	72,633	74,070	74,336
2015			98,359	89,393	88,620	88,031	89,835	95,540	98,186	99,399
2016				128,092	148,053	162,094	177,402	183,561	192,149	194,901
2017					220,773	214,630	258,870	285,626	310,360	315,096
2018						51,485	48,330	44,842	46,458	49,341
2019							3,625	3,248	3,142	3,205
2020								-	31	31
2021									-	-
2022										-
Total										$ 792,291

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

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	910	8,640	21,519	28,790	39,273	44,003	47,033	49,391	50,465	53,086
2014		4,963	15,272	25,469	38,790	51,031	59,178	62,879	65,956	70,224
2015			5,099	17,708	35,260	54,332	68,519	78,688	84,561	90,470
2016				9,047	44,332	83,890	124,724	149,276	171,158	181,341
2017					20,674	73,932	145,178	199,584	276,296	292,393
2018						1,730	7,490	15,394	20,592	31,870
2019							5	6	6	231
2020								-	-	-
2021									-	-
2022										-
Total										$ 719,615
All outstanding losses and loss adjustment expenses prior to 2013, net of reinsurance										$ 6,079
Total outstanding losses and loss adjustment expenses, net of reinsurance										$ 78,755

Affiliated Specialty Admitted Lines

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

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	8,482	9,238	8,584	7,775	7,351	7,366	7,337	7,076	7,061	6,970
2014		13,448	13,422	12,216	11,509	10,675	10,552	10,429	10,498	10,341
2015			19,163	21,314	19,936	18,930	17,847	17,086	17,093	16,936
2016				22,688	24,880	23,739	21,608	20,401	19,960	18,797
2017					31,522	31,936	31,132	30,448	29,031	27,995
2018						11,305	13,366	13,103	12,624	12,678
2019							-	-	-	-
2020								-	-	-
2021									-	-
2022										-
Total										$ 93,717

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

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	2,580	5,547	6,418	6,752	6,812	6,866	6,889	6,894	6,895	6,895
2014		3,099	7,796	9,336	9,788	9,973	10,047	10,057	10,082	10,109
2015			5,422	11,837	14,277	15,470	15,795	16,156	16,218	16,295
2016				3,920	10,007	13,657	15,806	16,839	17,414	17,723
2017					5,052	13,136	18,575	21,488	23,198	24,945
2018						1,745	4,519	6,233	7,041	7,602
2019							-	-	-	-
2020								-	-	-
2021									-	-
2022										-
Total										$ 83,569
All outstanding losses and loss adjustment expenses prior to 2013, net of reinsurance										$ 648
Total outstanding losses and loss adjustment expenses, net of reinsurance										$ 10,796

Third Party Reinsurance

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

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	133,230	130,361	131,352	134,446	137,801	143,124	146,760	149,682	153,622	154,225
2014		118,881	115,927	114,636	116,981	121,200	126,160	130,822	139,208	139,341
2015			119,157	108,870	108,699	109,117	114,517	120,185	133,790	135,112
2016				112,759	105,533	103,544	108,222	114,979	132,058	133,990
2017					134,628	128,472	129,800	138,831	176,828	179,757
2018						121,529	119,098	125,715	163,957	165,417
2019							86,022	85,549	100,895	101,462
2020								80,374	81,800	82,626
2021									82,610	85,582
2022										108,751
Total										$ 1,286,263

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

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	59,756	75,094	93,902	108,396	119,256	127,733	136,644	139,250	142,824	146,765
2014		41,421	58,601	76,302	89,899	101,366	110,374	117,971	125,444	131,196
2015			40,021	53,986	68,002	80,208	90,661	100,548	110,692	121,675
2016				36,268	50,905	65,409	78,145	90,356	104,115	117,831
2017					47,739	72,891	90,117	106,942	126,747	151,158
2018						30,903	50,274	69,123	90,054	118,445
2019							12,646	25,453	37,488	56,907
2020								5,589	15,270	26,690
2021									2,082	11,078
2022										1,787
Total										$ 883,532
All outstanding losses and loss adjustment expenses prior to 2013, net of reinsurance										$ 9,431
Total outstanding losses and loss adjustment expenses, net of reinsurance before LPT										$ 412,162
Reinsurance recoverable for LPT										$ 244,657
Total outstanding losses and loss adjustment expenses, net of reinsurance										$ 167,505

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, 2022 is as follows (in thousands):

Affiliated Excess and Surplus Lines	$78,755
Affiliated Specialty Admitted Lines	10,796
Third Party Reinsurance	167,505
Net reserve for losses and loss adjustment expenses	257,056
Reinsurance recoverables on unpaid losses (gross of $31,000 allowance for credit losses on reinsurance recoverables)	260,527
Gross reserve for losses and loss adjustment expenses	$517,583

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 and Third Party Reinsurance as of December 31, 2022:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Affiliated Excess and Surplus Lines	7.1%	15.2%	18.5%	18.8%	15.5%	9.4%	5.6%	4.7%	3.8%	4.5%
Affiliated Specialty Admitted	23.8%	29.2%	15.0%	9.1%	7.3%	9.0%	2.2%	0.4%	1.1%	1.3%
Third Party Reinsurance	19.4%	11.6%	11.6%	11.3%	10.1%	8.6%	6.9%	5.5%	3.2%	2.6%

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 claims frequency for the Affiliated Excess and Surplus Lines and the Affiliated Specialty Admitted Lines; and information on IBNR liabilities for the 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).

Affiliated Excess and Surplus Lines

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR	Cumulative # of Reported Claims
		($ in thousands)	
2013	$ 55,982	$ 729	$ 2,571
2014	74,336	588	10,006
2015	99,399	1,381	44,423
2016	194,901	1,989	92,260
2017	315,096	3,632	137,370
2018	49,341	12,436	28,187
2019	3,205	3,014	446
2020	31	31	127
2021	-	-	96
2022	-	-	45

Affiliated Specialty Admitted

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR	Cumulative # of Reported Claims
		($ in thousands)	
2013	$ 6,970	$ 74	$ 335
2014	10,341	152	1,709
2015	16,936	346	2,338
2016	18,797	523	3,654
2017	27,995	1,468	7,891
2018	12,678	3,998	3,659
2019	-	-	16
2020	-	-	18
2021	-	-	21
2022	-	-	12

Third Party Reinsurance

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR before LPT	IBNR net of LPT
		($ in thousands)	
2013	$ 154,225	$ 1,134	$ 480
2014	139,341	2,217	414
2015	135,112	5,467	996
2016	133,990	7,782	1,401
2017	179,757	18,491	2,613
2018	165,417	25,512	4,001
2019	101,462	31,177	4,572
2020	82,626	47,915	8,806
2021	85,582	62,416	26,045
2022	108,751	65,167	56,748

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.

On February 23, 2022, the Company entered into a loss portfolio transfer retrocession agreement (the "LPT") with Fortitude Reinsurance Company Ltd. ("FRL") under which FRL reinsures the majority of the Company's reserves. Under the terms of the transaction, which closed on March 31, 2022 (the "Retrocession Closing Date"), the Company (a) ceded to FRL all existing and future claims for losses arising under certain casualty reinsurance agreements with underlying insurance companies with treaty inception dates ranging from 2011 to 2020 (the "Subject Business"), in each case net of third-party reinsurance and other recoveries, up to an aggregate limit of $400.0 million; (b) continues to manage and retain the benefit of other third-party reinsurance on the Subject Business; (c) paid FRL a reinsurance premium of $335.0 million, $310.0 million of which the Company credited to a notional funds withheld account (the "Funds Withheld Account") and $25.0 million of which was paid in cash to FRL; and (d) pays FRL a 2% per annum crediting rate on the Funds Withheld Account balance on a quarterly basis. The total premium, initial Funds Withheld Account credit, and aggregate limit was adjusted for claims paid from October 1, 2021 to the Retrocession Closing Date. The Company incurred losses of $11.5 million (including $6.8 million of net adverse reserve development and $4.7 million of current accident year losses) in the three months ended March 31, 2022 associated with the LPT. The Funds Withheld Account balance was $213.6 million at December 31, 2022 and Funds Withheld Account crediting fees of $3.7 million are included in interest expense in the Statements of Loss and Comprehensive Loss for the year ended December 31, 2022. The Company recognized brokerage rebate of $430,000 relating to LPT which is included in other income in the Statements of Loss and Comprehensive Loss for the year ended December 31, 2022. The Company received brokerage rebate of $430,000 relating to LPT which is included in other income in the Statements of Loss and Comprehensive Loss for the year ended December 31, 2022.

The Company periodically reevaluates the remaining reserves subject to the LPT. Due to adverse paid loss trends on the business subject to the LPT, the Company ceded an additional $6.1 million of losses recoverable under the Casualty Re LPT for the year ended December 31, 2022, moving the LPT also into a deferred gain position requiring retroactive reinsurance accounting.

At December 31, 2022, the Company had reinsurance recoverables on unpaid losses of $260.5 million, with $244.6 million related to the LPT. 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, 2022, reinsurance recoverables on unpaid losses from the Company's two largest reinsurers were $244.6 million and $15.0 million, representing 99.7% of the total balance. At December 31, 2022, the Company had prepaid reinsurance premiums of $4.7 million, which were all ceded to one reinsurer.

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

	Year Ended December 31,	
	2022	**2021**
	(in thousands)	
Earned premiums:		
Assumed	$ 166,492	$ 201,604
Ceded	(30,035)	(16,824)
Net	$ 136,457	$ 184,780
Losses and loss adjustment expenses:		
Assumed	$ 135,582	$ 282,166
Ceded	(20,770)	(9,737)
Net	$ 114,812	$ 272,429

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, 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 previously a Class 3A reinsurer. Carolina Re assumes 70% of the written premium of the affiliated U.S. insurance companies from 2018 to 2021. The stop loss agreement with Carolina was commuted effective January 1, 2022 and Carolina Re deregistered as Class 3A reinsurer effective November 16, 2022. Total written premium ceded to JRG Re under the intercompany reinsurance agreements was $0.0 million and $52.7 million for the years ended December 31, 2022 and 2021, respectively.

Amounts related to the intercompany reinsurance agreements are as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(in thousands)	
Income Statement		
Assumed premiums written	$ –	$ 52,715
Assumed premiums earned	30	50,558
Assumed losses and loss adjustment expenses	10,639	52,251
Assumed other underwriting expenses	8	2
Net loss effect of quota share reinsurance with affiliates	(10,617)	(1,695)
Balance Sheet		
Assumed premiums receivable	8,154	116,655
Assumed deferred policy acquisition costs	–	8
Assumed reserves for losses and loss adjustment expenses	89,550	174,230
Assumed unearned premiums	–	20,679
Assumed payables to affiliate insurance companies	16,524	12,817

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. In 2021, $1.5 million of these funds were returned to Falls Lake Fire and Casualty as a settlement for losses. At December 31, 2022 and 2021, the accrued interest on funds withheld were $0.1 million and $0.7 million, respectively. The interest income from the funds withheld were $1.1 million and $0.8 million for the years ended December 31, 2022 and 2021, respectively.

In 2021, the Company provided funds withheld of $77.0 million as collateral under the stop loss agreement with Carolina Re. At December 31, 2021, the accrued interest on funds withheld was $0.7 million. The interest income from the funds withheld was $0.9 million and $0.7 million for the years ended December 31, 2022 and 2021, respectively. The funds were released in August 2022 following the approval of the commutation of stop loss agreement with Carolina Re.

The Company paid dividends to JRG Holdings of $63.0 million in December 2021. No dividends were paid in 2022.

JRG Holdings contributed $34.0 million and $128.0 million as additional capital to the Company for the years ended December 31, 2022 and 2021, respectively.

The Company had $87.1 million and $19.8 million receivable from JRG Holdings in the ordinary course of business as at December 31, 2022 and 2021, respectively.

Effective July 1, 2021, the Company entered into a partial commutation agreement for any and all commercial auto liability, commercial auto physical damage, and every other type of insurance policy or policies covering a commercial auto insured and its subsidiaries. The Company settled $52.4 million in accordance with the agreement.

The commutation of the stop loss reinsurance agreement with Carolina Re was settled at $59.8 million in accordance with the agreement.

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 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, 2022 and 2021, the Company paid $0 and $338,000, respectively, of federal excise taxes on its intercompany reinsurance transactions.

The Company also paid excise taxes of $0.8 million and $1.5 million for the years ended December 31, 2022 and 2021, 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 statements of income.

9. Other Underwriting and Operating Expenses and Other Expenses

Other underwriting and operating expenses consist of the following:

	Year Ended December 31,	
	2022	**2021**
	(in thousands)	
Amortization of policy acquisition costs	$ 38,555	$ 27,776
General and administration expenses	4,442	4,302
Total	$42,997	$32,078

Other expenses of $5.2 million for the year ended December 31, 2022 are expenses related to various strategic initiatives including LPT.

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, 2022 and 2021, the expense associated with the Savings Plan totaled $81,000 and $99,000, 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 15, 2023 and is subject to renewal option at market rates prevailing at the time of renewal. Rental expense for such lease was $375,000 and $354,000 for the years ended December 31, 2022 and 2021, respectively.

Total expected lease payments are based on the lease payments specified in the contract and the stated term, including any options to extend or terminate that the Company is reasonably certain to exercise. The Company has elected the practical expedient to account for lease components and any associated non-lease components as a single lease component, and therefore allocates all of the expected lease payments to the lease component.

The lease liability, which represents the Company's obligation to make lease payments arising from the lease, is calculated based on the present value of expected lease payments over the remaining lease term, discounted using the Company's collateralized incremental borrowing rate at the commencement date. The lease liability is then adjusted for any prepaid rent, lease incentives received or capitalized initial direct costs to determine the lease asset, which represents the Company's right to use the underlying asset for the lease term.

At December 31, 2022 and 2021, lease liabilities and right-of-use assets associated with the Company's operating leases were $116,000 and $338,000, and $115,000 and $339,000, respectively. The right-of-use assets and lease liabilities are included in other assets and other liabilities on the Company's balance sheet. The discount rate and remaining lease term for operating leases was 0.7% and 0.5 years, respectively, as of December 31, 2022.

As of December 31, 2022, future minimum payment under non-cancelable operating lease is $376,000 and $266,000 due in 2023 and 2024, respectively.

The Company and JRG Holdings participate on a $315.0 million senior revolving credit facility (as amended and restated, the "2013 Facility") comprised of a $102.5 million secured revolving facility utilized by the Company to issue letters of credit for the benefit of third party reinsureds, and a $212.5 million unsecured revolving credit facility for the benefit of JRG Holdings to meet its working capital needs. The credit facility has been amended from time to time since its inception in 2013. On November 8, 2019, JRG Holdings entered into a Second Amended and Restated Credit Agreement for the credit facility which, among other things, extended the maturity date of the credit facility until November 8, 2024, increased the amount available under the unsecured revolving credit facility to $212.5 million, lowered the applicable interest rate and letter of credit fees, and modified certain negative covenants to be less restrictive. At December 31, 2022 and 2021, a $185.8 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, 2022.

On August 2, 2017, the Company and JRG Holdings ("Borrowers") entered into a credit agreement ("2017 Facility"). 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, 2022, unsecured loans of $21.5 million and secured letters of credit totaling $22.9 million were outstanding under the facility. During the three months ended March 31, 2022, $40.0 million of loans that were outstanding under the 2017 Facility were repaid.

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 $30.0 million facility, $4.8 million of letters of credit were issued through December 31, 2022 which were secured by deposits of $5.6 million. Under the 2013 Facility, a $102.5 million secured facility described above, $44.5 million of letters of credit were issued through December 31, 2022 which were secured by deposits of $52.9 million. Under the 2017 Facility described above, $22.9 million of letters of credit were issued through December 31, 2022 which were secured by deposits of $33.1 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 $427.2 million at December 31, 2022. Another $92.1 million was also in trust accounts at December 31, 2022 securing the Company's obligations under quota share reinsurance agreements with its affiliated U.S. insurance companies.

12. Other Comprehensive Loss

The following table summarizes the components of other comprehensive loss:

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(in thousands)	
Unrealized losses arising during the period	$ (92,573)	$ (23,734)
Reclassification adjustment for net investment (losses) gains realized in net loss	(4,124)	1,166
Net unrealized losses	$ (88,449)	$ (24,900)

In addition to the $(4.1) million and $1.2 million of realized investment (losses) gains on available-for-sale securities for the years ended December 31, 2022 and 2021, respectively, the Company recognized $(11.3) million and $3.8 million of net realized and unrealized (losses) gains in the respective y ears on its investments in bank loan participations and $(299,000) and $505,000 of net realized and unrealized (losses) gains, on its equity securities.

13. Broker and Ceding Company Concentrations

The Company conducts business with three brokers that generated $25.3 million, $20.0 million and $17.1 million of assumed written premiums for the Company for the year ended December 31, 2022, representing 29.8%, 23.5% and 20.1%, 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, 2022. The Company assumes business from three unaffiliated ceding companies that generated $26.9 million, $24.4 million and $16.5 million of assumed written premiums for the year ended December 31, 2022, representing 31.6%, 28.7% and 19.4%, 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.

The fair values of fixed maturity securities, equity securities, and bank loan participations 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) and bank loan participations 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, 2020.

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.

Assets measured at fair value on a recurring basis as of December 31, 2022 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	$ –	$ 101,598	$ –	$ 101,598
Residential mortgage-backed	–	126,674	–	126,674
Corporate	–	250,167	–	250,167
Commercial mortgage and asset-backed	–	90,626	–	90,626
U.S. Treasury securities and obligations guaranteed by the U.S. government	43,049	–	–	43,049
Total available-for-sale securities	$ 43,049	$ 569,065	$ –	$ 612,114
Equity securities - common	$ –	$ 3,462	$ 10	$ 3,472
Bank loan participations	$ –	$ 100,710	$ -	$ 100,710
Short-term investments	$ –	$ 12,462	$ –	$ 12,462

Assets measured at fair value on a recurring basis as of December 31, 2021 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	$ –	$ 120,518	$ –	$ 120,518
Residential mortgage-backed	–	138,387	–	138,387
Corporate	–	346,753	–	346,753
Commercial mortgage and asset-backed	–	109,471	–	109,471
U.S. Treasury securities and obligations guaranteed by the U.S. government	29,226	–	–	29,226
Total available-for-sale securities	$ 29,226	$ 715,129	$ –	$ 744,355
Equity securities - common	$ 1,345	$ 18	$ 63	$ 1,426
Bank loan participations	$ –	$ 104,073	$ –	$ 104,073
Short-term investments	$ –	$ 27,842	$ –	$ 27,842

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(in thousands)	
Beginning balance	$ 63	$ 619
Transfers in to Level 3	–	5
Transfers out of Level 3	–	(4)
Sales	(57)	(272)
Maturities and calls	–	(235)
Total gains or losses (realized/unrealized):		
Included in earnings	4	(50)
Included in other comprehensive income	–	–
Ending balance	$ 10	$ 63

The Company held one equity security at December 31, 2022 for which the fair value was determined using significant unobservable inputs (Level 3). The fair value of $10,000 for the equity security was obtained from the Company's asset manager and was derived from an internal model.

The Company held one equity security at December 31, 2021 for which the fair value was determined using significant unobservable inputs (Level 3). The fair value of $63,000 for the equity security was based on expected proceeds from its sale. During 2021, one equity security was transferred from Level 2 to Level 3 as the security was no longer actively traded. This security was exchanged for an equity security that is publicly traded and it was transferred from Level 3 to Level 1.

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 into 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 2022 or 2021. The Company recognizes transfers between levels at the beginning of the reporting period.

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.

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. There were no investments for which external sources were unavailable to determine fair value as of December 31, 2022 and 2021.

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

	December 31,			
	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Assets				
Fixed maturity securities, available-for sale	$ 612,114	$ 612,114	$ 744,355	$ 744,355
Equity securities	3,472	3,472	1,426	1,426
Bank loan participations	100,710	100,710	104,073	104,073
Cash and cash equivalents	13,964	13,964	30,589	30,589
Short-term investments	12,462	12,462	27,842	27,842

The fair values of fixed maturity securities, equity securities, and bank loan participations 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 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 estimated minimum statutory solvency margin required at December 31, 2022 was approximately $38.6 million (2021: $95.5 million, actual). Actual statutory capital and surplus at December 31, 2022 was $375.4 million (2021: $447.5 million). The Company had a statutory net loss of $17.7 million and $89.4 million for 2022 and 2021, respectively. The ECR for the year ended December 31, 2021 was $382.0 million. The BSCR model for the year ended December 31, 2022 will not be filed with the Bermuda Monetary Authority until April 30, 2023. 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, 2022 and 2021, the minimum liquidity ratio requirements were met.

The difference between GAAP shareholder's equity and statutory capital and surplus at December 31, 2022 of $55,000 (2021: $143,000) represents non-admitted assets which are eliminated for statutory reporting purposes.

The encumbered assets for securing policyholder obligations are summarized below:

	December 31,	
	2022	**2021**
	(in thousands)	
Cash and cash equivalents	$ 6,142	$ 16,360
Fixed maturity securities	600,963	623,880
Funds held	30,225	118,593
Accrued investment income	3,745	2,877
Total	$ 641,075	$ 761,710

The Company has no encumbered assets not securing policyholder obligations for the years ended December 31, 2022 and 2021.

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 (as shown on its previous financial year's statutory balance sheet). In 2023, the maximum amount of dividends that can be paid without prior regulatory approval is approximately $93.9 million. However, this dividend amount is subject to annual enhanced solvency requirement calculations.

17. Subsequent Events

Subsequent events were evaluated through April 21, 2023, the date that the financial statements were available to be issued. The following event was noted for disclosure.

The Company has decided to suspend its underwriting activities. For 2023, the Company will continue to earn the remaining unearned premium balance as of 2022 year-end.