JRG REINSURANCE COMPANY LTD.

FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022
With Report of Independent Auditors

JRG REINSURANCE COMPANY LTD.

Financial Statements

Years Ended December 31, 2023 and 2022

Contents

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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, 2023 and 2022, and the related statements of loss, comprehensive loss, changes in Shareholder's 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, 2023 and 2022, 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 2022 and prior and the average annual percentage payout of incurred claims by age disclosed on pages 20 and 21 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
June 28, 2024

JRG Reinsurance Company Ltd.

Balance Sheets

	December 31, 2023	December 31, 2022
	(in thousands)	
Assets		
Invested assets:		
Fixed maturity securities:		
Available-for-sale, at fair value (amortized cost: 2023 − $585,417; 2022 − $687,219)	$ 532,241	$ 612,114
Equity securities, at fair value (cost: 2023: $3,780; 2022 - $3,782)	2,779	3,472
Bank loan participations, at fair value	–	100,710
Short-term investments	–	12,462
Total invested assets	535,020	728,758
Cash and cash equivalents	13,202	13,964
Accrued investment income	3,589	4,650
Premiums receivable, net	66,389	92,426
Premiums receivable from affiliates	–	8,154
Reinsurance recoverable on unpaid and paid losses	238,412	260,496
Prepaid reinsurance	–	4,723
Deferred policy acquisition costs	5,047	26,766
Due from JRG Holdings	133,245	87,061
Other assets	3,939	5,862
Total assets	$ 999,386	$ 1,232,860

See accompanying notes.

JRG Reinsurance Company Ltd.

Balance Sheets (continued)

	December 31, 2023	December 31, 2022
	(in thousands, except share amounts)	
Liabilities and shareholder's equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 472,317	$ 517,583
Unearned premiums	17,223	97,820
Payables to reinsurers	417	381
Payables to affiliate insurance companies	–	16,524
Funds held	137,796	213,594
Deferred reinsurance gain	37,017	4,349
Payables to insurance companies	3,385	1,256
Accrued expenses and accounts payable	1,964	2,694
Other liabilities	6,118	3,158
Total liabilities	676,237	857,359
Shareholder's equity:		
Common Shares – 2023 and 2022: $1.00 par value; 120,000 shares authorized, issued and outstanding	120	120
Additional paid-in capital	511,880	511,880
Retained deficit	(135,675)	(61,394)
Accumulated other comprehensive loss	(53,176)	(75,105)
Total shareholder's equity	323,149	375,501
Total liabilities and shareholder's equity	$ 999,386	$ 1,232,860

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Loss and Comprehensive Loss

	Year Ended December 31, 2023	2022
	(in thousands)	
Revenues:		
Assumed written premiums	$ 17,355	$ 85,207
Ceded written premiums	2,180	(2,174)
Net written premiums	19,535	83,033
Change in net unearned premiums	75,873	53,424
Net earned premiums	95,408	136,457
Net investment income	23,057	27,928
Net realized and unrealized investment losses	(2,717)	(15,754)
Other income	–	430
Total revenues	115,748	149,061
Expenses:		
Losses and loss adjustment expenses	150,999	114,812
Other underwriting and operating expenses	29,430	42,997
Interest expense	3,568	3,706
Other expenses	6,032	5,202
Total expenses	190,029	166,717
Net loss	$ (74,281)	$ (17,656)
Other comprehensive income (loss):		
Net unrealized gains (losses)	21,929	(88,449)
Total comprehensive loss	$ (52,352)	$ (106,105)

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Changes in Shareholder's Equity

(in thousands)

	Common Shares	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
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
Net loss	–	–	(74,281)	–	(74281)
Other comprehensive gain	–	–	–	21,929	21,929
Balances at December 31, 2023	$ 120	$ 511,880	$ (135,675)	$ (53,176)	$ 323,149

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Cash Flows

	Year Ended December 31, 2023	2022
	(in thousands)	
Operating activities		
Net loss	$ (74,281)	$ (17,656)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net realized and unrealized investment losses	2,717	15,754
Depreciation and amortization	874	278
Change in operating assets and liabilities:		
Reserve for losses and loss adjustment expenses (1)	44,286	(94,842)
Unearned premiums	(80,597)	(101,935)
Premiums receivable (1)	25,494	162,614
Deferred acquisition costs	21,719	20,361
Reinsurance balances	26,843	(243,730)
Funds held	(75,798)	213,594
Deferred reinsurance gain	32,668	4,349
Payable to insurance companies (1)	2,129	47,064
Other (1)	(39,888)	(65,398)
Net cash used in operating activities	(113,834)	(59,547)
Investing activities		
Fixed maturity securities, available-for-sale:		
Purchases	(8,196)	(143,910)
Sales	30,453	70,580
Maturities and calls	61,533	78,086
Bank loan participations (1):		
Purchases	(1,844)	(57,934)
Sales	11,714	36,041
Maturities	8,001	14,626
Equity securities, net	4	1,434
Securities receivable or payable, net	(1,151)	(6,006)
Short-term investments	12,558	16,005
Net cash provided by investing activities	113,072	8,922
Financing activities		
Additional capital contribution	–	34,000
Net cash provided by financing activities	–	34,000
Change in cash and cash equivalents	(762)	(16,625)
Cash and cash equivalents at beginning of year	13,964	30,589
Cash and cash equivalents at end of year (2)	$ 13,202	$ 13,964
Supplemental information		
Income taxes paid, net of refunds	$ –	$ –
Interest paid	$ 3,951	$ 2,578

(1) For the year ended December 31, 2023 and 2022, the Company settled premiums receivable (2023: $8.1 million; 2022: $16.3 million), payable to insurance companies (2023: $16.5 million; 2022: $46.1 million) and loss reserves of $89.6 million in 2023 related to intercompany quota sharereinsurance agreements commutation through transfer of investments (2023: $98.0 million; 2022: $29.6 million) and accrued investment income (2023: $58,000 and 2022: $180,000).

(2) At December 31, 2023 and 2022, the Company held restricted cash and cash equivalents in collateral accounts amounting to $7.4 milion and $6.1 million, respectively.

See accompanying notes.

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 ("U.S.-based insurance affiliates"), and from January 1, 2018 through December 31, 2021 to Carolina Re Ltd ("Carolina Re"), previously 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. The U.S.-based insurance affiliates also commuted during 2023 the outstanding obligations ceded under the intercompany quota share reinsurance agreements with the Company effective January 1, 2023.

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 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 (loss). 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 (loss).

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 the Statements of Loss and Comprehensive Loss 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, 2023 or 2022.

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 nil at December 31, 2023 and 2022. Bad debt expense was nil for the years ended December 31, 2023 and 2022, and no receivables were written off against the allowance for credit losses in 2023 or 2022. 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 recoverable on unpaid and paid losses 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 the year ended December 31, 2023 that had a material impact on our financial statements.

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, 2023.

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, 2023				
Fixed maturity securities:				
State and municipal	$ 107,410	$ –	$ (14,544)	$ 92,866
Residential mortgage-backed	124,881	60	(12,742)	112,199
Corporate	241,238	168	(18,859)	222,547
Commercial mortgage and asset-backed	82,316	1	(6,111)	76,206
U.S. Treasury securities and obligations guaranteed by the U.S. government	29,572	6	(1,155)	28,423
Total fixed maturity securities, available for sale	$ 585,417	$ 235	$ (53,411)	$ 532,241
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

The amortized cost and fair value of available-for-sale investments in fixed maturity securities at December 31, 2023 are summarized, by contractual maturity, as follows:

	Amortized Cost	Fair Value
	(in thousands)	
One year or less	$ 36,188	$ 35,665
After one year through five years	174,119	165,345
After five years through ten years	85,576	74,395
After ten years	82,337	68,431
Residential mortgage-backed	124,881	112,199
Commercial mortgage and asset-backed	82,316	76,206
Total	$ 585,417	$ 532,241

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

The following table shows the Company's gross unrealized losses and fair value for available-for-sale securities 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, 2023						
Fixed maturity securities:						
State and municipal	$ 2,288	$ (146)	$ 90,578	$ (14,398)	$ 92,866	$ (14,544)
Residential mortgage-backed	2,215	(24)	104,514	(12,718)	106,729	(12,742)
Corporate	9,798	(172)	203,110	(18,687)	212,908	(18,859)
Commercial mortgage and asset-backed	1,242	(8)	70,519	(6,103)	71,761	(6,111)
U.S. Treasury securities and obligations guaranteed by the U.S. government	2,746	(13)	23,786	(1,142)	26,532	(1,155)
Total	$ 18,289	$ (363)	$ 492,507	$ (53,048)	$ 510,796	$ (53,411)
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)

The Company held fixed maturity securities of 259 issuers that were in an unrealized loss position at December 31, 2023 with a total fair value of $510.8 million and gross unrealized losses of $53.4 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, 2023, 100% of the Company's fixed maturity security portfolio was rated "BBB-" or better ("investment grade") by Standard & Poor's or received an equivalent rating from another nationally recognized rating agency.

The Company periodically reviews its available-for-sale fixed maturity securities to determine whether any unrealized losses exist that 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 (loss).

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 maturity securities at December 31, 2023 and 2022. During 2023, management recognized an impairment loss of $85,000 for one fixed maturity security due to an intent to sell the security. For the remainder of securities in an unrealized loss position, 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.

The Company elected the fair value option to account for bank loan. 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 the Statements of Loss and Comprehensive Loss 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.

Investment income on bank loan participations included net investment income of $5.2 million and $8.4 million during the years ended December 31, 2023 and 2022, respectively. Net realized and unrealized gains (losses) on investments includes (losses) gains of $10.8 million and $(10.5) million related to changes in unrealized gains and losses on bank loan participations for the years ended December 31, 2023 and 2022, respectively. Management concluded that $1.3 million and $1.1 million of the unrealized losses were due to credit-related impairments for the years ended December 31, 2023 and 2022, respectively. Losses due to credit-related impairments were 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.

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, 2023 or 2022.

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

	Year Ended December 31,	
	2023	**2022**
	(in thousands)	
Fixed maturity securities	$ 17,328	$ 18,580
Bank loan participations	5,167	8,383
Equity securities	408	201
Cash, cash equivalents, short-term investments, and other	1,439	2,617
Gross investment income	24,342	29,781
Investment expense	(1,285)	(1,853)
Net investment income	$ 23,057	$ 27,928

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

	Year Ended December 31,	
	2023	**2022**
	(in thousands)	
Fixed maturity securities:		
Gross realized gains	$ 116	$ 227
Gross realized losses	(3,708)	(4,351)
	(3,592)	(4,124)
Equity securities:		
Gross realized gains	141	5
Gross realized losses	2	(822)
Changes in fair value	(691)	518
	(548)	(299)
Bank loan participations:		
Gross realized gains	569	166
Gross realized losses	(9,964)	(975)
Changes in fair value	10,817	(10,486)
	1,422	(11,295)
Short-term investments and other:		
Gross realized gains	2	–
Gross realized losses	(1)	(36)
	1	(36)
Total	$ (2,717)	$(15,754)

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, 2023	Year Ended December 31, 2022
	(in thousands)	
Change in gross unrealized gains (losses):		
Fixed maturity securities	$ 21,929	$(88,449)
	$21,929	$(88,449)

The Company maintains fixed maturity securities, short-term investments, cash and cash equivalents and accrued investment income amounting to $534.7 million at December 31, 2023 ($518.7 million at December 31, 2022) 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 maintained 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 in trust accounts as security to the Company's U.S. insurance affiliates on reinsurance assumed under intercompany quota-share reinsurance contracts, which was commuted effective January 1, 2023.

At December 31, 2023 and 2022, 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, 2023	Year Ended December 31, 2022
	(in thousands)	
Balance at beginning of period	$ 26,766	$ 47,127
Policy acquisition costs deferred:		
Commissions, brokerage and federal excise taxes	3,228	18,194
	3,228	18,194
Amortization of policy acquisition costs	(24,947)	(38,555)
Net change	(21,719)	(20,361)
Balance at end of period	$ 5,047	$ 26,766

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 would 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 would review and approve the parameter review actuarial recommendations, and these approved parameters were 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 $19,000 and $31,000 at December 31, 2023 and 2022, respectively.

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period	$ 257,087	$ 599,248
Add: Incurred losses and loss adjustment expenses net of reinsurance:		
Current year	58,601	86,393
Prior years – loss portfolio transfer	29,101	4,349
Prior years – non-loss portfolio transfer	63,297	24,070
Total incurred losses and loss and adjustment expenses	150,999	114,812
Deduct: Loss and loss adjustment expense payments net of reinsurance:		
Current year	1,642	1,382
Prior years	50,319	128,897
Total loss and loss adjustment expense payments	51,961	130,279
Deduct: Change in deferred reinsurance gain - loss portfolio transfer	32,668	4,349
Deduct: Commutation – intercompany quota share agreements	89,552	–
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	233,905	257,087
Add: Reinsurance recoverables on unpaid and paid losses and loss adjustment expenses at end of period	238,412	260,496
Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	$ 472,317	$ 517,583

There was $63.3 million of unfavorable development experienced in 2023 on the reserve for losses and loss adjustment expenses held at December 31, 2022. This unfavorable reserve development relates to net adverse reserve development in several treaties mainly from 2015 to 2021 underwriting years that had higher than expected reported losses in 2023.

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.

The following tables present incurred and paid losses and loss adjustment expenses, net of reinsurance as of December 31, 2023 for Third Party Reinsurance. The information provided herein about incurred and paid accident year claims development for the years ended December 31, 2022 and prior is presented as "unaudited" supplementary information.

Third Party Reinsurance

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

Accident Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	118,881	115,927	114,636	116,981	121,200	126,160	130,822	139,208	139,341	143,592
2015		119,157	108,870	108,699	109,117	114,517	120,185	133,790	135,112	141,024
2016			112,759	105,533	103,544	108,222	114,979	132,058	133,990	145,987
2017				134,628	128,472	129,800	138,831	176,828	179,757	207,460
2018					121,529	119,098	125,715	163,957	165,417	199,684
2019						86,022	85,549	100,895	101,462	123,491
2020							80,374	81,800	82,626	92,696
2021								82,610	85,582	88,036
2022									108,751	104,653
2023										58,601
Total									$	1,305,225
All outstanding losses and loss adjustment expenses prior to 2014, net of reinsurance								$		508,392

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

Accident Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	41,421	58,601	76,302	89,899	101,366	110,374	117,971	125,444	131,196	136,794
2015		40,021	53,986	68,002	80,208	90,661	100,548	110,692	121,675	129,573
2016			36,268	50,905	65,409	78,145	90,356	104,115	117,831	128,682
2017				47,739	72,891	90,117	106,942	126,747	151,158	169,453
2018					30,903	50,274	69,123	90,054	118,445	141,707
2019						12,646	25,453	37,488	56,907	76,445
2020							5,589	15,270	26,690	41,620
2021								2,082	11,078	23,091
2022									1,787	9,677
2023										1,642
Total									$	858,684
All outstanding losses and loss adjustment expenses prior to 2014, net of reinsurance									$	15,139
Total outstanding losses and loss adjustment expenses, net of reinsurance before LPT									$	461,680
Reinsurance recoverable for LPT									$	227,794
Total outstanding losses and loss adjustment expenses, net of reinsurance									$	233,886

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, 2023 is as follows (in thousands):

Net reserve for losses and loss adjustment expenses – Third Party	233,886
Reinsurance recoverables on unpaid losses (gross of $19,000 allowance for credit losses on reinsurance recoverables)	238,431
Gross reserve for losses and loss adjustment expenses	$ 472,317

The following is unaudited supplementary information about average annual percentage payouts of incurred claims by age, net of reinsurance, for the Third Party Reinsurance as of December 31, 2023:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Third Party Reinsurance	15.7%	11.3%	11.8%	12.5%	12.1%	10.3%	8.3%	7.2%	5.0%	4.0%

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 for the Third Party Reinsurance.

Third Party Reinsurance

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR before LPT	IBNR net of LPT
		($ in thousands)	
2014	$ 143,592	$ 5,001	$ 978
2015	141,024	6,713	988
2016	145,987	9,311	4,828
2017	207,460	21,779	12,981
2018	199,684	32,633	14,724
2019	123,491	31,693	11,875
2020	92,696	41,600	10,256
2021	88,036	100,061	66,168
2022	104,653	24,839	17,227
2023	58,601	28,907	28,907

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. At December 31, 2023 and 2022, the balance of The Funds Withheld Account balance was $137.8 million and $213.6 million, respectively. The Funds Withheld Account crediting fees of $3.6 million and $3.7 million are included in interest expense in the Statements of Loss and Comprehensive Loss for the years ended December 31, 2023 and 2022, respectively. 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. For the years ended December 31, 2023 and 2022, due to adverse paid and reported loss trends, the Company recognized recovery of $58.9 million and $6.1 million, respectively, on the reserves subject to the LPT resulting in corresponding additional amounts ceded under the loss portfolio transfer. The LPT is in a gain position as the cumulative amounts ceded under the loss portfolio transfer exceeds the consideration paid, requiring the application of retroactive reinsurance accounting under GAAP.

For the years ended December 31, 2023 and 2022, retroactive reinsurance benefits totaling $26.3 million and $1.7 million, respectively, were recorded in losses and loss adjustment expenses using the recovery method. As of December 31, 2023 and 2022, the cumulative amounts ceded under the LPT was $400.0 million and $341.1 million, respectively. The total deferred retroactive reinsurance gain amounted to $37.0 million and $4.4 million as at December 31, 2023 and, 2022, respectively. The Company has exhausted the aggregate limit under the LPT at December 31, 2023.

At December 31, 2023 and 2022, the Company had reinsurance recoverables on unpaid and paid losses of $238.4 million and $260.5 million, respectively, with $227.8 million and $244.6 million related to the LPT, respectively. 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, 2023, reinsurance recoverables on unpaid and paid losses from the Company’s two largest reinsurers were $227.8 million and $8.9 million, representing 99.3% of the total balance. At December 31, 2023 and 2022, the Company had prepaid reinsurance premiums of nil and $4.7 million, respectively, which were all ceded to one reinsurer.

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

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Earned premiums:		
Assumed	$ 97,951	$ 166,492
Ceded	(2,543)	(30,035)
Net	$ 95,408	$ 136,457
Losses and loss adjustment expenses:		
Assumed	$ 176,389	$ 135,582
Ceded	(25,390)	(20,770)
Net	$ 150,999	$ 114,812

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 were 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 former Bermuda-domiciled, wholly owned subsidiary of James River Group, Inc. and previously a Class 3A reinsurer. Carolina Re assumed 70% of the written premium of the affiliated U.S. insurance companies from 2018 to 2021. The stop loss agreement with Carolina Re was commuted effective January 1, 2022 and Carolina Re deregistered as Class 3A reinsurer effective November 16, 2022 and dissolved in the fourth quarter of 2023. The quota share reinsurance agreements between the Company and its affiliated U.S. insurance companies were commuted effective January 1, 2023.

Amounts related to the intercompany reinsurance agreements are as follows:

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Statement of Loss and Comprehensive Loss		
Assumed premiums written	$ –	$ –
Assumed premiums earned	–	30
Assumed losses and loss adjustment expenses	–	10,639
Assumed other underwriting expenses	–	8
Net loss effect of quota share reinsurance with affiliates	–	(10,617)
Balance Sheet		
Assumed premiums receivable	–	8,154
Assumed deferred policy acquisition costs	–	–
Assumed reserves for losses and loss adjustment expenses	–	89,550
Assumed unearned premiums	–	–
Assumed payables to affiliate insurance companies	–	16,524

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. The remaining balance of $8.2 million was applied in the settlement of intercompany quota share reinsurance agreements commuted in 2023. At December 31, 2023 and 2022, the accrued interest on funds withheld were nil and $0.1 million, respectively. The interest income from the funds withheld were $0.1 million and $0.8 million for the years ended December 31, 2023 and 2022, respectively.

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

No dividends were paid to JRG Holdings in 2023 and 2022.

JRG Holdings contributed $34.0 million as additional capital to the Company for the year ended December 31, 2022. No additional capital was contributed in 2023.

The Company had $133.2 million and $87.1 million receivable from JRG Holdings in the ordinary course of business as at December 31, 2023 and 2022, respectively.

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

The commutation of the quota share reinsurance agreements with its affiliated U.S. insurance companies was settled at $97.9 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 (the “EUTP Act”).

Effective for tax years beginning on or after January 1, 2025, Bermuda has introduced the Corporate Income Tax Act 2023 ("CIT Act") where a Bermuda Constituent Entity group (BCE) that is part of an “in scope Multi-National Enterprise group” (MNE) will be subject to a 15% corporate income tax. The CIT Act will supersede the assurance received from the Bermuda Minister of Finance under the EUTP Act.

A MNE group with a limited international footprint is not an in scope MNE, thus not subject to CIT. The limited international footprint exception is a year-by-year test and expires after tax year 2029. JRG Holdings is expected to meet the criteria of the limited international footprint exception, and as such is not expected to be subject to tax under the CIT act.

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, 2023 and 2022, the Company did not pay any federal excise taxes on its intercompany reinsurance transactions.

The Company also paid excise taxes of $0.2 million and $0.8 million for the years ended December 31, 2023 and 2022, 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 Loss and Comprehensive Loss.

9. Other Underwriting and Operating Expenses and Other Expenses

Other underwriting and operating expenses consist of the following:

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Amortization of policy acquisition costs	$ 24,947	$ 38,555
General and administration expenses	4,483	4,442
Total	$29,430	$42,997

Other expenses of $6.0 million for the year ended December 31, 2023 relate to the Company's total exposure from a legal action arising from the ordinary course of business while the $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, 2023 and 2022, the expense associated with the Savings Plan totaled $85,000 and $81,000, respectively.

11. Commitments and Contingent Liabilities

The Company is a party to various lawsuits arising in the ordinary course of its operations. Except for the $6.0 million liability recognized as of December 31, 2023 related to a legal action, the Company believes that the ultimate resolution of these matters will not materially impact its financial position, cash flows, or results of operations.

The Company leases certain office space under an operating lease that expires at June 30, 2024. Rental expense for such lease was $385,000 and $375,000 for the years ended December 31, 2023 and 2022, 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, 2023 and 2023, lease liabilities and right-of-use assets associated with the Company's operating leases were $118,000 and $116,000, and $117,000 and $115,000, 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 year, respectively, as of December 31, 2023.

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

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 and the Company 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. On July 7, 2023, JRG Holdings and the Company entered into a Third Amended and Restated Credit Agreement for its $315.0 million senior revolving credit facility which, among other things, extended the maturity date of such facility until July 7, 2026 and increased the applicable interest rate and letter of credit fees.

At December 31, 2023 and 2022, a $185.8 million, drawn and outstanding balance on the revolver was carried as debt at JRG Holdings. The 2013 Facility contains certain financial and other covenants (including minimum net worth, maximum ratio of total adjusted debt outstanding to total capitalization, and financial strength ratings) with which JRG Holdings and the Company are in compliance at December 31, 2023, with the exception of a default of the financial strength rating covenant due to the downgrade of the Company by A.M. Best on December 20, 2023 from “A-” (Excellent) to “B++” (good). The financial strength rating covenant requires that each of JRG Holdings’ regulated insurance subsidiaries maintain an A.M. Best rating not lower than “A- (Excellent). Our lenders have waived this default through March 1, 2025.

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, 2023, unsecured loans of $21.5 million and secured letters of credit totaling $25.5 million were outstanding under the facility. In 2022, $40.0 million of loans that were outstanding under the 2017 Facility were repaid. The 2017 Facility contains certain financial and other covenants with which we are in compliance at December 31, 2023, with the exception of a default of the financial strength rating covenant due to the downgrade of the Company by A.M. Best on December 20, 2023 from “A-” (Excellent) to “B++”(good). The financial strength rating covenant requires that each of JRG Holdings’ regulated insurance subsidiaries maintain an A.M. Best rating not lower than “A-”(Excellent). Our lenders have waived this default through March 1, 2025.

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 $75.0 million facility, $4.7 million of letters of credit were issued through December 31, 2023 which were secured by deposits and investment trade receivables of $5.2 million. Under the 2013 Facility, a $102.5 million secured facility described above, $42.7 million of letters of credit were issued through December 31, 2023 which were secured by deposits of $51.1 million. Under the 2017 Facility described above, $25.5 million of letters of credit were issued through December 31, 2023 which were secured by deposits of $35.6 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 $444.8 million at December 31, 2023.

12. Other Comprehensive Loss

The following table summarizes the components of other comprehensive loss:

	Year Ended December 31, 2023	Year Ended December 31, 2022
	(in thousands)	
Unrealized gains (losses) arising during the period	$ 18,337	$ (92,573)
Reclassification adjustment for net investment losses realized in net loss	(3,592)	(4,124)
Net unrealized gains (losses)	$ 21,929	$ (88,449)

In addition to the $3.6 million and $4.1 million of realized investment losses on available-for-sale securities for the years ended December 31, 2023 and 2022, respectively, the Company recognized $1.4 million and $(11.3) million of net realized and unrealized gains (losses) in the respective years on its investments in bank loan participations and $547,000 and $299,000 of net realized and unrealized losses on its equity securities.

13. Broker and Ceding Company Concentrations

The Company conducts business with two brokers that generated $15.3 million and $2.1 million of assumed written premiums for the Company for the year ended December 31, 2023, representing 88.4% and 12.3%, 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, 2023. The Company assumes business from three unaffiliated ceding companies that generated $11.8 million, $3.7 million and $2.7 million of assumed written premiums for the year ended December 31, 2023, representing 68.2%, 21.3% and 15.3%, respectively, of the assumed written premiums from unaffiliated cedents.

14. Fair Value Measurements

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

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

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, 2023 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	$ –	$ 92,866	$ –	$ 92,866
Residential mortgage-backed	–	112,199	–	112,199
Corporate	–	222,547	–	222,547
Commercial mortgage and asset-backed	–	76,206	–	76,206
U.S. Treasury securities and obligations guaranteed by the U.S. government	28,423	–	–	28,423
Total available-for-sale securities	$ 28,423	$ 503,818	$ –	$ 532,241
Equity securities - common	$ –	$ 2,779	$ –	$ 2,779

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

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

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Beginning balance	$ 10	$ 63
Transfers in to Level 3	–	–
Transfers out of Level 3	–	–
Sales	(1)	(57)
Maturities and calls	–	–
Total gains or losses (realized/unrealized):		
Included in earnings	(9)	4
Included in other comprehensive loss	–	–
Ending balance	$ –	$ 10

As at December 31, 2023, the Company has no equity security for which the fair value was determined using significant unobservable inputs (Level 3)

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.

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 2023 or 2022. 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, 2023 and 2022.

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

	December 31,			
	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Assets				
Fixed maturity securities, available-for sale	$ 532,241	$ 532,241	$ 612,114	$ 612,114
Equity securities	2,779	2,779	3,472	3,472
Bank loan participations	–	–	100,710	100,710
Cash and cash equivalents	13,202	13,202	13,964	13,964
Short-term investments	–	–	12,462	12,462

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, 2023 was approximately $35.1 million (2022: $38.6 million, actual). Actual statutory capital and surplus at December 31, 2023 was $323.1 million (2022: $375.4 million). The Company had a statutory net loss of $74.3 million and $17.7 million for 2023 and 2022, respectively. The ECR for the year ended December 31, 2022 was $106.4 million. The BSCR model for the year ended December 31, 2023 will not be filed with the Bermuda Monetary Authority until June 30, 2024. 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, 2023 and 2022, the minimum liquidity ratio requirements were met.

The difference between GAAP shareholder's equity and statutory capital and surplus at December 31, 2023 of $22,000 (2022: $55,000) represents non-admitted assets which are eliminated for statutory reporting purposes.

The encumbered assets for securing policyholder obligations are summarized below:

	December 31,	
	2023	**2022**
	(in thousands)	
Cash and cash equivalents	$ 7,402	$ 6,142
Fixed maturity securities	524,041	600,963
Funds held	22,043	30,225
Accrued investment income	3,293	3,745
Total	$ 556,779	$ 641,075

The Company has no encumbered assets not securing policyholder obligations for the years ended December 31, 2023 and 2022**.**

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 2024, the maximum amount of dividends that can be paid without prior regulatory approval is approximately $80.8 million. However, this dividend amount is subject to annual enhanced solvency requirement calculations.

Since the Company is in a retained deficit position at December 31, 2023, and by definition dividends are paid out of retained earnings, any distributions should be classified as a return of capital.

17. Subsequent Events

Subsequent events were evaluated through June 28, 2024, the date that the financial statements were available to be issued. The following event was noted for disclosure.

On February 26, 2024, the Company effectuated a return of capital to JRG Holdings in the amount of $139.0 million. This balance included the settlement of $133.2 million owed by JRG Holdings to the Company as of December 31, 2023 and the remaining balance of $5.8 million was paid in cash by the Company to JRG Holdings. On April 12, 2024, JRG Holdings contributed $5.4 million offsetting the previously distributed funds resulting in a net return of capital in 2024 of $133.6 million.

On November 8, 2023, the JRG Holdings entered into a Stock Purchase Agreement ("SPA") with Fleming Intermediate Holdings LLC, a Cayman Islands limited liability company (the "Buyer"). Pursuant to the Stock Purchase Agreement, and on the terms and subject to the conditions therein, the Buyer agreed to purchase from JRG Holdings all of the common shares of the Company (the "Transaction"). The Transaction was completed on April 16, 2024 (the "closing date"). The estimated balance sheet is subject to final post-closing adjustments, which could result in adjustments to purchase price.

On closing date, the 2013 Facility and 2017 Facility were amended in connection with the Transaction to release the Company as a borrower and release all collateral pledged by the Company thereunder.