

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2019
- or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission File Number: 001-36777

JAMES RIVER GROUP HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0585280
(I.R.S. Employer
Identification No.)

Wellesley House, 2nd Floor, 90 Pitts Bay Road, Pembroke HM08, Bermuda
(Address of principal executive offices)
(Zip Code)
(441) 278-4580
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Names of each exchange on which registered</u>
Common Shares, par value \$0.0002 per share	JRVR	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Number of shares of the registrant's common shares outstanding at November 5, 2019: 30,405,422

James River Group Holdings, Ltd.
Form 10-Q
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, or Quarterly Report, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements may be identified by the fact that they do not relate strictly to historical or current facts. You may identify forward-looking statements in this Quarterly Report by the use of words such as “anticipates,” “estimates,” “expects,” “intends,” “plans,” “seeks” and “believes,” and similar expressions or future or conditional verbs such as “will,” “should,” “would,” “may” and “could.” These forward-looking statements include, among others, all statements relating to our future financial performance, our business prospects and strategy, anticipated financial position, liquidity and capital needs and other similar matters. These forward-looking statements are based on management’s current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict.

Our actual results may differ materially from those expressed in, or implied by, the forward-looking statements included in this Quarterly Report as a result of various factors, many of which are beyond our control, including, among others:

- the inherent uncertainty of estimating reserves and the possibility that incurred losses may be greater than our loss and loss adjustment expense reserves;
- inaccurate estimates and judgments in our risk management may expose us to greater risks than intended;
- the potential loss of key members of our management team or key employees and our ability to attract and retain personnel;
- adverse economic factors resulting in the sale of fewer policies than expected or an increase in the frequency or severity of claims, or both;
- a decline in our financial strength rating resulting in a reduction of new or renewal business;
- reliance on a select group of brokers and agents for a significant portion of our business and the impact of our potential failure to maintain such relationships;
- reliance on a select group of customers for a significant portion of our business and the impact of our potential failure to maintain such relationships;
- losses resulting from reinsurance counterparties failing to pay us on reinsurance claims, insurance companies with whom we have a fronting arrangement failing to pay us for claims, or an insured group of companies with whom we have an indemnification arrangement failing to perform their reimbursement obligations;
- changes in laws or government regulation, including tax or insurance law and regulations;
- the ongoing effect of Public Law No. 115-97, informally titled the Tax Cuts and Jobs Act, which may have a significant effect on us including, among other things, by potentially increasing our tax rate, as well as taxes on our shareholders;
- in the event we do not qualify for the insurance company exception to the passive foreign investment company (“PFIC”) rules and are therefore considered a PFIC, there could be material adverse tax consequences to an investor that is subject to U.S. federal income taxation;
- the Company or any of its foreign subsidiaries becoming subject to U.S. federal income taxation;
- a failure of any of the loss limitations or exclusions we utilize to shield us from unanticipated financial losses or legal exposures, or other liabilities;
- losses from catastrophic events which substantially exceed our expectations and/or exceed the amount of reinsurance we have purchased to protect us from such events;
- potential effects on our business of emerging claim and coverage issues;
- exposure to credit risk, interest rate risk and other market risk in our investment portfolio;
- our ability to obtain reinsurance coverage at prices and on terms that allow us to transfer risk and adequately protect our company against financial loss;
- the potential impact of internal or external fraud, operational errors, systems malfunctions or cyber security incidents;
- our ability to manage our growth effectively;

- inadequacy of premiums we charge to compensate us for our losses incurred;
- failure to maintain effective internal controls in accordance with Sarbanes-Oxley Act of 2002, as amended (“Sarbanes-Oxley”); and
- changes in our financial condition, regulations or other factors that may restrict our subsidiaries’ ability to pay us dividends.

Additional information about these risks and uncertainties, as well as others that may cause actual results to differ materially from those in the forward-looking statements, is contained in our filings with the U.S. Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K filed with the SEC on February 27, 2019.

Forward-looking statements speak only as of the date of this Quarterly Report. Except as expressly required under federal securities laws and the rules and regulations of the SEC, we do not have any obligation, and do not undertake, to update any forward-looking statements to reflect events or circumstances arising after the date of this Quarterly Report, whether as a result of new information or future events or otherwise. You should not place undue reliance on the forward-looking statements included in this Quarterly Report or that may be made elsewhere from time to time by us, or on our behalf. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

PART 1. FINANCIAL INFORMATION**Item 1. Financial Statements****JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

	(Unaudited) September 30, 2019	December 31, 2018
	<i>(in thousands)</i>	
Assets		
Invested assets:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost: 2019 – \$1,338,131; 2018 – \$1,199,409)	\$ 1,377,323	\$ 1,184,202
Equity securities, at fair value (cost: 2019 – \$78,906; 2018 – \$77,152)	88,840	78,385
Bank loan participations held-for-investment, at amortized cost, net of allowance	249,907	260,972
Short-term investments	49,884	81,966
Other invested assets	65,864	72,321
Total invested assets	1,831,818	1,677,846
Cash and cash equivalents	256,302	172,457
Accrued investment income	13,603	11,110
Premiums receivable and agents' balances, net	360,587	307,899
Reinsurance recoverable on unpaid losses	614,827	467,371
Reinsurance recoverable on paid losses	40,822	18,344
Prepaid reinsurance premiums	167,338	112,498
Deferred policy acquisition costs	60,970	54,450
Intangible assets, net	37,090	37,537
Goodwill	181,831	181,831
Other assets	95,728	95,433
Total assets	<u>\$ 3,660,916</u>	<u>\$ 3,136,776</u>

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (continued)

	(Unaudited) September 30, 2019	December 31, 2018
	<i>(in thousands, except share amounts)</i>	
Liabilities and Shareholders' Equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 1,941,307	\$ 1,661,459
Unearned premiums	510,109	386,473
Payables to reinsurers	131,093	61,662
Senior debt	98,300	118,300
Junior subordinated debt	104,055	104,055
Accrued expenses	57,637	51,792
Other liabilities	49,446	43,794
Total liabilities	2,891,947	2,427,535
Commitments and contingent liabilities		
Shareholders' equity:		
Common Shares – 2019 and 2018: \$0.0002 par value; 200,000,000 shares authorized; 30,401,270 and 29,988,460 shares issued and outstanding, respectively	6	6
Preferred Shares – 2019 and 2018: \$0.00125 par value; 20,000,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	655,998	645,310
Retained earnings	78,344	79,753
Accumulated other comprehensive income (loss)	34,621	(15,828)
Total shareholders' equity	768,969	709,241
Total liabilities and shareholders' equity	\$ 3,660,916	\$ 3,136,776

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>(in thousands, except share amounts)</i>				
Revenues				
Gross written premiums	\$ 388,228	\$ 279,969	\$ 1,095,565	\$ 871,463
Ceded written premiums	(164,359)	(106,528)	(424,045)	(298,438)
Net written premiums	223,869	173,441	671,520	573,025
Change in net unearned premiums	(10,495)	31,249	(68,880)	40,817
Net earned premiums	213,374	204,690	602,640	613,842
Net investment income	17,878	16,410	54,844	45,801
Net realized and unrealized (losses) gains on investments	(2,357)	467	331	(407)
Other income	2,579	3,125	8,160	11,841
Total revenues	231,474	224,692	665,975	671,077
Expenses				
Losses and loss adjustment expenses	214,084	150,387	501,064	448,754
Other operating expenses	41,692	49,180	132,287	155,714
Other expenses	372	(131)	1,055	(34)
Interest expense	2,594	2,991	8,086	8,459
Amortization of intangible assets	149	149	447	447
Total expenses	258,891	202,576	642,939	613,340
(Loss) income before taxes	(27,417)	22,116	23,036	57,737
Income tax (benefit) expense	(2,250)	2,535	5,168	5,539
Net (loss) income	(25,167)	19,581	17,868	52,198
Other comprehensive income (loss):				
Net unrealized gains (losses), net of taxes of \$638 and \$3,949 in 2019 and \$(407) and \$(1,134) in 2018	9,457	(4,389)	50,449	(29,494)
Total comprehensive (loss) income	\$ (15,710)	\$ 15,192	\$ 68,317	\$ 22,704
Per share data:				
Basic (loss) earnings per share	\$ (0.83)	\$ 0.65	\$ 0.59	\$ 1.75
Diluted (loss) earnings per share	\$ (0.83)	\$ 0.64	\$ 0.58	\$ 1.72
Dividend declared per share	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.90
Weighted-average common shares outstanding:				
Basic	30,382,105	29,935,216	30,230,490	29,861,467
Diluted	30,382,105	30,380,145	30,659,389	30,290,183

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Number of Common Shares Outstanding	Common Shares (Par)	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<i>(in thousands, except share amounts)</i>							
Balances at June 30, 2019	30,330,675	\$ 6	\$ —	\$ 653,151	\$ 112,729	\$ 25,164	\$ 791,050
Net loss	—	—	—	—	(25,167)	—	(25,167)
Other comprehensive income	—	—	—	—	—	9,457	9,457
Dividends	—	—	—	—	(9,218)	—	(9,218)
Exercise of stock options	70,595	—	—	1,068	—	—	1,068
Compensation expense under share incentive plans	—	—	—	1,779	—	—	1,779
Balances at September 30, 2019	<u>30,401,270</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 655,998</u>	<u>\$ 78,344</u>	<u>\$ 34,621</u>	<u>\$ 768,969</u>
Balances at December 31, 2018	29,988,460	\$ 6	\$ —	\$ 645,310	\$ 79,753	\$ (15,828)	\$ 709,241
Net income	—	—	—	—	17,868	—	17,868
Other comprehensive income	—	—	—	—	—	50,449	50,449
Dividends	—	—	—	—	(27,557)	—	(27,557)
Exercise of stock options	336,533	—	—	6,799	—	—	6,799
Vesting of RSUs	76,277	—	—	(1,374)	—	—	(1,374)
Compensation expense under share incentive plans	—	—	—	5,263	—	—	5,263
Adoption of ASU No. 2016-02, derecognition of build-to-suit lease, (see Note 1)	—	—	—	—	8,280	—	8,280
Balances at September 30, 2019	<u>30,401,270</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 655,998</u>	<u>\$ 78,344</u>	<u>\$ 34,621</u>	<u>\$ 768,969</u>

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Number of Common Shares Outstanding	Common Shares (Par)	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<i>(in thousands, except share amounts)</i>							
Balances at June 30, 2018	29,917,821	\$ 6	\$ —	\$ 641,290	\$ 66,677	\$ (18,730)	\$ 689,243
Net income	—	—	—	—	19,581	—	19,581
Other comprehensive loss	—	—	—	—	—	(4,389)	(4,389)
Dividends	—	—	—	—	(9,080)	—	(9,080)
Exercise of stock options	32,299	—	—	372	—	—	372
Compensation expense under share incentive plans	—	—	—	1,681	—	—	1,681
Balances at September 30, 2018	<u>29,950,120</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 643,343</u>	<u>\$ 77,178</u>	<u>\$ (23,119)</u>	<u>\$ 697,408</u>
Balances at December 31, 2017	29,696,682	\$ 6	\$ —	\$ 636,149	\$ 48,198	\$ 10,346	\$ 694,699
Net income	—	—	—	—	52,198	—	52,198
Other comprehensive loss	—	—	—	—	—	(29,494)	(29,494)
Dividends	—	—	—	—	(27,189)	—	(27,189)
Exercise of stock options	210,134	—	—	3,175	—	—	3,175
Vesting of RSUs	43,304	—	—	(777)	—	—	(777)
Compensation expense under share incentive plans	—	—	—	4,796	—	—	4,796
Cumulative effect of adoption of ASU No. 2016-01, net of taxes	—	—	—	—	4,682	(4,682)	—
Cumulative effect of adoption of ASU No. 2018-02	—	—	—	—	(711)	711	—
Balances at September 30, 2018	<u>29,950,120</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 643,343</u>	<u>\$ 77,178</u>	<u>\$ (23,119)</u>	<u>\$ 697,408</u>

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2019	2018
	<i>(in thousands)</i>	
Operating activities		
Net cash provided by operating activities	\$ 213,787	\$ 251,913
Investing activities		
Securities available-for-sale:		
Purchases – fixed maturity securities	(327,725)	(367,279)
Sales – fixed maturity securities	102,030	82,498
Maturities and calls – fixed maturity securities	85,921	113,980
Purchases – equity securities	(4,975)	(6,274)
Sales – equity securities	3,131	3,180
Bank loan participations:		
Purchases	(73,102)	(165,878)
Sales	41,707	98,739
Maturities	34,303	43,139
Other invested assets:		
Purchases	—	(6,993)
Return of capital	1,477	260
Redemptions	7,016	—
Short-term investments, net	32,082	(3,415)
Securities receivable or payable, net	10,673	3,064
Purchases of property and equipment	(442)	(595)
Net cash used in investing activities	(87,904)	(205,574)
Financing activities		
Senior debt repayment	(20,000)	—
Dividends paid	(27,463)	(27,024)
Issuance of common shares under equity incentive plans	7,961	4,296
Common share repurchases	(2,536)	(1,898)
Other financing activities	—	(791)
Net cash used in financing activities	(42,038)	(25,417)
Change in cash and cash equivalents	83,845	20,922
Cash and cash equivalents at beginning of period	172,457	163,495
Cash and cash equivalents at end of period	\$ 256,302	\$ 184,417
Supplemental information		
Interest paid	\$ 9,510	\$ 8,380

See accompanying notes.

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

1. Accounting Policies

Organization

James River Group Holdings, Ltd. (referred to as “JRG Holdings” or, with its subsidiaries, the “Company”) is an exempted holding company registered in Bermuda, organized for the purpose of acquiring and managing insurance and reinsurance entities.

The Company owns five insurance companies based in the United States (“U.S.”) focused on specialty insurance niches and two Bermuda-based reinsurance companies as described below:

- James River Group Holdings UK Limited (“James River UK”) is an insurance holding company formed in 2015 in the United Kingdom (“U.K.”). JRG Holdings contributed James River Group, Inc. (“James River Group”), a U.S. insurance holding company, to James River UK in 2015.
- James River Group is a Delaware domiciled insurance holding company formed in 2002 which owns all of the Company’s U.S.-based subsidiaries, either directly or indirectly through one of its wholly-owned U.S. subsidiaries. James River Group oversees the Company’s U.S. insurance operations and maintains all of the outstanding debt in the U.S.
- James River Insurance Company is an Ohio domiciled excess and surplus lines insurance company that, with its wholly-owned insurance subsidiary, James River Casualty Company, a Virginia domiciled company, is authorized to write business in every state and the District of Columbia.
- Falls Lake National Insurance Company (“Falls Lake National”) is an Ohio domiciled insurance company which wholly owns Stonewood Insurance Company (“Stonewood Insurance”), a North Carolina domiciled company, and Falls Lake Fire and Casualty Company, a California domiciled company. Falls Lake National and its subsidiaries primarily write specialty admitted fronting and program business and individual risk workers' compensation insurance.
- JRG Reinsurance Company Ltd. (“JRG Re”) was formed in 2007 and commenced operations in 2008. JRG Re, a Bermuda domiciled reinsurer, primarily provides non-catastrophe casualty reinsurance to U.S. third parties and, through December 31, 2017, to the Company’s U.S.-based insurance subsidiaries.
- Carolina Re Ltd (“Carolina Re”) was formed in 2018 and as of January 1, 2018 provides reinsurance to the Company’s U.S.-based insurance subsidiaries. Carolina Re is also the cedent on a stop loss reinsurance treaty with JRG Re.

Basis of Presentation

The accompanying condensed consolidated financial statements and notes have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and do not contain all of the information and footnotes required by U.S. GAAP for complete financial statements. The condensed consolidated financial statements include the results of the Company and its subsidiaries from their respective dates of inception or acquisition, as applicable. Readers are urged to review the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 for a more complete description of the Company’s business and accounting policies. In the opinion of management, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Such adjustments consist only of normal recurring items. Interim results are not necessarily indicative of results of operations for the full year. The consolidated balance sheet as of December 31, 2018 was derived from the Company’s audited annual consolidated financial statements.

Intercompany transactions and balances have been eliminated.

Estimates and Assumptions

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

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

Variable Interest Entities

Entities that do not have sufficient equity at risk to allow the entity to finance its activities without additional financial support or in which the equity investors, as a group, do not have the characteristic of a controlling financial interest are referred to as variable interest entities ("VIE"). A VIE is consolidated by the variable interest holder that is determined to have the controlling financial interest (primary beneficiary) as a result of having both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company determines whether it is the primary beneficiary of an entity subject to consolidation based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose, and the Company's relative exposure to the related risks of the VIE on the date it becomes initially involved in the VIE. The Company reassesses its VIE determination with respect to an entity on an ongoing basis.

The Company holds interests in VIEs through certain equity method investments included in "other invested assets" in the accompanying condensed consolidated balance sheets. The Company has determined that it should not consolidate any of the VIEs as it is not the primary beneficiary in any of the relationships. Although the investments resulted in the Company holding variable interests in the entities, they did not empower the Company to direct the activities that most significantly impact the economic performance of the entities. The Company's investments related to these VIEs totaled \$31.6 million and \$29.8 million as of September 30, 2019 and December 31, 2018, respectively, representing the Company's maximum exposure to loss.

Income Tax Expense

Our effective tax rate fluctuates from period to period based on the relative mix of income reported by country and the respective tax rates imposed by each tax jurisdiction. For the nine months ended September 30, 2019 and 2018, our U.S. federal income tax expense was 22.4% and 9.6% of income before taxes, respectively. For U.S.-sourced income, the Company's U.S. federal income tax expense differs from the amounts computed by applying the federal statutory income tax rate to income before taxes due primarily to interest income on tax-advantaged state and municipal securities, dividends received income, and excess tax benefits on share based compensation. The effective tax rate for the nine months ended September 30, 2019 was elevated due to changes in reserve estimates between accident years in the commercial auto business, and the related impact on the mix of income reported by country.

Effective January 1, 2018, the Company adopted ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This update was issued as a result of the enactment of the Tax Cuts and Jobs Act of 2017 ("TCJA"). The ASU allows for the option to reclassify the stranded tax effects resulting from the implementation of the TCJA out of accumulated other comprehensive income and into retained earnings. The reclassification resulted in a \$711,000 decrease to the Company's retained earnings with a corresponding increase to accumulated other comprehensive income in the first quarter of 2018 in connection with the Company's adoption of this ASU.

Adopted Accounting Standards

Effective January 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*. This update requires the recognition of a right-of-use asset and a corresponding lease liability, discounted to the present value, for all leases that extend beyond 12 months. The Company adopted the new standard using a modified retrospective transition method, applying the transition provisions at the beginning of the period of adoption. The Company elected the package of practical expedients permitted under the transition guidance within the new standard and did not elect to use hindsight in determining the lease term. Upon adoption of the new standard, the Company derecognized assets of \$22.6 million and liabilities of \$30.9 million associated with a lease that was designated as build-to-suit under the previous guidance, and recorded a cumulative-effect adjustment to increase retained earnings by \$8.3 million.

The Company recorded right-of-use assets of \$17.2 million and lease liabilities of \$17.8 million at adoption of the new standard associated with operating leases for office space in Bermuda, North Carolina, Virginia, Arizona, and Georgia. The new standard did not materially impact the Company's results of operations, earnings per share, or cash flows, and did not impact compliance under the covenants of our current credit agreements.

At September 30, 2019, right-of-use assets and lease liabilities were \$16.2 million and \$17.1 million, respectively. Operating lease costs were \$1.3 million and \$3.8 million in the three and nine months ended September 30, 2019, respectively, compared to \$1.3 million and \$3.5 million in the respective prior year periods. The weighted-average discount rate and weighted average remaining lease term for operating leases was 4.3% and 5.5 years, respectively, as of September 30, 2019.

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

The table below summarizes maturities of the Company's operating lease liabilities as of September 30, 2019, which reconciles to total lease liabilities included in other liabilities on the Company's condensed consolidated balance sheet:

Years ending December 31,	<i>(in thousands)</i>
2019	\$ 959
2020	3,680
2021	3,491
2022	3,293
2023	3,099
Thereafter	4,706
Total lease payments	19,228
Less imputed interest	(2,159)
Total operating lease liabilities	\$ 17,069

Prospective Accounting Standards

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Current GAAP requires the recognition of credit losses when it is probable a loss has been incurred. The update will require financial assets measured at amortized cost, such as bank loan participations held for investment, to be presented at the net amount expected to be collected by means of an allowance for credit losses that is reflected in net income. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses, with the amount of the allowance limited to the amount by which fair value is below amortized cost. This ASU is effective for annual and interim reporting periods beginning after December 15, 2019. The Company plans to adopt the ASU on January 1, 2020 using the modified-retrospective approach, by which a cumulative-effect adjustment will be made to retained earnings as of the date of adoption. The Company is finalizing its implementation process for the adoption of this ASU and the evaluation of what effects the new standard will have on the Company's financial statements.

This ASU will have the greatest impact on our portfolio of bank loan participations and on our allowance for uncollectible reinsurance balances. In connection with the adoption of this ASU, we expect to elect the fair value option in accounting for bank loan participations effective January 1, 2020. We also expect to use the targeted transition relief offered by ASU 2019-05, *Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief* to also 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 will be measured at fair value, and changes in unrealized gains and losses in bank loan participations will be reported in our income statement as net realized and unrealized gains (losses) on investments.

Upon adoption of this ASU, we anticipate that we will establish an allowance for uncollectible reinsurance balances, but because we purchase reinsurance from financially strong reinsurers or we have collateral securing the recoverables, we do not expect that the effect of adoption will be material to our financial position.

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

2. Investments

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(in thousands)</i>				
September 30, 2019				
Fixed maturity securities:				
State and municipal	\$ 145,016	\$ 9,460	\$ (89)	\$ 154,387
Residential mortgage-backed	245,315	2,849	(951)	247,213
Corporate	603,524	21,887	(231)	625,180
Commercial mortgage and asset-backed	230,417	5,221	(434)	235,204
U.S. Treasury securities and obligations guaranteed by the U.S. government	111,834	1,538	(40)	113,332
Redeemable preferred stock	2,025	—	(18)	2,007
Total fixed maturity securities, available-for-sale	\$ 1,338,131	\$ 40,955	\$ (1,763)	\$ 1,377,323
December 31, 2018				
Fixed maturity securities:				
State and municipal	\$ 147,160	\$ 3,422	\$ (1,287)	\$ 149,295
Residential mortgage-backed	208,869	577	(5,337)	204,109
Corporate	534,024	1,516	(10,772)	524,768
Commercial mortgage and asset-backed	199,528	310	(2,813)	197,025
U.S. Treasury securities and obligations guaranteed by the U.S. government	107,803	235	(845)	107,193
Redeemable preferred stock	2,025	—	(213)	1,812
Total fixed maturity securities, available-for-sale	\$ 1,199,409	\$ 6,060	\$ (21,267)	\$ 1,184,202

The amortized cost and fair value of available-for-sale investments in fixed maturity securities at September 30, 2019 are summarized, by contractual maturity, as follows:

	Cost or Amortized Cost	Fair Value
<i>(in thousands)</i>		
One year or less	\$ 76,678	\$ 77,005
After one year through five years	459,889	470,945
After five years through ten years	205,048	214,952
After ten years	118,759	129,997
Residential mortgage-backed	245,315	247,213
Commercial mortgage and asset-backed	230,417	235,204
Redeemable preferred stock	2,025	2,007
Total	\$ 1,338,131	\$ 1,377,323

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

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

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

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(in thousands)</i>						
September 30, 2019						
Fixed maturity securities:						
State and municipal	\$ 14,250	\$ (87)	\$ 667	\$ (2)	\$ 14,917	\$ (89)
Residential mortgage-backed	21,623	(34)	60,059	(917)	81,682	(951)
Corporate	17,310	(149)	29,627	(82)	46,937	(231)
Commercial mortgage and asset-backed	18,225	(70)	52,823	(364)	71,048	(434)
U.S. Treasury securities and obligations guaranteed by the U.S. government	105	(1)	16,030	(39)	16,135	(40)
Redeemable preferred stock	2,007	(18)	—	—	2,007	(18)
Total fixed maturity securities, available-for-sale	\$ 73,520	\$ (359)	\$ 159,206	\$ (1,404)	\$ 232,726	\$ (1,763)
December 31, 2018						
Fixed maturity securities:						
State and municipal	\$ 19,733	\$ (284)	\$ 47,018	\$ (1,003)	\$ 66,751	\$ (1,287)
Residential mortgage-backed	49,180	(743)	105,778	(4,594)	154,958	(5,337)
Corporate	243,384	(5,089)	155,902	(5,683)	399,286	(10,772)
Commercial mortgage and asset-backed	106,423	(1,229)	51,805	(1,584)	158,228	(2,813)
U.S. Treasury securities and obligations guaranteed by the U.S. government	17,618	(51)	54,201	(794)	71,819	(845)
Redeemable preferred stock	1,812	(213)	—	—	1,812	(213)
Total fixed maturity securities, available-for-sale	\$ 438,150	\$ (7,609)	\$ 414,704	\$ (13,658)	\$ 852,854	\$ (21,267)

The Company held securities of 76 issuers that were in an unrealized loss position at September 30, 2019 with a total fair value of \$232.7 million and gross unrealized losses of \$1.8 million. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment.

At September 30, 2019, 99.6% 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 September 30, 2019 had an aggregate fair value of \$5.3 million and an aggregate net unrealized gain of \$79,000.

At March 31, 2019, management concluded that three fixed maturity securities from one issuer that we intended to sell at a loss in the second quarter were impaired. The Company recorded impairment losses on these securities of \$271,000 in the three months ended March 31, 2019. Management concluded that none of the fixed maturity securities with an unrealized loss at September 30, 2019 or December 31, 2018 had experienced an other-than-temporary impairment. For fixed maturity securities available-for-sale that are not other-than-temporarily impaired at September 30, 2019, 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 five loans from four issuers in the Company's bank loan portfolio were impaired at September 30, 2019. At September 30, 2019, the impaired loans had a carrying value of \$6.4 million, unpaid principal of \$12.3 million, and an allowance for credit losses of \$5.9 million, \$4.2 million of which related to two loans from one issuer who is experiencing liquidity concerns resulting from revenue declines and poor growth prospects in its most profitable segment. Management concluded that none of the loans in the Company's bank loan portfolio were impaired at September 30, 2018 or December 31, 2018. The aggregate allowance for credit losses on impaired loans was \$3.2 million at December 31, 2017.

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

At December 31, 2017, the Company held a participation in a loan with unpaid principal of \$807,000 issued by a company that produces and supplies power to Puerto Rico through a power purchase agreement with Puerto Rico Electric Power Authority, a public corporation and governmental agency of the Commonwealth of Puerto Rico. Management concluded that an allowance for credit losses should be established on the loan at December 31, 2017 to reduce its carrying value to \$0. In the first quarter of 2018, the full outstanding principal on the loan was repaid and the Company recognized a realized gain of \$807,000 on the repayment.

Bank loan participations generally provide a higher yield than our portfolio of fixed maturities and 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.

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. 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 September 30, 2019 or December 31, 2018.

The allowance for credit losses is maintained at a level believed adequate by management to absorb estimated probable credit losses. Management’s periodic evaluation of the adequacy of the allowance is based on consultations and advice of the Company’s independent investment manager, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, current economic conditions, and other relevant factors. When an observable market price for a loan is available, the Company has recorded an allowance equal to the difference between the fair value and the amortized cost of bank loans that it has determined to be impaired as a practical expedient for an estimate of probable future cash flows to be collected on those bank loans. Bank loans are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The average recorded investment in impaired bank loans was \$3.2 million and \$2.6 million during the nine months ended September 30, 2019 and 2018, respectively. Investment income of \$23,000 and \$125,000, respectively, was recognized during the time within those periods that the loans were impaired. The Company recorded net realized investment losses of \$5.9 million and \$7.7 million in the three and nine months ended September 30, 2019, respectively, for changes in the fair value of impaired bank loans (net realized investment gains of \$42,000 and net realized investment losses of \$851,000 in three and nine months ended September 30, 2018 respectively).

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	<i>(in thousands)</i>			
Fixed maturity securities:				
Gross realized gains	\$ 445	\$ 12	\$ 1,033	\$ 394
Gross realized losses	(9)	(225)	(494)	(700)
	436	(213)	539	(306)
Bank loan participations:				
Gross realized gains	79	186	229	1,766
Gross realized losses	(6,056)	—	(9,056)	(1,106)
	(5,977)	186	(8,827)	660
Equity securities:				
Gross realized gains	11	—	11	—
Gross realized losses	(78)	—	(96)	(62)
Changes in fair values of equity securities	3,251	494	8,700	(695)
	3,184	494	8,615	(757)
Short-term investments and other:				
Gross realized gains	1	—	5	—
Gross realized losses	(1)	—	(1)	(4)
	—	—	4	(4)
Total	\$ (2,357)	\$ 467	\$ 331	\$ (407)

Realized investment gains or losses are determined on a specific identification basis.

The Company invests selectively in private debt and equity opportunities. These investments, which together comprise the Company's other invested assets, are primarily focused in renewable energy, limited partnerships, and bank holding companies.

	Carrying Value		Investment Income			
	September 30,	December 31,	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018	2019	2018
	<i>(in thousands)</i>					
Renewable energy LLCs (a)	\$ 31,618	\$ 29,795	\$ 1,602	\$ 329	\$ 2,510	\$ 2,070
Renewable energy notes receivable (b)	8,750	8,750	328	328	984	954
Limited partnerships (c)	20,996	29,276	(631)	989	2,166	2,307
Bank holding companies (d)	4,500	4,500	85	85	257	257
Total other invested assets	\$ 65,864	\$ 72,321	\$ 1,384	\$ 1,731	\$ 5,917	\$ 5,588

(a)The Company's Corporate and Other segment owns equity interests ranging from 2.6% to 32.2% in various LLCs whose principal objective is capital appreciation and income generation from owning and operating renewable energy production facilities (wind and solar). The LLCs are managed by an entity for which one of our directors serves as an officer, and the Company's Chairman and Chief Executive Officer ("CEO") has invested in certain of these LLCs. The equity method is used to account for the Company's LLC investments. Income for the LLCs primarily reflects adjustments to the carrying values of investments in renewable energy projects to their determined fair values. The fair value adjustments are included in revenues for the LLCs. Expenses for the LLCs are not significant and are comprised of administrative and interest expenses. The Company received cash distributions from these investments totaling \$687,000 and \$2.8 million in the nine months ended September 30, 2019 and 2018, respectively.

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

- (b) The Company's Corporate and Other segment has invested in notes receivable for renewable energy projects. At September 30, 2019, the Company holds an \$8.8 million note issued by an entity for which one of our directors serves as an officer. Interest on the note, which matures in 2021, is fixed at 15.0%. Interest income on the note was \$328,000 and \$984,000 for the three and nine months ended September 30, 2019, respectively (\$328,000 and \$954,000 for the three and nine months ended September 30, 2018, respectively).
- (c) The Company owns investments in limited partnerships that invest in concentrated portfolios including publicly-traded small cap equities, loans of middle market private equity sponsored companies, equity tranches of collateralized loan obligations ("CLOs"), and tranches of distressed home loans. Income from the partnerships is recognized under the equity method of accounting. The Company's Corporate and Other segment held an investment in a limited partnership with a carrying value of \$3.3 million at September 30, 2019. The Company recognized investment income of \$182,000 and \$474,000 on the investment for the nine months ended September 30, 2019 and 2018, respectively. The Company's Excess and Surplus Lines segment holds investments in limited partnerships of \$17.7 million at September 30, 2019. Investment income of \$2.0 million and \$1.8 million was recognized on the investments for the nine months ended September 30, 2019 and 2018, respectively. At September 30, 2019, the Company's Excess and Surplus Lines segment has outstanding commitments to invest another \$625,000 in these limited partnerships.
- (d) The Company's Corporate and Other segment holds \$4.5 million of subordinated notes issued by a bank holding company for which the Company's Chairman and CEO was previously the Lead Independent Director and an investor and for which one of the Company's directors was an investor and is currently a holder of the subordinated notes (the "Bank Holding Company"). Interest on the notes, which mature on August 12, 2023, is fixed at 7.6% per annum. Interest income on the notes was \$257,000 in both the nine months ended September 30, 2019 and 2018, respectively.

At September 30, 2019 and December 31, 2018, the Company held an investment in a CLO where one of the underlying loans was issued by the Bank Holding Company. The investment, with a carrying value of \$3.4 million at September 30, 2019, is classified as an available-for-sale fixed maturity.

3. Goodwill and Intangible Assets

On December 11, 2007, the Company completed an acquisition of James River Group by acquiring 100% of the outstanding shares of James River Group common stock, referred to herein as the "Merger". The transaction was accounted for under the purchase method of accounting, and goodwill and intangible assets were recognized by the Company as a result of the transaction. Goodwill resulting from the Merger was \$181.8 million at September 30, 2019 and December 31, 2018.

The gross carrying amounts and accumulated amortization for each major specifically identifiable intangible asset class were as follows:

	Life (Years)	September 30, 2019		December 31, 2018	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<i>(\$ in thousands)</i>					
Intangible Assets					
Trademarks	Indefinite	\$ 22,200	\$ —	\$ 22,200	\$ —
Insurance licenses and authorities	Indefinite	8,964	—	8,964	—
Identifiable intangibles not subject to amortization		31,164	—	31,164	—
Broker relationships	24.6	11,611	5,685	11,611	5,238
Identifiable intangible assets subject to amortization		11,611	5,685	11,611	5,238
		<u>\$ 42,775</u>	<u>\$ 5,685</u>	<u>\$ 42,775</u>	<u>\$ 5,238</u>

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

4. Earnings Per Share

The following represents a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations contained in the condensed consolidated financial statements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	<i>(in thousands, except share and per share amounts)</i>			
Net (loss) income to shareholders	\$ (25,167)	\$ 19,581	\$ 17,868	\$ 52,198
Weighted average common shares outstanding:				
Basic	30,382,105	29,935,216	30,230,490	29,861,467
Common share equivalents	—	444,929	428,899	428,716
Diluted	<u>30,382,105</u>	<u>30,380,145</u>	<u>30,659,389</u>	<u>30,290,183</u>
Earnings per share:				
Basic	\$ (0.83)	\$ 0.65	\$ 0.59	\$ 1.75
Common share equivalents	—	(0.01)	(0.01)	(0.03)
Diluted	<u>\$ (0.83)</u>	<u>\$ 0.64</u>	<u>\$ 0.58</u>	<u>\$ 1.72</u>

Common share equivalents relate to our outstanding equity awards (stock options and restricted share units ("RSUs")). For the three months ended September 30, 2019, common share equivalents of 431,137 were excluded from the calculation of diluted earnings per share as a net loss for the three months ended September 30, 2019 made the effects of all common share equivalents anti-dilutive. For the nine months ended September 30, 2019, all common share equivalents are dilutive. For the three and nine months ended September 30, 2018, common share equivalents of 173,758 and 182,870 shares, respectively, were excluded from the calculations of diluted earnings per share as their effects were anti-dilutive.

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

5. Reserve for Losses and Loss Adjustment Expenses

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 condensed consolidated balance sheets:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	<i>(in thousands)</i>			
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period	\$ 1,237,930	\$ 1,092,818	\$ 1,194,088	\$ 989,825
Add: Incurred losses and loss adjustment expenses net of reinsurance:				
Current year	157,113	138,168	440,810	436,921
Prior years	56,971	12,219	60,254	11,833
Total incurred losses and loss and adjustment expenses	214,084	150,387	501,064	448,754
Deduct: Loss and loss adjustment expense payments net of reinsurance:				
Current year	21,021	25,149	46,275	57,903
Prior years	104,513	72,695	322,397	235,315
Total loss and loss adjustment expense payments	125,534	97,844	368,672	293,218
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at end of period	1,326,480	1,145,361	1,326,480	1,145,361
Add: Reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	614,827	424,400	614,827	424,400
Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	\$ 1,941,307	\$ 1,569,761	\$ 1,941,307	\$ 1,569,761

The Company experienced \$57.0 million of adverse reserve development in the three months ended September 30, 2019 on the reserve for losses and loss adjustment expenses held at December 31, 2018. This reserve development included \$50.0 million of adverse development in the Excess and Surplus Lines segment primarily related to the 2016 and 2017 accident years for the commercial auto business. The Specialty Admitted Insurance segment experienced \$1.0 million of favorable development due to favorable development in the workers' compensation business for prior accident years. The Company also experienced \$7.9 million of adverse development in the Casualty Reinsurance segment due to higher than expected levels of reported losses in the quarter.

The Company experienced \$12.2 million of adverse reserve development in the three months ended September 30, 2018 on the reserve for losses and loss adjustment expenses held at December 31, 2017. This reserve development included \$10.4 million of adverse development in the Excess and Surplus Lines segment, primarily from adverse development in commercial auto business which was partially offset by \$3.0 million of favorable development on the property catastrophe losses from the September 2017 storms. The Specialty Admitted Insurance segment experienced \$833,000 of favorable development, primarily due to favorable development in the workers' compensation business for prior accident years. The Company also experienced \$2.7 million of adverse development in the Casualty Reinsurance segment.

The Company experienced \$60.3 million of adverse reserve development in the nine months ended September 30, 2019 on the reserve for losses and loss adjustment expenses held at December 31, 2018. This reserve development included \$51.2 million of adverse development in the Excess and Surplus Lines segment primarily related to the 2016 and 2017 accident years for the commercial auto business. The Specialty Admitted Insurance segment experienced \$4.3 million of favorable development due to favorable development in the workers' compensation business for prior accident years. The Company also experienced \$13.3 million of adverse development in the Casualty Reinsurance segment due to higher than expected levels of reported losses in the nine months ended September 30, 2019.

The Company experienced \$11.8 million of adverse reserve development in the nine months ended September 30, 2018 on the reserve for losses and loss adjustment expenses held at December 31, 2017. This reserve development included \$9.2 million of adverse development in the Excess and Surplus Lines segment, primarily from adverse development in commercial auto business which was partially offset by favorable development in other core Excess and Surplus Lines including \$4.9 million of favorable

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

development on the property catastrophe losses from the September 2017 storms. The Specialty Admitted Insurance segment experienced \$2.3 million of favorable development, primarily due to favorable development in the workers' compensation business for prior accident years, partially offset by adverse development on certain terminated program business. The Company also experienced \$4.9 million of adverse development in the Casualty Reinsurance segment.

6. Other Comprehensive Income (Loss)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	<i>(in thousands)</i>			
Unrealized gains (losses) arising during the period, before U.S. income taxes	\$ 10,531	\$ (5,009)	\$ 54,937	\$ (30,934)
U.S. income taxes	(690)	425	(4,045)	1,124
Unrealized gains (losses) arising during the period, net of U.S. income taxes	9,841	(4,584)	50,892	(29,810)
Less reclassification adjustment:				
Net realized investment gains (losses)	436	(213)	539	(306)
U.S. income taxes	(52)	18	(96)	(10)
Reclassification adjustment for investment gains (losses) realized in net income	384	(195)	443	(316)
Other comprehensive income (loss)	\$ 9,457	\$ (4,389)	\$ 50,449	\$ (29,494)

In addition to the \$436,000 and \$539,000 of net realized investment gains on available-for-sale fixed maturity securities for the three and nine months ended September 30, 2019, respectively (\$213,000 and \$306,000 of net realized investment losses in the respective prior year periods), the Company also recognized \$6.0 million and \$8.8 million of net realized investment losses in the respective periods on its investments in bank loan participations (\$186,000 and \$660,000 of net realized investment gains in the respective prior year periods), and \$3.3 million and \$8.7 million of net realized gains in the respective periods for the change in fair values of equity securities (\$494,000 of net realized gains and \$695,000 of net realized losses in the respective prior year periods).

7. 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.

JRG Re has entered into three letter of credit facilities with banks as security to third-party reinsureds on reinsurance assumed by JRG Re. JRG Re has established custodial accounts to secure these letters of credit. Under a \$75.0 million facility, \$48.2 million of letters of credit were issued through September 30, 2019 which were secured by deposits of \$60.9 million. Under a \$102.5 million facility, \$64.1 million of letters of credit were issued through September 30, 2019 which were secured by deposits of \$83.3 million. Under a \$100.0 million facility, \$5.3 million of letters of credit were issued through September 30, 2019 which were secured by deposits of \$10.9 million. JRG Re has also 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 \$299.1 million at September 30, 2019.

The Company is a party to a set of insurance contracts with an insured group of companies under which the Company pays losses and loss adjustment expenses on the contract. The Company has indemnity agreements with this group of insured parties (non-insurance entities) and is contractually entitled to receive reimbursement for a significant portion of the losses and loss adjustment expenses paid on behalf of the insured parties and other expenses incurred by the Company. The insured parties are required to collateralize all amounts currently due to the Company and to provide additional collateral sufficient to cover the amounts that may be recoverable under the indemnity agreement, including, among other things, case loss and loss adjustment expense reserves, IBNR loss and loss adjustment expense reserves, extra contractual obligations and excess of policy limits liabilities. The collateral is currently provided through a collateral trust arrangement established in favor of the Company by a captive insurance company affiliate of the insured group. At September 30, 2019, the cash equivalent collateral held in the collateral trust arrangement was approximately \$1,168.9 million. The Company has ongoing exposure to estimated losses and expenses on these contracts growing at a faster pace than growth in our collateral balances. In addition, we have credit exposure if our estimates of future losses and loss adjustment expenses and other amounts recoverable, which are the basis for establishing collateral balances,

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

are lower than actual amounts paid or payable. The amount of our credit exposure in any of these instances could be material. To mitigate these risks, we closely and frequently monitor our exposure compared to our collateral held, and we request additional collateral when our analysis indicates that we have uncollateralized exposure.

On October 9, 2019, the Company withdrew \$1,170.7 million from the collateral trust arrangement. See Note 12 for additional information regarding the withdrawal of the collateral.

8. Segment Information

The Company has four reportable segments: the Excess and Surplus Lines segment, the Specialty Admitted Insurance segment, the Casualty Reinsurance segment, and the Corporate and Other segment. Segment profit (loss) is measured by underwriting profit (loss), which is generally defined as net earned premiums less loss and loss adjustment expenses and other operating expenses of the operating segments. Gross fee income of the Excess and Surplus Lines segment is included in that segment's underwriting profit. Gross fee income of \$2.2 million and \$3.0 million was included in underwriting profit for the three months ended September 30, 2019 and 2018, respectively (\$7.1 million and \$11.5 million for the nine months ended September 30, 2019 and 2018, respectively). Segment results are reported prior to the effects of intercompany reinsurance agreements among the Company's insurance subsidiaries.

The following table summarizes the Company's segment results:

	Excess and Surplus Lines	Specialty Admitted Insurance	Casualty Reinsurance	Corporate and Other	Total
	<i>(in thousands)</i>				
Three Months Ended September 30, 2019					
Gross written premiums	\$ 241,045	\$ 100,459	\$ 46,724	\$ —	\$ 388,228
Net earned premiums	164,759	14,242	34,373	—	213,374
Underwriting (loss) profit of insurance segments	(29,351)	837	(4,288)	—	(32,802)
Net investment income	3,467	976	11,717	1,718	17,878
Interest expense	—	—	—	2,594	2,594
Segment revenues	170,734	16,493	42,403	1,844	231,474
Segment goodwill	181,831	—	—	—	181,831
Segment assets	1,186,094	773,677	1,631,569	69,576	3,660,916
Three Months Ended September 30, 2018					
Gross written premiums	\$ 157,237	\$ 98,607	\$ 24,125	\$ —	\$ 279,969
Net earned premiums	141,529	13,898	49,263	—	204,690
Underwriting profit of insurance segments	11,302	1,769	1,576	—	14,647
Net investment income	4,542	825	10,031	1,012	16,410
Interest expense	—	—	—	2,991	2,991
Segment revenues	149,807	14,400	59,416	1,069	224,692
Segment goodwill	181,831	—	—	—	181,831
Segment assets	929,408	630,982	1,393,721	81,323	3,035,434

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

	Excess and Surplus Lines	Specialty Admitted Insurance	Casualty Reinsurance	Corporate and Other	Total
<i>(in thousands)</i>					
Nine Months Ended September 30, 2019					
Gross written premiums	\$ 687,871	\$ 292,884	\$ 114,810	\$ —	\$ 1,095,565
Net earned premiums	457,352	39,688	105,600	—	602,640
Underwriting (loss) profit of insurance segments	(439)	3,758	(4,061)	—	(742)
Net investment income	13,240	2,791	34,875	3,938	54,844
Interest expense	—	—	—	8,086	8,086
Segment revenues	481,745	45,169	134,731	4,330	665,975
Segment goodwill	181,831	—	—	—	181,831
Segment assets	1,186,094	773,677	1,631,569	69,576	3,660,916
Nine Months Ended September 30, 2018					
Gross written premiums	\$ 490,121	\$ 283,108	\$ 98,234	\$ —	\$ 871,463
Net earned premiums	410,627	41,504	161,711	—	613,842
Underwriting profit of insurance segments	32,718	4,380	5,049	—	42,147
Net investment income	11,934	2,375	27,710	3,782	45,801
Interest expense	—	—	—	8,459	8,459
Segment revenues	434,146	43,791	189,196	3,944	671,077
Segment goodwill	181,831	—	—	—	181,831
Segment assets	929,408	630,982	1,393,721	81,323	3,035,434

The following table reconciles the underwriting profit (loss) of the operating segments by individual segment to consolidated income before taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>(in thousands)</i>				
Underwriting (loss) profit of the insurance segments:				
Excess and Surplus Lines	\$ (29,351)	\$ 11,302	\$ (439)	\$ 32,718
Specialty Admitted Insurance	837	1,769	3,758	4,380
Casualty Reinsurance	(4,288)	1,576	(4,061)	5,049
Total underwriting (loss) profit of insurance segments	(32,802)	14,647	(742)	42,147
Other operating expenses of the Corporate and Other segment	(7,302)	(6,526)	(22,641)	(21,264)
Underwriting (loss) profit	(40,104)	8,121	(23,383)	20,883
Net investment income	17,878	16,410	54,844	45,801
Net realized and unrealized (losses) gains on investments	(2,357)	467	331	(407)
Amortization of intangible assets	(149)	(149)	(447)	(447)
Other income and expenses	(91)	258	(223)	366
Interest expense	(2,594)	(2,991)	(8,086)	(8,459)
(Loss) income before taxes	\$ (27,417)	\$ 22,116	\$ 23,036	\$ 57,737

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

9. Other Operating Expenses and Other Expenses

Other operating expenses consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	<i>(in thousands)</i>			
Amortization of policy acquisition costs	\$ 21,258	\$ 27,511	\$ 63,029	\$ 86,381
Other underwriting expenses of the operating segments	13,132	15,143	46,617	48,069
Other operating expenses of the Corporate and Other segment	7,302	6,526	22,641	21,264
Total	\$ 41,692	\$ 49,180	\$ 132,287	\$ 155,714

Other expenses of \$372,000 and \$1.1 million for the three and nine months ended September 30, 2019 consist of employee severance costs. Other expenses of \$(131,000) and \$(34,000) for the three and nine months ended September 30, 2018, respectively, included employee severance, legal, and other professional services associated with the Company's May 2018 secondary offering, and depreciation expense related to a leased building that the Company was previously deemed to own for accounting purposes, offset by rental income on the building.

10. Fair Value Measurements

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

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

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

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

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

Assets measured at fair value on a recurring basis as of September 30, 2019 are summarized below:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
<i>(in thousands)</i>				
Fixed maturity securities, available-for-sale:				
State and municipal	\$ —	\$ 154,387	\$ —	\$ 154,387
Residential mortgage-backed	—	247,213	—	247,213
Corporate	—	625,180	—	625,180
Commercial mortgage and asset-backed	—	235,204	—	235,204
U.S. Treasury securities and obligations guaranteed by the U.S. government	112,826	506	—	113,332
Redeemable preferred stock	—	2,007	—	2,007
Total fixed maturity securities, available-for-sale	\$ 112,826	\$ 1,264,497	\$ —	\$ 1,377,323
Equity securities:				
Preferred stock	—	69,552	—	69,552
Common stock	15,065	4,179	44	19,288
Total equity securities	\$ 15,065	\$ 73,731	\$ 44	\$ 88,840
Short-term investments	\$ —	\$ 49,884	\$ —	\$ 49,884

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

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
<i>(in thousands)</i>				
Fixed maturity securities, available-for-sale:				
State and municipal	\$ —	\$ 149,295	\$ —	\$ 149,295
Residential mortgage-backed	—	204,109	—	204,109
Corporate	—	524,768	—	524,768
Commercial mortgage and asset-backed	—	192,797	4,228	197,025
U.S. Treasury securities and obligations guaranteed by the U.S. government	106,651	542	—	107,193
Redeemable preferred stock	—	1,812	—	1,812
Total fixed maturity securities, available-for-sale	\$ 106,651	\$ 1,073,323	\$ 4,228	\$ 1,184,202
Equity securities:				
Preferred stock	—	60,740	—	60,740
Common stock	16,674	757	214	17,645
Total equity securities	\$ 16,674	\$ 61,497	\$ 214	\$ 78,385
Short-term investments	\$ 1,250	\$ 80,716	\$ —	\$ 81,966

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

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

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Beginning balance	\$ 3,099	\$ 4,680	\$ 4,442	\$ 4,680
Transfers out of Level 3	(3,010)	—	(7,238)	—
Transfers in to Level 3	—	—	3,010	—
Purchases	—	—	—	—
Sales	—	—	—	—
Maturities, calls and paydowns	—	(316)	—	(316)
Amortization of discount	—	—	—	—
Total gains or losses (realized/unrealized):				
Included in earnings	(45)	—	(170)	—
Included in other comprehensive income	—	—	—	—
Ending balance	<u>\$ 44</u>	<u>\$ 4,364</u>	<u>\$ 44</u>	<u>\$ 4,364</u>

The Company held one available-for-sale fixed maturity security at December 31, 2018 for which the fair value was determined using significant unobservable inputs (Level 3). A market approach using prices in trades of comparable securities was utilized to determine a fair value of \$4.2 million for the security at December 31, 2018. A principal payment of \$456,000 was received on the available-for-sale fixed maturity security in the three months ended March 31, 2019. The Company was able to obtain a quoted price from a pricing vendor for the available-for-sale fixed maturity security at March 31, 2019 and it was transferred to Level 2. In the three months ended June 30, 2019, one equity security was transferred from Level 1 to Level 3 as the security was no longer actively traded. In the three months ended September 30, 2019, one equity security was transferred from Level 3 to Level 2 as the Company was able to obtain a quoted price from a pricing vendor for the equity security at September 30, 2019. At September 30, 2019 and December 31, 2018, the Company held one equity security for which the fair value was determined using significant unobservable inputs (Level 3). A market approach using prices in trades of comparable securities was utilized to determine a fair value for the equity securities of \$44,000 at September 30, 2019 and \$214,000 at December 31, 2018. There were no purchases or sales of Level 3 securities for the nine months ended September 30, 2019 or 2018. There were no transfers involving Level 3 securities for the nine months ended September 30, 2018.

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

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2019 or 2018. The Company recognizes transfers between levels at the beginning of the reporting period.

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

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

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

	Fair Value Measurements Using			Total
	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
<i>(in thousands)</i>				
September 30, 2019				
Bank loan participations held-for-investment	\$ —	\$ —	\$ 6,361	\$ 6,361
December 31, 2018				
Bank loan participations held-for-investment	\$ —	\$ —	\$ —	\$ —

Bank loan participations held-for-investment that were determined to be impaired were written down to their fair value of \$6.4 million at September 30, 2019. Management concluded that none of the bank loan participations held-for-investment were impaired as of December 31, 2018.

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. At September 30, 2019 and December 31, 2018, there were no investments for which external sources were unavailable to determine fair value.

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

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(in thousands)</i>				
Assets				
Fixed maturity securities, available-for-sale	\$ 1,377,323	\$ 1,377,323	\$ 1,184,202	\$ 1,184,202
Equity securities	88,840	88,840	78,385	78,385
Bank loan participations held-for-investment	249,907	242,628	260,972	250,697
Cash and cash equivalents	256,302	256,302	172,457	172,457
Short-term investments	49,884	49,884	81,966	81,966
Other invested assets – notes receivable	13,250	18,767	13,250	18,687
Liabilities				
Senior debt	98,300	101,256	118,300	118,317
Junior subordinated debt	104,055	125,008	104,055	117,057

The fair values of fixed maturity securities and equity securities have been determined using quoted market prices for securities traded in the public market or prices using bid or closing prices for securities not traded in the public marketplace. The fair values of cash and cash equivalents and short-term investments approximate their carrying values due to their short-term maturity.

The fair values of other invested assets-notes receivable, senior debt, and junior subordinated debt at September 30, 2019 and December 31, 2018 were determined by calculating the present value of expected future cash flows under the terms of the note agreements or debt agreements, as applicable, discounted at an estimated market rate of interest at September 30, 2019 and December 31, 2018, respectively.

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

The fair values of bank loan participations held-for-investment, senior debt, and junior subordinated debt at September 30, 2019 and December 31, 2018 were determined using inputs to the valuation methodology that are unobservable (Level 3).

11. Capital Stock and Equity Awards

The Company issued 412,810 common shares in the nine months ended September 30, 2019 with 336,533 of the new shares related to stock option exercises and 76,277 of the new shares related to vesting of RSUs. The total common shares outstanding increased from 29,988,460 at December 31, 2018 to 30,401,270 at September 30, 2019.

The Company declared the following dividends during the first nine months of 2019 and 2018:

Date of Declaration	Dividend per Common Share	Payable to Shareholders of Record on	Payment Date	Total Amount
2019				
February 20, 2019	\$ 0.30	March 11, 2019	March 29, 2019	\$ 9,146,357
April 30, 2019	0.30	June 10, 2019	June 28, 2019	9,204,804
July 30, 2019	0.30	September 16, 2019	September 30, 2019	9,230,801
	<u>\$ 0.90</u>			<u>\$ 27,581,962</u>
2018				
February 22, 2018	\$ 0.30	March 12, 2018	March 30, 2018	\$ 9,049,476
May 1, 2018	0.30	June 11, 2018	June 29, 2018	9,066,023
August 1, 2018	0.30	September 10, 2018	September 28, 2018	9,080,519
	<u>\$ 0.90</u>			<u>\$ 27,196,018</u>

Included in the total dividends for the nine months ended September 30, 2019 and 2018 are \$327,000 and \$297,000, respectively, of dividend equivalents on unvested RSUs. The balance of dividends payable on unvested RSUs was \$651,000 at September 30, 2019 and \$557,000 at December 31, 2018.

Equity Incentive Plans

The Company's shareholders have approved various equity incentive plans, including the Amended and Restated 2009 Equity Incentive Plan (the "Legacy Plan"), the 2014 Long Term Incentive Plan ("2014 LTIP"), and the 2014 Non-Employee Director Incentive Plan ("2014 Director Plan") (collectively, the "Plans"). All awards issued under the Plans are issued at the discretion of the Board of Directors. Under the Legacy Plan, employees received non-qualified stock options. Options are outstanding under the Legacy Plan; however, no additional awards may be granted.

Employees are eligible to receive non-qualified stock options, incentive stock options, share appreciation rights, performance shares, restricted shares, RSUs, and other awards under the 2014 LTIP. The maximum number of shares available for issuance under the 2014 LTIP is 4,171,150, and at September 30, 2019, 1,575,359 shares are available for grant.

Non-employee directors of the Company are eligible to receive non-qualified stock options, share appreciation rights, performance shares, restricted shares, RSUs, and other awards under the 2014 Director Plan. At the 2019 Annual General Meeting of Shareholders of the Company held on April 30, 2019, the Company's shareholders approved an amendment to the 2014 Director Plan. The Board of Directors of the Company had previously approved the amendment. The amendment increased the number of the Company's common shares authorized for issuance under the 2014 Director Plan by 100,000 shares. The maximum number of shares available for issuance under the 2014 Director Plan is 150,000, and at September 30, 2019, 108,594 shares are available for grant.

Generally, awards issued under the 2014 LTIP and 2014 Director Plan vest immediately in the event that an award recipient is terminated without Cause (as defined in the applicable plans), and in the case of the 2014 LTIP for Good Reason (as defined in the applicable plans), at any time following a Change in Control (as defined in the applicable plans).

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

Options

The following table summarizes option activity:

	Nine Months Ended September 30,			
	2019		2018	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding:				
Beginning of period	1,115,324	\$ 29.02	1,479,236	\$ 27.81
Granted	—	\$ —	—	\$ —
Exercised	(450,514)	\$ 26.68	(280,683)	\$ 21.03
Forfeited	(12,058)	\$ 36.84	(42,215)	\$ 36.86
End of period	652,752	\$ 30.50	1,156,338	\$ 29.13
Exercisable, end of period	599,241	\$ 29.44	841,763	\$ 26.64

All of the outstanding options vest over three to four years and have a contractual life of seven years from the original date of grant. All of the outstanding options have an exercise price equal to the fair value of the underlying shares at the date of grant. The weighted-average remaining contractual life of the options outstanding and options exercisable at September 30, 2019 was 3.2 years and 3.1 years, respectively.

RSUs

The following table summarizes RSU activity:

	Nine Months Ended September 30,			
	2019		2018	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Unvested, beginning of period	300,142	\$ 39.22	178,882	\$ 37.93
Granted	197,078	\$ 42.56	218,475	\$ 39.75
Vested	(111,212)	\$ 39.90	(63,191)	\$ 40.92
Forfeited	(22,445)	\$ 41.32	(5,889)	\$ 40.81
Unvested, end of period	363,563	\$ 40.69	328,277	\$ 38.51

The vesting period of RSUs granted to employees range from one to five years and vest ratably over the respective vesting period, and the majority vest in three years. All RSUs granted to date to non-employee directors had a one year vesting period. The holders of RSUs are entitled to dividend equivalents. The dividend equivalents are settled in cash at the same time that the underlying RSUs vest and are subject to the same risk of forfeiture as the underlying shares. The fair value of the RSUs granted is based on the market price of the underlying shares at the date of grant.

Compensation Expense

Share based compensation expense is recognized on a straight line basis over the vesting period. The amount of expense and related tax benefit is summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Share based compensation expense	\$ 1,779	\$ 1,681	\$ 5,263	\$ 4,796
U.S. tax benefit on share based compensation expense	211	198	631	569

JAMES RIVER GROUP HOLDING, LTD. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)

As of September 30, 2019, the Company had \$10.5 million of unrecognized share based compensation expense expected to be charged to earnings over a weighted-average period of 1.8 years.

12. Subsequent Events

On October 8, 2019, the Company delivered a notice of early cancellation, effective December 31, 2019, of all insurance policies issued to its largest customer, Rasier LLC and its affiliates. All insurance policies related to this customer are included in the Company's commercial auto line of business within its Excess and Surplus Lines segment, and a majority of the insurance policies were due to expire on February 29, 2020. In addition, as permitted under the indemnity agreements with this group of insured parties (non-insurance entities), the Company withdrew \$1,170.7 million from the collateral trust arrangement that was established in favor of the Company by a captive insurance company affiliate of the insured group. The collateral funds may be used to reimburse the Company for a significant portion of the losses and loss adjustment expenses paid on behalf of the insured parties and other related expenses incurred by the Company to the extent not paid under the indemnity agreements. Amounts that may be recoverable under the indemnity agreement include, among other things, case loss and loss adjustment expense reserves, IBNR loss and loss adjustment expense reserves, extra contractual obligations and excess of policy limits liabilities. These funds have been invested in short term U.S. government securities. On November 6, 2019, the Company received a letter from its largest customer requesting redeposit of the collateral withdrawn on October 9, 2019 plus interest. We believe the withdrawal of collateral funds was permitted by the applicable agreements, and we do not intend to redeposit the funds.

On November 5, 2019, the Board of Directors declared a cash dividend of \$0.30 per common share. The dividend is payable on December 31, 2019 to shareholders of record on December 16, 2019.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. Factors that could cause such differences are discussed in the sections entitled “Special Note Regarding Forward-Looking Statements” in this Quarterly Report on Form 10-Q, or “Quarterly Report”, and Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018. The results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2019, or for any other future period. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report, and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018.

The accompanying condensed consolidated financial statements and related notes have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) and include the accounts of James River Group Holdings, Ltd. and its subsidiaries. Unless the context indicates or suggests otherwise, references to “the Company”, “we”, “us” and “our” refer to James River Group Holdings, Ltd. and its subsidiaries.

Our Business

James River Group Holdings, Ltd. is a Bermuda-based holding company. We own and operate a group of specialty insurance and reinsurance companies with the objective of generating compelling returns on tangible equity while limiting underwriting and investment volatility. We seek to accomplish this by consistently earning profits from insurance and reinsurance underwriting and generating meaningful risk-adjusted investment returns while managing our capital opportunistically.

We are organized into four reportable segments, which are separately managed business units:

- The Excess and Surplus Lines segment offers commercial excess and surplus lines liability and property insurance in every U.S. state, the District of Columbia, Puerto Rico and the U.S. Virgin Islands through James River Insurance Company and its wholly-owned subsidiary, James River Casualty Company;
- The Specialty Admitted Insurance segment focuses on niche classes within the standard insurance markets, such as workers’ compensation coverage for residential contractors, light manufacturing operations, transportation workers and healthcare workers and fronting business, where we retain a small percentage of the risk and seek to earn fee income by allowing other carriers and producers to use our licensure, ratings, expertise and infrastructure. This segment has admitted licenses and the authority to write excess and surplus lines insurance in 49 states and the District of Columbia;
- The Casualty Reinsurance segment primarily provides proportional and working layer casualty reinsurance to third parties (primarily through reinsurance intermediaries) and stop loss reinsurance to Carolina Re Ltd (“Carolina Re”), through JRG Reinsurance Company Ltd. (“JRG Re”), both Bermuda-based reinsurance companies. JRG Re has also in the past provided reinsurance to the Company’s U.S. based insurance subsidiaries through a quota-share reinsurance agreement; Carolina Re was formed in 2018 to do this as well; and
- The Corporate and Other segment consists of the management and treasury activities of our holding companies, interest expense associated with our debt, and expenses of our holding companies, including public company expenses, that are not reimbursed by our insurance segments.

All of our insurance and reinsurance subsidiaries have financial strength ratings of “A” (Excellent) from A.M. Best Company.

Recent Development

On October 8, 2019, the Company delivered a notice of early cancellation, effective December 31, 2019, of all insurance policies issued to its largest customer, Rasier LLC and its affiliates. All insurance policies related to this customer are included in the Company’s commercial auto line of business within its Excess and Surplus Lines segment, and a majority of the insurance policies were due to expire on February 29, 2020. Rasier LLC and its affiliates produced \$294.3 million of gross written premiums, representing 44.8% of the Excess and Surplus Lines segment’s gross written premiums and 25.2% of our consolidated gross written premiums for the year ended December 31, 2018.

Critical Accounting Policies and Estimates

In preparing the unaudited condensed consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates.

The most critical accounting policies involve significant estimates and include those used in determining the reserve for losses and loss adjustment expenses, investment valuation and impairment, and assumed reinsurance premiums. For a detailed discussion of each of these policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no significant changes to any of these policies during the current year.

RESULTS OF OPERATIONS

The following table summarizes our results:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2019	2018		2019	2018	
	(\$ in thousands)					
Gross written premiums	\$ 388,228	\$ 279,969	38.7 %	\$ 1,095,565	\$ 871,463	25.7 %
Net retention (1)	57.7%	62.0%		61.3%	65.8%	
Net written premiums	\$ 223,869	\$ 173,441	29.1 %	\$ 671,520	\$ 573,025	17.2 %
Net earned premiums	\$ 213,374	\$ 204,690	4.2 %	\$ 602,640	\$ 613,842	(1.8)%
Losses and loss adjustment expenses	(214,084)	(150,387)	42.4 %	(501,064)	(448,754)	11.7 %
Other operating expenses	(39,394)	(46,182)	(14.7)%	(124,959)	(144,205)	(13.3)%
Underwriting (loss) profit (2), (3)	(40,104)	8,121	–	(23,383)	20,883	–
Net investment income	17,878	16,410	8.9 %	54,844	45,801	19.7 %
Net realized and unrealized (losses) gains on investments	(2,357)	467	–	331	(407)	–
Other income and expense	(91)	258	–	(223)	366	–
Interest expense	(2,594)	(2,991)	(13.3)%	(8,086)	(8,459)	(4.4)%
Amortization of intangible assets	(149)	(149)	–	(447)	(447)	–
(Loss) income before taxes	(27,417)	22,116	–	23,036	57,737	(60.1)%
Income tax (benefit) expense	(2,250)	2,535	–	5,168	5,539	(6.7)%
Net (loss) income	\$ (25,167)	\$ 19,581	–	\$ 17,868	\$ 52,198	(65.8)%
Adjusted net operating (loss) income (4)	\$ (22,208)	\$ 19,402	–	\$ 19,682	\$ 53,540	(63.2)%
Ratios:						
Loss ratio	100.3%	73.5%		83.1%	73.1%	
Expense ratio	18.5%	22.5%		20.8%	23.5%	
Combined ratio	118.8%	96.0%		103.9%	96.6%	

(1) Net retention is defined as the ratio of net written premiums to gross written premiums.

(2) Underwriting (loss) profit is a non-GAAP measure. See “Reconciliation of Non-GAAP Measures” for a reconciliation to (loss) income before tax and for additional information.

(3) Included in underwriting results for the three and nine months ended September 30, 2019 is gross fee income of \$6.1 million and \$18.7 million, respectively (\$6.8 million and \$22.4 million for the same periods in the prior year).

(4) Adjusted net operating (loss) income is a non-GAAP measure. See “Reconciliation of Non-GAAP Measures” for reconciliation to net (loss) income and for additional information.

Three Months Ended September 30, 2019 and 2018

The Company had an underwriting loss of \$40.1 million for the three months ended September 30, 2019. This compares to an underwriting profit of \$8.1 million for the same period in the prior year. Underwriting results for the three months ended September 30, 2019 were negatively impacted by \$57.0 million of net adverse reserve development on prior accident years, including \$50.0 million of net adverse reserve development from the Excess and Surplus Lines segment that was primarily related to the 2016 and 2017 accident years for the commercial auto business.

The results for the three months ended September 30, 2019 and 2018 also include certain non-operating items that are significant to the Company. These items (on a pre-tax basis) include:

- Net realized and unrealized investment (losses) gains of \$(2.4) million and \$467,000 for the three months ended September 30, 2019 and 2018, respectively. See “— Investing Results” for more information on these realized and unrealized investment (losses) gains.
- Interest expense of \$404,000 for the three months ended September 30, 2018 relating to finance expenses in connection with a minority interest in a real estate partnership pursuant to which we were previously deemed an owner for accounting purposes. Effective with the Company's adoption of ASU 2016-02, *Leases (Topic 842)* on January 1, 2019, the Company

is no longer deemed the owner for accounting purposes and there is no comparable expense for the three months ended September 30, 2019.

We define adjusted net operating (loss) income as net (loss) income excluding certain non-operating expenses such as net realized and unrealized investment gains and losses on investments, expenses related to due diligence costs for various merger and acquisition activities, professional service fees related to the filing of registration statements for the offering of securities, severance costs associated with terminated employees, and interest expense and other income and expenses on a leased building that we were previously deemed to own for accounting purposes. We use adjusted net operating (loss) income as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Adjusted net operating (loss) income should not be viewed as a substitute for net income calculated in accordance with GAAP, and our definition of adjusted net operating (loss) income may not be comparable to that of other companies.

Our (loss) income before taxes and net (loss) income reconcile to our adjusted net operating (loss) income as follows:

	Three Months Ended September 30,			
	2019		2018	
	(Loss) Income Before Taxes	Net (Loss) Income	Income Before Taxes	Net Income
	(\$ in thousands)			
(Loss) income as reported	\$ (27,417)	\$ (25,167)	\$ 22,116	\$ 19,581
Net realized and unrealized investment losses (gains)	2,357	2,665	(467)	(397)
Other expenses	372	294	(131)	(101)
Interest expense on leased building the Company was previously deemed to own for accounting purposes	—	—	404	319
Adjusted net operating (loss) income	\$ (24,688)	\$ (22,208)	\$ 21,922	\$ 19,402

Combined Ratios

The combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and other operating expenses to net earned premiums. Our combined ratio for the three months ended September 30, 2019 was 118.8%. A combined ratio of less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss. The combined ratio for the three months ended September 30, 2019 includes \$57.0 million, or 26.7 percentage points, of net adverse reserve development on prior accident years, including \$50.0 million of net adverse reserve development from the Excess and Surplus Lines segment, \$1.0 million of net favorable reserve development from the Specialty Admitted Insurance segment, and \$7.9 million of net adverse reserve development from the Casualty Reinsurance segment.

The combined ratio for the three months ended September 30, 2018 was 96.0%. The combined ratio for the three months ended September 30, 2018 includes \$12.2 million, or 6.0 percentage points, of net adverse reserve development on prior accident years, including \$10.4 million of net adverse reserve development from the Excess and Surplus Lines segment, \$833,000 of net favorable reserve development from the Specialty Admitted Insurance segment, and \$2.7 million of net adverse reserve development from the Casualty Reinsurance segment.

All of the Company's U.S.-domiciled insurance subsidiaries are party to an intercompany pooling agreement that distributes the net underwriting results among the group companies based on their approximate pro-rata level of statutory capital and surplus to the total Company statutory capital and surplus. Additionally, each of the Company's U.S.-domiciled insurance subsidiaries is a party to a quota share reinsurance agreement that in periods prior to January 1, 2018 ceded 70% of their premiums and losses to JRG Re, and starting January 1, 2018, ceded 70% of their premiums and losses to Carolina Re, an entity domiciled in Bermuda that made an irrevocable election to be taxed as a U.S. domestic corporation under Section 953(d) of the Code effective January 1, 2018. JRG Re also provides stop loss reinsurance to Carolina Re. We report all segment information in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" prior to the effects of intercompany reinsurance, consistent with the manner in which we evaluate the operating performance of our reportable segments.

Expense Ratios

Our expense ratio improved from 22.5% for the three months ended September 30, 2018 to 18.5% for the three months ended September 30, 2019. The improvement is due to a 16.4% increase in the net earned premiums of the Excess and Surplus Lines segment including in lines of business which carry relatively low expenses or that have meaningful ceding commissions. Our Excess and Surplus Lines segment has significant scale and produces a lower expense ratio than our other operating segments. The Excess and Surplus Lines segment is our largest segment and makes up 77.2% of consolidated net earned premiums for the three months ended September 30, 2019 compared to 69.1% for three months ended September 30, 2018. Gross fee income for

the Company declined from \$6.8 million for the three months ended September 30, 2018 to \$6.1 million for the three months ended September 30, 2019.

Nine Months Ended September 30, 2019 and 2018

The Company had an underwriting loss of \$23.4 million for the nine months ended September 30, 2019. This compares to an underwriting profit of \$20.9 million for the same period in the prior year. Underwriting results for the nine months ended September 30, 2019 were negatively impacted by \$60.3 million of net adverse reserve development on prior accident years, including \$51.2 million of net adverse reserve development from the Excess and Surplus Lines segment that was primarily related to the 2016 and 2017 accident years for the commercial auto business.

The results for the nine months ended September 30, 2019 and 2018 also include certain non-operating items that are significant to the Company. These items (on a pre-tax basis) include:

- Net realized and unrealized investment gains (losses) of \$331,000 and \$(407,000) for the nine months ended September 30, 2019 and 2018, respectively. See “— Investing Results” for more information on these realized and unrealized investment gains (losses).
- Interest expense of \$1.2 million for the nine months ended September 30, 2018 relating to finance expenses in connection with a minority interest in a real estate partnership pursuant to which we were previously deemed an owner for accounting purposes. Effective with the Company's adoption of ASU 2016-02, *Leases (Topic 842)* on January 1, 2019, the Company is no longer deemed the owner for accounting purposes and there is no comparable expense for the nine months ended September 30, 2019.

Our income before taxes and net income reconcile to our adjusted net operating income as follows:

	Nine Months Ended September 30,			
	2019		2018	
	Income Before Taxes	Net Income	Income Before Taxes	Net Income
	<i>(\$ in thousands)</i>			
Income as reported	\$ 23,036	\$ 17,868	\$ 57,737	\$ 52,198
Net realized and unrealized investment (gains) losses	(331)	980	407	366
Other expenses	1,055	834	(34)	45
Interest expense on leased building the Company was previously deemed to own for accounting purposes	—	—	1,179	931
Adjusted net operating income	<u>\$ 23,760</u>	<u>\$ 19,682</u>	<u>\$ 59,289</u>	<u>\$ 53,540</u>

Combined Ratios

Our combined ratio for the nine months ended September 30, 2019 was 103.9%. The combined ratio for the nine months ended September 30, 2019 includes \$60.3 million, or 10.0 percentage points, of net adverse reserve development on prior accident years, including \$51.2 million of net adverse reserve development from the Excess and Surplus Lines segment, \$4.3 million of net favorable reserve development from the Specialty Admitted Insurance segment, and \$13.3 million of net adverse reserve development from the Casualty Reinsurance segment.

Our combined ratio for the nine months ended September 30, 2018 was 96.6%. The combined ratio for the nine months ended September 30, 2018 includes \$11.8 million, or 1.9 percentage points, of net adverse reserve development on prior accident years, including \$9.2 million of net adverse reserve development from the Excess and Surplus Lines segment, \$2.3 million of net favorable reserve development from the Specialty Admitted Insurance segment, and \$4.9 million of net adverse reserve development from the Casualty Reinsurance segment.

Expense Ratios

Our expense ratio improved from 23.5% for the nine months ended September 30, 2018 to 20.8% for the nine months ended September 30, 2019. The improvement is due to an 11.4% increase in the net earned premiums of the Excess and Surplus Lines segment including in lines of business which carry relatively low expenses or that have meaningful ceding commissions. Our Excess and Surplus Lines segment has significant scale and produces a lower expense ratio than our other operating segments. The Excess and Surplus Lines segment is our largest segment and makes up 75.9% of consolidated net earned premiums for the nine months ended September 30, 2019 compared to 66.9% for the nine months ended September 30, 2018. Gross fee income for the Company declined from \$22.4 million for the nine months ended September 30, 2018 to \$18.7 million for the nine months ended September 30, 2019.

Premiums

Insurance premiums are earned ratably over the terms of our insurance policies, generally twelve months. Reinsurance premiums assumed are earned over the terms of the underlying policies or reinsurance contracts. Reinsurance contracts written on a “losses occurring” basis cover claims that may occur during the term of the contract or underlying insurance policy, which is typically twelve months. Reinsurance 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.

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

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2019	2018		2019	2018	
(\$ in thousands)						
Gross written premiums:						
Excess and Surplus Lines	\$ 241,045	\$ 157,237	53.3 %	\$ 687,871	\$ 490,121	40.3 %
Specialty Admitted Insurance	100,459	98,607	1.9 %	292,884	283,108	3.5 %
Casualty Reinsurance	46,724	24,125	93.7 %	114,810	98,234	16.9 %
	<u>\$ 388,228</u>	<u>\$ 279,969</u>	38.7 %	<u>\$ 1,095,565</u>	<u>\$ 871,463</u>	25.7 %
Net written premiums:						
Excess and Surplus Lines	\$ 171,715	\$ 135,141	27.1 %	\$ 522,200	\$ 432,307	20.8 %
Specialty Admitted Insurance	14,570	14,022	3.9 %	43,625	42,327	3.1 %
Casualty Reinsurance	37,584	24,278	54.8 %	105,695	98,391	7.4 %
	<u>\$ 223,869</u>	<u>\$ 173,441</u>	29.1 %	<u>\$ 671,520</u>	<u>\$ 573,025</u>	17.2 %
Net earned premiums:						
Excess and Surplus Lines	\$ 164,759	\$ 141,529	16.4 %	\$ 457,352	\$ 410,627	11.4 %
Specialty Admitted Insurance	14,242	13,898	2.5 %	39,688	41,504	(4.4)%
Casualty Reinsurance	34,373	49,263	(30.2)%	105,600	161,711	(34.7)%
	<u>\$ 213,374</u>	<u>\$ 204,690</u>	4.2 %	<u>\$ 602,640</u>	<u>\$ 613,842</u>	(1.8)%

Gross written premiums for the Excess and Surplus Lines segment (which represents 62.8% of our consolidated gross written premiums in the nine months ended September 30, 2019) increased 53.3% and 40.3% over the corresponding three and nine month periods in the prior year. Excluding commercial auto policies, gross written premiums increased 72.1% and 51.0% over the corresponding three and nine month periods in the prior year. Policy submissions excluding commercial auto policies were 21.8% higher and 25.5% more policies were bound in the nine months ended September 30, 2019 than in the nine months ended September 30, 2018. Rates for the Excess and Surplus Lines segment were up 3.9% compared to the nine months ended September 30, 2018. The change in gross written premiums compared to the same periods in 2018 was notable in several divisions as shown below:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2019	2018		2019	2018	
(\$ in thousands)						
Commercial Auto	\$ 108,368	\$ 80,159	35.2%	\$ 307,913	\$ 238,498	29.1 %
General Casualty	24,917	10,024	148.6%	89,897	41,302	117.7 %
Excess Casualty	32,062	17,098	87.5%	78,708	41,764	88.5 %
Manufacturers & Contractors	25,320	20,980	20.7%	76,857	60,614	26.8 %
Energy	18,632	9,778	90.6%	35,751	27,905	28.1 %
Excess Property	6,825	3,723	83.3%	24,085	13,258	81.7 %
Allied Health	7,235	3,390	113.4%	21,868	26,933	(18.8)%
All other divisions	17,686	12,085	46.3%	52,792	39,847	32.5 %
Excess and Surplus Lines gross written premium	<u>\$ 241,045</u>	<u>\$ 157,237</u>	53.3%	<u>\$ 687,871</u>	<u>\$ 490,121</u>	40.3 %

The Commercial Auto division is focused on underwriting the hired and non-owned auto liability exposures for a variety of industry segments with a particular niche for insuring organizations that operate networks connecting independent contractors with customers. On October 8, 2019, the Company delivered a notice of early cancellation, effective December 31, 2019, of all insurance policies issued to its largest customer, Rasier LLC and its affiliates. All insurance policies related to this customer are included in the Company's commercial auto line of business within its Excess and Surplus Lines segment, and a majority of the insurance policies were due to expire on February 29, 2020. See "Recent Development" for additional information regarding this termination.

The components of gross written premiums for the Specialty Admitted Insurance segment (which represents 26.7% of our consolidated gross written premiums for the nine months ended September 30, 2019) are as follows:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2019	2018		2019	2018	
	(\$ in thousands)					
Individual risk workers' compensation premium	\$ 15,618	\$ 13,848	12.8%	\$ 48,599	\$ 39,243	23.8%
Fronting and program premium	84,841	84,759	0.1%	244,285	243,865	0.2%
Specialty Admitted gross written premium	\$ 100,459	\$ 98,607	1.9%	\$ 292,884	\$ 283,108	3.5%

Individual risk workers' compensation premium growth was driven by exposure growth from higher payrolls of our insureds in a strong economy and increased submission flow.

Our fronting business saw growth in four new fronting relationships that generated \$36.4 million and \$86.0 million of gross written premium in the three and nine months ended September 30, 2019, respectively, compared to \$17.0 million and \$20.8 million for the three and nine months ended September 30, 2018, respectively. Our largest fronted relationship experienced a decline in production in 2019 producing \$36.2 million and \$113.9 million of gross written premium for the three and nine months ended September 30, 2019, respectively, (down from \$50.2 million and \$156.9 million for the three and nine months ended September 30, 2018) and representing 38.9% of the segment's gross written premium in the nine months ended September 30, 2019 down from 55.4% in the nine months ended September 30, 2018. Gross written premiums for terminated programs were \$255,000 and \$1.8 million in the three and nine months ended September 30, 2019, respectively, compared to \$5.4 million and \$24.7 million for the three and nine months ended September 30, 2018, respectively.

Gross written premiums for the Casualty Reinsurance segment (which represents 10.5% of our consolidated gross written premiums in the first nine months of 2019) increased 93.7% and 16.9% from the corresponding three and nine month periods in the prior year. The increase in gross written premium in this segment was due to new business written, including \$9.1 million of gross written premiums for the three and nine months ended September 30, 2019 related to a new retrocessional/fronting arrangement under which 100% of the premiums are ceded. The growth was also due to higher subject business and signed lines on treaties renewed, and increases in written premiums for prior year treaties. The Casualty Reinsurance segment generally writes large casualty-focused treaties that are expected to have lower volatility relative to property and catastrophe treaties. We rarely write stand-alone property reinsurance. When treaties that include property exposure are written, we utilize property occurrence caps, inuring reinsurance protection and low individual risk limits to minimize exposure.

Net Retention

The ratio of net written premiums to gross written premiums is referred to as our net premium retention. Our net premium retention is summarized by segment as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Excess and Surplus Lines	71.2%	85.9%	75.9%	88.2%
Specialty Admitted Insurance	14.5%	14.2%	14.9%	15.0%
Casualty Reinsurance	80.4%	100.6%	92.1%	100.2%
Total	57.7%	62.0%	61.3%	65.8%

The net premium retention for the Excess and Surplus Lines segment decreased for the three and nine months ended September 30, 2019 as compared to the prior year periods due to growth in written premium in the Excess Casualty and Excess Property underwriting divisions, which have higher percentages of ceded premium than our other divisions, and due to the segment

ceding \$26.3 million and \$63.9 million of commercial auto written premium in the three and nine months ended September 30, 2019, respectively, compared to \$699,000 and \$3.1 million in the three and nine months ended September 30, 2018, respectively.

The net premium retention for the Specialty Admitted Insurance segment has been relatively stable for the three and nine months ended September 30, 2019 as compared to the respective periods in the prior year. The fronting business generally has much lower net premium retention than our workers' compensation business. The net retention on the segment's fronting business was 8.7% and 8.9% for the three and nine months ended September 30, 2019, respectively (9.2% and 9.9% for the three and nine months ended September 30, 2018, respectively), while the net retention on the workers' compensation business was 46.1% and 45.0% for the three and nine months ended September 30, 2019 (45.2% and 46.6% for the three and nine months ended September 30, 2018, respectively).

The net premium retention for the Casualty Reinsurance segment decreased for the three and nine months ended September 30, 2019 as compared to the prior year periods due to a new retrocessional treaty/fronting arrangement entered into during the three months ended September 30, 2019 under which 100% of the premiums are ceded. Ceded written premiums under the new treaty were \$9.1 million in the three and nine months ended September 30, 2019.

Underwriting Results

The following table compares our combined ratios by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Excess and Surplus Lines	117.8%	92.0%	100.1%	92.0%
Specialty Admitted Insurance	94.1%	87.3%	90.5%	89.4%
Casualty Reinsurance	112.5%	96.8%	103.8%	96.9%
Total	118.8%	96.0%	103.9%	96.6%

Excess and Surplus Lines Segment

Results for the Excess and Surplus Lines segment are as follows:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2019	2018		2019	2018	
	(\$ in thousands)					
Gross written premiums	\$ 241,045	\$ 157,237	53.3 %	\$ 687,871	\$ 490,121	40.3%
Net written premiums	\$ 171,715	\$ 135,141	27.1 %	\$ 522,200	\$ 432,307	20.8%
Net earned premiums	\$ 164,759	\$ 141,529	16.4 %	\$ 457,352	\$ 410,627	11.4%
Losses and loss adjustment expenses	(176,154)	(111,292)	58.3 %	(399,996)	(321,518)	24.4%
Underwriting expenses	(17,956)	(18,935)	(5.2)%	(57,795)	(56,391)	2.5%
Underwriting (loss) profit (1), (2)	\$ (29,351)	\$ 11,302	—	\$ (439)	\$ 32,718	—
Ratios:						
Loss ratio	106.9%	78.6%		87.5%	78.3%	
Expense ratio	10.9%	13.4%		12.6%	13.7%	
Combined ratio	117.8%	92.0%		100.1%	92.0%	

(1) Underwriting (Loss) Profit is a non-GAAP Measure. See "Reconciliation of Non-GAAP Measures" for a reconciliation to (loss) income before tax and for additional information.

(2) Underwriting results include gross fee income of \$2.2 million and \$7.1 million for the three and nine months ended September 30, 2019, respectively (\$3.0 million and \$11.5 million for the same periods in the prior year).

The loss ratio of 106.9% and 87.5% for the three and nine months ended September 30, 2019 includes \$50.0 million and \$51.2 million (30.4 and 11.2 percentage points), respectively of net adverse development in our loss estimates for prior accident years. The loss ratio of 78.6% and 78.3% for the three and nine months ended September 30, 2018 includes \$10.4 million and \$9.2 million (7.3 and 2.2 percentage points), respectively, of net adverse reserve development in our loss estimates for prior accident years. The net adverse development in all periods was primarily related to the 2016 and 2017 accident years for the commercial auto business.

The expense ratio for this segment decreased from 13.4% and 13.7% for the three and nine months ended September 30, 2018, respectively, to 10.9% and 12.6% for the three and nine months ended September 30, 2019, respectively, as the growth in

net earned premium in the three and nine months ended September 30, 2019 exceeded the growth in underwriting expenses. Gross fee income contributed to a reduction in the expense ratio of 1.3 and 1.6 percentage points for the three and nine months ended September 30, 2019, respectively (2.1 and 2.8 percentage points for the same periods in the prior year).

Our commercial auto business generally has a lower expense ratio and higher loss ratio than the other underwriting divisions in the segment. Commercial auto made up 50.6% and 53.1% of the segment's net earned premiums for the three and nine months ended September 30, 2019, respectively (55.6% and 56.5% for the same periods in the prior year).

As a result of the items discussed above, the underwriting (loss) profit of the Excess and Surplus Lines segment was \$(29.4) million and \$(439,000) for the three and nine months ended September 30, 2019, respectively, compared to \$11.3 million and \$32.7 million for the three and nine months ended September 30, 2018, respectively.

Specialty Admitted Insurance Segment

Results for the Specialty Admitted Insurance segment are as follows:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2019	2018		2019	2018	
	(\$ in thousands)					
Gross written premiums	\$ 100,459	\$ 98,607	1.9 %	\$ 292,884	\$ 283,108	3.5 %
Net written premiums	\$ 14,570	\$ 14,022	3.9 %	\$ 43,625	\$ 42,327	3.1 %
Net earned premiums	\$ 14,242	\$ 13,898	2.5 %	\$ 39,688	\$ 41,504	(4.4)%
Losses and loss adjustment expenses	(9,481)	(8,246)	15.0 %	(25,085)	(25,283)	(0.8)%
Underwriting expenses	(3,924)	(3,883)	1.1 %	(10,845)	(11,841)	(8.4)%
Underwriting profit (1), (2)	\$ 837	\$ 1,769	(52.7)%	\$ 3,758	\$ 4,380	(14.2)%
Ratios:						
Loss ratio	66.6%	59.3%		63.2%	60.9%	
Expense ratio	27.5%	28.0%		27.3%	28.5%	
Combined ratio	94.1%	87.3%		90.5%	89.4%	

(1) Underwriting Profit is a non-GAAP Measure. See "Reconciliation of Non-GAAP Measures" for a reconciliation to income before tax and for additional information.

(2) Underwriting results include gross fee income of \$4.0 million and \$11.6 million for the three and nine months ended September 30, 2019, respectively (\$3.8 million and \$10.9 million for the same periods in the prior year).

The loss ratio of 66.6% and 63.2% for the three and nine months ended September 30, 2019 includes \$1.0 million and \$4.3 million (7.0 and 10.7 percentage points), respectively, of net favorable development in our loss estimates for prior accident years. The favorable reserve development in 2019 reflects the fact that actual loss emergence of the workers' compensation book has been better than expected. The loss ratio of 59.3% and 60.9% for the three and nine months ended September 30, 2018 includes \$833,000 and \$2.3 million (6.0 and 5.6 percentage points), respectively, of net favorable reserve development in our loss estimates for prior accident years.

The expense ratio of the Specialty Admitted Insurance segment was 27.5% and 27.3% for the three and nine months ended September 30, 2019 compared to the prior year ratios of 28.0% and 28.5%, respectively. Gross fee income from the fronting business increased 3.7% and 6.4% for the three and nine months ended September 30, 2019 compared to the same periods in the prior year.

As a result of the items discussed above, the underwriting profit of the Specialty Admitted Insurance segment decreased 52.7% and 14.2% from \$1.8 million and \$4.4 million for the three and nine months ended September 30, 2018, respectively, to \$837,000 and \$3.8 million for the three and nine months ended September 30, 2019, respectively.

Casualty Reinsurance Segment

Results for the Casualty Reinsurance segment are as follows:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2019	2018		2019	2018	
	(\$ in thousands)					
Gross written premiums	\$ 46,724	\$ 24,125	93.7 %	\$ 114,810	\$ 98,234	16.9 %
Net written premiums	\$ 37,584	\$ 24,278	54.8 %	\$ 105,695	\$ 98,391	7.4 %
Net earned premiums	\$ 34,373	\$ 49,263	(30.2)%	\$ 105,600	\$ 161,711	(34.7)%
Losses and loss adjustment expenses	(28,449)	(30,849)	(7.8)%	(75,983)	(101,953)	(25.5)%
Underwriting expenses	(10,212)	(16,838)	(39.4)%	(33,678)	(54,709)	(38.4)%
Underwriting (loss) profit (1)	\$ (4,288)	\$ 1,576	–	\$ (4,061)	\$ 5,049	–
Ratios:						
Loss ratio	82.8%	62.6%		72.0%	63.0%	
Expense ratio	29.7%	34.2%		31.8%	33.9%	
Combined ratio	112.5%	96.8%		103.8%	96.9%	

(1) Underwriting (Loss) Profit is a non-GAAP Measure. See “Reconciliation of Non-GAAP Measures” for a reconciliation to (loss) income before tax and for additional information.

The Casualty Reinsurance segment focuses on lower volatility, proportional reinsurance which requires larger ceding commissions resulting in a higher commission expense than in our other segments.

The loss ratio of 82.8% and 72.0% for the three and nine months ended September 30, 2019 includes \$7.9 million and \$13.3 million (23.1 and 12.6 percentage points), respectively, of net adverse development in our loss estimates for prior accident years. The loss ratio of 62.6% and 63.0% for the three and nine months ended September 30, 2018 includes \$2.7 million and \$4.9 million (5.4 and 3.0 percentage points), respectively, of net adverse reserve development in our loss estimates for prior accident years.

The expense ratio of the Casualty Reinsurance segment declined to 29.7% and 31.8% for the three and nine months ended September 30, 2019, respectively, compared to the prior year ratios of 34.2% and 33.9%, respectively, principally due to the reduction in sliding scale commission expense as a result of the adverse reserve development in 2019.

As a result of the items discussed above, underwriting (loss) profit for the Casualty Reinsurance segment was \$(4.3) million and \$(4.1) million for the three and nine months ended September 30, 2019 compared to \$1.6 million and \$5.0 million for the three and nine months ended September 30, 2018.

Reserves

An indicator of reserve strength that we monitor closely is the percentage of our gross and net loss reserves that are comprised of incurred but not reported (“IBNR”) reserves.

The Company’s gross reserve for losses and loss adjustment expenses at September 30, 2019 was \$1,941.3 million. Of this amount, 62.8% relates to amounts that are IBNR. This amount was 62.4% at December 31, 2018. The Company’s gross reserves for losses and loss adjustment expenses by segment are summarized as follows:

	Gross Reserves at September 30, 2019		
	Case	IBNR	Total
	(\$ in thousands)		
Excess and Surplus Lines	\$ 432,618	\$ 739,194	\$ 1,171,812
Specialty Admitted Insurance	178,042	309,653	487,695
Casualty Reinsurance	111,524	170,276	281,800
Total	\$ 722,184	\$ 1,219,123	\$ 1,941,307

At September 30, 2019, the amount of net reserves of \$1,326.5 million that related to IBNR was 60.2%. This amount was 61.5% at December 31, 2018. The Company’s net reserves for losses and loss adjustment expenses by segment are summarized as follows:

	Net Reserves at September 30, 2019		
	Case	IBNR	Total
	(\$ in thousands)		
Excess and Surplus Lines	\$ 381,754	\$ 576,382	\$ 958,136
Specialty Admitted Insurance	37,125	54,356	91,481
Casualty Reinsurance	108,533	168,330	276,863
Total	\$ 527,412	\$ 799,068	\$ 1,326,480

Other Operating Expenses

In addition to the underwriting, acquisition, and insurance expenses of the Excess and Surplus Lines segment, the Specialty Admitted Insurance segment, and the Casualty Reinsurance segment discussed previously, other operating expenses also include the expenses of the Corporate and Other segment.

Corporate and Other Segment

Other operating expenses for the Corporate and Other segment include personnel costs associated with the Bermuda and U.S. holding companies, professional fees, and various other corporate expenses that are included in our calculation of our expense ratio and our combined ratio. Other operating expenses of the Corporate and Other segment represent the expenses of both the Bermuda and U.S. holding companies that were not reimbursed by our subsidiaries, including costs associated with our internal quota share, rating agencies and strategic initiatives. These costs vary from period-to-period based on the status of these initiatives.

Total operating expenses of the Corporate and Other segment were \$7.3 million and \$22.6 million for the three and nine months ended September 30, 2019, respectively, representing increases of 11.9% and 6.5% over the \$6.5 million and \$21.3 million of operating expenses in the comparable prior year periods. The year-over-year increase was largely driven by compensation costs, including share-based compensation expenses, associated with increases in headcount.

Investing Results

Net investment income was \$17.9 million and \$54.8 million for the three and nine months ended September 30, 2019 compared to \$16.4 million and \$45.8 million for the same periods in the prior year. The change in our net investment income is as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
	(\$ in thousands)					
Renewable energy LLCs	\$ 1,602	\$ 329	386.9 %	\$ 2,510	\$ 2,070	21.3 %
Other private investments	(218)	1,402	–	3,407	3,518	(3.2)%
Other invested assets	1,384	1,731	(20.0)%	5,917	5,588	5.9 %
All other net investment income	16,494	14,679	12.4 %	48,927	40,213	21.7 %
Total net investment income	\$ 17,878	\$ 16,410	8.9 %	\$ 54,844	\$ 45,801	19.7 %

The Company's private investments generated income of \$1.4 million and \$5.9 million for the three and nine months ended September 30, 2019, respectively (compared to income of \$1.7 million and \$5.6 million in the respective prior year periods). Excluding private investments, our net investment income increased by 12.4% and 21.7% for the three and nine months ending September 30, 2019 over the same periods in the prior year. This increase in net investment income primarily reflects growth in our fixed income portfolio of bonds and bank loans. The average duration of our fixed maturity portfolio was 3.5 years at September 30, 2019.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(\$ in thousands)			
Fixed maturity securities	\$ 10,229	\$ 8,673	\$ 29,876	\$ 24,513
Bank loan participations	4,752	4,713	14,978	13,265
Equity securities	1,326	1,258	3,958	3,932
Other invested assets	1,384	1,731	5,917	5,588
Cash, cash equivalents, short-term investments, and other	1,184	1,157	3,490	1,646
Gross investment income	18,875	17,532	58,219	48,944
Investment expense	(997)	(1,122)	(3,375)	(3,143)
Net investment income	\$ 17,878	\$ 16,410	\$ 54,844	\$ 45,801

The following table summarizes our investment returns:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Annualized gross investment yield on:				
Average cash and invested assets	3.8%	4.0%	3.9%	3.8%
Average fixed maturity securities	3.7%	3.8%	3.8%	3.6%

Of our total cash and invested assets of \$2,088.1 million at September 30, 2019, \$256.3 million represents the cash and cash equivalents portion of the portfolio. The majority of the portfolio, or \$1,377.3 million, is comprised of fixed maturity securities that are classified as available-for-sale and carried at fair value with unrealized gains and losses on these securities reported, net of applicable taxes, as a separate component of accumulated comprehensive income or loss. Also included in our investments are \$249.9 million of bank loan participations, \$88.8 million of equity securities, \$49.9 million of short-term investments, and \$65.9 million of other invested assets.

The \$249.9 million of bank loan participations in our investment portfolio are classified as held-for-investment and reported at amortized cost, net of any allowance for credit losses. Changes in this credit allowance are included in realized gains or losses. At September 30, 2019, there was a \$5.9 million allowance for credit losses. These bank loan participations generally provide a higher yield than our portfolio of fixed maturity securities and are primarily senior, secured floating-rate debt rated "BB", "B", or "CCC" by Standard & Poor's or an equivalent rating from another nationally recognized statistical rating organization, and are therefore below investment grade. 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. They consist of, but are not limited to, term loans, the funded and unfunded portions of revolving credit loans, and similar loans and investments. At September 30, 2019 and December 31, 2018, the fair market value of these securities was \$242.6 million and \$250.7 million, respectively.

For the nine months ended September 30, 2019, the Company recognized net realized and unrealized investment gains of \$331,000 (\$2.4 million of realized and unrealized investment losses for the three months ended September 30, 2019) including \$8.7 million of gains for the change in the fair value of equity securities, \$7.7 million of realized losses for changes in the allowance for credit losses on impaired bank loans, \$1.2 million of net realized investment losses on the sale of bank loan securities, and \$809,000 of net realized investment gains on the sale of fixed maturity securities.

For the nine months ended September 30, 2018, the Company recognized net realized and unrealized investment losses of \$407,000 (\$467,000 of realized and unrealized investment gains for the three months ended September 30, 2018), including \$695,000 of losses for the change in the fair value of equity securities, \$851,000 of realized losses for changes in the allowance for credit losses on impaired bank loans, \$1.5 million of net realized investment gains on the sale of bank loan securities (including an \$807,000 realized gain on the repayment of the loan to the producer and supplier of power in Puerto Rico described below), and \$306,000 of net realized losses on the sale of fixed maturities.

In conjunction with its outside investment managers, the Company performs quarterly reviews of all securities within its investment portfolio to determine whether any impairment has occurred.

Management concluded that five loans from four issuers in the Company's bank loan portfolio were impaired as of September 30, 2019. At September 30, 2019, the impaired loans had a carrying value of \$6.4 million, unpaid principal of \$12.3 million, and an allowance for credit losses of \$5.9 million, \$4.2 million of which related to two loans from one issuer who is

experiencing liquidity concerns resulting from revenue declines and poor growth prospects in its most profitable segment. Management concluded that none of the loans in the Company's bank loan portfolio were impaired at December 31, 2018.

At December 31, 2017, the Company held a participation in a loan issued by a company that produces and supplies power to Puerto Rico through a power purchase agreement with Puerto Rico Electric Power Authority, a public corporation and governmental agency of the Commonwealth of Puerto Rico. Management concluded that the loan was impaired at December 31, 2017 and established an allowance for credit losses on the loan to reduce the loan's carrying value to zero at December 31, 2017. The unpaid principal on the loan was \$807,000 at December 31, 2017. In the first quarter of 2018, the full outstanding principal on the loan was repaid and the Company recognized a realized gain of \$807,000 on the repayment.

At September 30, 2019, 99.6% 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.

Management does not intend to sell other 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 other securities before a recovery in their value to their amortized cost basis occurs.

The amortized cost and fair value of our available-for-sale fixed maturity securities were as follows:

	September 30, 2019			December 31, 2018		
	Cost or Amortized Cost	Fair Value	% of Total Fair Value	Cost or Amortized Cost	Fair Value	% of Total Fair Value
<i>(\$ in thousands)</i>						
Fixed maturity securities, available-for-sale:						
State and municipal	\$ 145,016	\$ 154,387	11.2%	\$ 147,160	\$ 149,295	12.6%
Residential mortgage-backed	245,315	247,213	17.9%	208,869	204,109	17.2%
Corporate	603,524	625,180	45.5%	534,024	524,768	44.3%
Commercial mortgage and asset-backed	230,417	235,204	17.1%	199,528	197,025	16.6%
U.S. Treasury securities and obligations guaranteed by the U.S. government	111,834	113,332	8.2%	107,803	107,193	9.1%
Redeemable preferred stock	2,025	2,007	0.1%	2,025	1,812	0.2%
Total fixed maturity securities, available-for-sale	<u>\$ 1,338,131</u>	<u>\$ 1,377,323</u>	<u>100.0%</u>	<u>\$ 1,199,409</u>	<u>\$ 1,184,202</u>	<u>100.0%</u>

The following table sets forth the composition of the Company's portfolio of available-for-sale fixed maturity securities by rating as of September 30, 2019:

Standard & Poor's or Equivalent Designation	Fair Value	% of Total
<i>(\$ in thousands)</i>		
AAA	\$ 231,479	16.8%
AA	528,133	38.3%
A	475,288	34.5%
BBB	137,094	10.0%
Below BB and unrated	5,329	0.4%
Total	<u>\$ 1,377,323</u>	<u>100.0%</u>

At September 30, 2019, our portfolio of fixed maturity securities contained corporate fixed maturity securities (available-for-sale) with a fair value of \$625.2 million. A summary of these securities by industry segment is shown below as of September 30, 2019:

Industry	Fair Value	% of Total
	(\$ in thousands)	
Industrials and Other	\$ 143,049	22.9%
Financial	171,630	27.5%
Consumer Discretionary	88,571	14.2%
Health Care	88,036	14.1%
Consumer Staples	67,123	10.7%
Utilities	66,771	10.6%
Total	\$ 625,180	100.0%

Corporate fixed maturity securities (both available-for-sale and trading) include publicly traded securities and privately placed bonds as shown below as of September 30, 2019:

Public/Private	Fair Value	% of Total
	(\$ in thousands)	
Publicly traded	\$ 560,436	89.6%
Privately placed	64,744	10.4%
Total	\$ 625,180	100.0%

The amortized cost and fair value of our available-for-sale investments in fixed maturity securities summarized by contractual maturity are as follows:

	September 30, 2019		
	Amortized Cost	Fair Value	% of Total Value
	(\$ in thousands)		
Due in:			
One year or less	\$ 76,678	\$ 77,005	5.6%
After one year through five years	459,889	470,945	34.2%
After five years through ten years	205,048	214,952	15.6%
After ten years	118,759	129,997	9.4%
Residential mortgage-backed	245,315	247,213	17.9%
Commercial mortgage and asset-backed	230,417	235,204	17.2%
Redeemable preferred stock	2,025	2,007	0.1%
Total	\$ 1,338,131	\$ 1,377,323	100.0%

At September 30, 2019, the Company had no investments in securitizations of alternative-A mortgages or sub-prime mortgages.

Interest Expense

Interest expense was \$2.6 million and \$3.0 million for the three months ended September 30, 2019 and 2018, respectively (\$8.1 million and \$8.5 million for the respective nine month periods). See “—Liquidity and Capital Resources—Sources and Uses of Funds” for more information regarding our senior bank debt facilities and trust preferred securities.

Amortization of Intangibles

The Company recorded \$149,000 and \$447,000 of amortization of intangible assets for each of the three and nine months ended September 30, 2019 and 2018, respectively.

Income Tax Expense

Our effective tax rate fluctuates from period to period based on the relative mix of income reported by country and the respective tax rates imposed by each tax jurisdiction. For the nine months ended September 30, 2019 and 2018, our U.S. federal income tax expense was 22.4% and 9.6% of our income before taxes, respectively. The effective tax rate for the nine months ended September 30, 2019 was elevated due to the significant adverse development in the 2016 and 2017 accident years for the commercial auto business, and the related impact on the mix of income reported by country. For U.S.-sourced income, the Company’s U.S. federal income tax expense differs from the amounts computed by applying the federal statutory income tax rate to income before

taxes due primarily to interest income on tax-advantaged state and municipal securities, dividends received income, and excess tax benefits on share based compensation.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Funds

Dividends

We are organized as a Bermuda holding company with our operations conducted by our wholly-owned subsidiaries. Accordingly, our holding company may receive cash through loans from banks, issuance of common shares, borrowings on our credit facilities, corporate service fees or dividends received from our subsidiaries, and/or other transactions. Our U.S. holding company may receive cash in a similar manner and also through payments from our subsidiaries pursuant to our U.S. consolidated tax allocation agreement.

The payment of dividends by our subsidiaries to us is limited by statute. In general, the laws and regulations applicable to our domestic insurance subsidiaries limit the aggregate amount of dividends or other distributions that they may declare or pay within any 12-month period without advance regulatory approval. Generally, the limitations are based on the greater of statutory net income for the preceding year or 10.0% of statutory surplus at the end of the preceding year. In addition, insurance regulators have broad powers to prevent the reduction of statutory surplus to inadequate levels and could refuse to permit the payment of dividends calculated under any applicable formula. The maximum amount of dividends available to the U.S. holding company from our U.S. insurance subsidiaries during 2019 without regulatory approval is \$24.2 million.

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. The maximum combined amount of dividends and return of capital available to us from our Bermuda insurers in 2019 is calculated to be approximately \$109.8 million. However, any dividend payment is contingent upon continued compliance with Bermuda regulatory requirements, including but not limited to the enhanced solvency requirement calculations.

At September 30, 2019, the Bermuda holding company had \$971,000 of cash and cash equivalents. The U.S. holding company had \$55.5 million of cash and invested assets, comprised of cash and cash equivalents of \$7.4 million and other invested assets of \$48.1 million, which are not subject to regulatory restrictions. Additionally, our U.K. intermediate holding company had no invested assets and cash of less than ten thousand dollars at September 30, 2019.

Our net written premium to equity ratio (defined as the ratio of net written premiums for the previous twelve months to shareholders' equity) is reviewed by management as well as our rating agency as a measure of leverage and efficiency of deployed capital. For September 30, 2019 and 2018, our net written premium (trailing twelve months) to equity ratio was 1.1 to 1.0 and 1.0 to 1.0, respectively.

Credit Agreements

The Company has a senior revolving credit facility (as amended or amended and restated, the "2013 Facility"). The 2013 Facility is comprised of the following at September 30, 2019:

- A \$102.5 million secured revolving facility used by JRG Re to issue letters of credit for the benefit of third-party reinsureds. This portion of our credit facility is secured by our investment securities. At September 30, 2019, the Company had \$64.1 million of letters of credit issued under the secured facility.
- A \$112.5 million unsecured revolving facility to meet the working capital needs of the Company. All unpaid principal on the revolver is due at maturity. Interest accrues quarterly and is payable in arrears at 3-month LIBOR plus a margin which is currently 1.5% and is subject to change according to terms in the credit agreement. At September 30, 2019, the Company had a drawn balance of \$73.3 million outstanding on the unsecured revolver.

The 2013 Facility has been amended from time to time since its inception in 2013. On December 7, 2016, the Company entered into an Amended and Restated Credit Agreement for the 2013 Facility which, among other things, extended the maturity date of the 2013 Facility until December 7, 2021 and modified other terms including reducing the rate of interest and reducing the number of financial covenants. On June 8, 2017, the Company entered into a First Amendment to the 2013 Facility, which among other things, modified the financial covenants and increased the amount of additional debt the Company may incur under new financings, subject to compliance with certain conditions.

The 2013 Facility contains certain financial and other covenants (including minimum financial strength rating, minimum shareholders' equity levels, and maximum ratios of total debt outstanding to total capitalization) with which the Company is in compliance at September 30, 2019.

On August 2, 2017, the Company, and its wholly-owned subsidiary, JRG Re, together as borrowers, entered into a credit agreement (the "2017 Facility") that provides the Company with a revolving line of credit of up to \$100 million, which may be used for loans and letters of credit made or issued, at the borrowers' option, on a secured or unsecured basis. Obligations under the 2017 Facility carry a variable rate of interest subject to terms in the credit agreement and will mature 30 days after notice of termination from the lender. The 2017 Facility contains certain financial and other covenants with which we are in compliance at September 30, 2019. The loans and letters of credit made or issued under the revolving line of credit of the 2017 Facility may be used to finance the borrowers' general corporate purposes. At September 30, 2019, unsecured loans of \$10.0 million and secured letters of credit totaling \$5.3 million were outstanding on the 2017 Facility.

In May 2004, we issued \$15.0 million of senior debt due April 29, 2034. The senior debt is not redeemable by the holder or subject to sinking fund requirements. Interest accrues quarterly and is payable in arrears at a floating rate per annum equal to the 3-month LIBOR plus 3.85%. This senior debt is redeemable at par prior to its stated maturity at our option in whole or in part. The terms of the senior debt contain certain covenants, with which we are in compliance at September 30, 2019, and which, among other things, restrict our ability to assume senior indebtedness secured by our U.S. holding company's common stock or its subsidiaries' capital stock or to issue shares of its subsidiaries' capital stock.

From May 2004 through January 2008, we sold trust preferred securities through five Delaware statutory trusts sponsored and wholly-owned by the Company or its subsidiaries. Each trust used the net proceeds from the sale of its trust preferred securities to purchase our floating-rate junior subordinated debt.

The following table summarizes the nature and terms of the junior subordinated debt and trust preferred securities outstanding at September 30, 2019 (including the Company's repurchases of a portion of these trust preferred securities):

	James River Capital Trust I	James River Capital Trust II	James River Capital Trust III	James River Capital Trust IV	Franklin Holdings II (Bermuda) Capital Trust I
	<i>(\$ in thousands)</i>				
Issue date	May 26, 2004	December 15, 2004	June 15, 2006	December 11, 2007	January 10, 2008
Principal amount of trust preferred securities	\$7,000	\$15,000	\$20,000	\$54,000	\$30,000
Principal amount of junior subordinated debt	\$7,217	\$15,464	\$20,619	\$55,670	\$30,928
Carrying amount of junior subordinated debt net of repurchases	\$7,217	\$15,464	\$20,619	\$44,827	\$15,928
Maturity date of junior subordinated debt, unless accelerated earlier	May 24, 2034	December 15, 2034	June 15, 2036	December 15, 2037	March 15, 2038
Trust common stock	\$217	\$464	\$619	\$1,670	\$928
Interest rate, per annum	Three-Month LIBOR plus 4.0%	Three-Month LIBOR plus 3.4%	Three-Month LIBOR plus 3.0%	Three-Month LIBOR plus 3.1%	Three-Month LIBOR plus 4.0%

All of the junior subordinated debt is currently redeemable at 100.0% of the unpaid principal amount at our option.

The junior subordinated debt contains certain covenants with which we are in compliance as of September 30, 2019.

At September 30, 2019 and December 31, 2018, the ratio of total debt outstanding, including both senior debt and junior subordinated debt, to total capitalization (defined as total debt plus total stockholders' equity) was 20.8% and 23.9%, respectively. Having debt as part of our capital structure allows us to generate a higher return on equity and greater book value per share results than we could by using equity capital alone.

Ceded Reinsurance

Our insurance segments enter into reinsurance contracts to limit our exposure to potential losses arising from large risks, to protect against the aggregation of several risks in a common loss occurrence, and to provide additional capacity for growth. Our reinsurance is contracted under excess of loss and quota share reinsurance contracts. In excess of loss reinsurance, the reinsurer agrees to assume all or a portion of the ceding company's losses in excess of a specified amount. The premiums payable to the reinsurer are negotiated by the parties based on their assessment of the amount of risk being ceded to the reinsurer because the reinsurer does not share proportionately in the ceding company's losses. In quota share reinsurance, the reinsurer agrees to assume a specified percentage of the ceding company's losses arising out of a defined class of business in exchange for a corresponding

percentage of premiums. For the three months ended September 30, 2019 and 2018, our net premium retention was 57.7% and 62.0%, respectively (61.3% and 65.8% for the nine month periods, respectively).

The following is a summary of our Excess and Surplus Lines segment's net retention after reinsurance as of September 30, 2019:

	Company Retention
Casualty	
Primary Specialty Casualty, including Professional Liability	Up to \$1.0 million per occurrence, subject to a \$1.0 million aggregate deductible. ⁽¹⁾
Primary Casualty	Up to \$2.0 million per occurrence. ⁽²⁾
Excess Casualty	Up to \$1.0 million per occurrence. ⁽³⁾
Property	Up to \$5.0 million per event. ⁽⁴⁾

⁽¹⁾ Except for Life Sciences quota share carve out, which is up to \$2.0 million per occurrence

⁽²⁾ Total exposure to any one claim is generally \$1.0 million.

⁽³⁾ For policies with an occurrence limit up to \$10.0 million, the excess casualty treaty is set such that our retention is no more than \$1.0 million.

⁽⁴⁾ The property catastrophe reinsurance treaty has a limit of \$40.0 million with one reinstatement.

We use catastrophe modeling software to analyze the risk of severe losses from hurricanes and earthquakes on our exposure. We utilize the model in our risk selection, pricing, and to manage our overall portfolio probable maximum loss ("PML") accumulations. A PML is an estimate of the amount we would expect to pay in any one catastrophe event within a given annual probability of occurrence (i.e. a return period or loss exceedance probability).

In our Excess and Surplus Lines segment, we write a small book of excess property insurance, but we do not write primary property insurance. The Excess and Surplus Lines segment has a surplus share reinsurance treaty in effect that was specifically designed to cover property risks. The surplus share treaty along with facultative reinsurance helps ensure that our net retained limit per risk will be \$5.0 million or less.

Based upon the modeling of our Excess and Surplus Lines and Specialty Admitted segments, a \$45.0 million gross catastrophe loss would exceed our 1 in 1,000 year PML. In the event of a \$45.0 million gross property catastrophe loss to these segments, we estimate our pre-tax cost at approximately \$11.6 million, including reinstatement premiums and net retentions. In addition to this retention, we would retain any losses in excess of our reinsurance coverage limits.

Effective March 1, 2019, our largest Commercial Auto ride share account is subject to an auto liability quota share reinsurance contract that contains a \$10.0 million occurrence cap and an annual aggregate of 200% of subject premium.

The following is a summary of our Specialty Admitted Insurance segment's ceded reinsurance in place as of September 30, 2019:

Line of Business	Coverage
Casualty	
Workers' Compensation	Quota share coverage for 50% of the first \$600,000. ⁽¹⁾⁽²⁾ Excess of loss coverage for \$29.4 million in excess of \$600,000. ⁽¹⁾⁽²⁾
Auto Programs	Quota share coverage for 85-90% of limits up to \$1.5 million liability and \$5.0 million physical damage per occurrence.
General Liability & Professional Liability – Programs	Quota share coverage for 87.5% - 100% of limits up to \$2.0 million per occurrence.
Umbrella and Excess Casualty - Programs	Quota share coverage for 92.5%-100% of limits up to \$10.0 million per occurrence, and excess of loss coverage for \$5.0 million in excess of \$10.0 million.
Property	
Commercial Property within Package - Programs	Quota share coverage for 100% of limits up to \$25.0 million per occurrence. ⁽³⁾
Catastrophe Coverage	Excess of Loss coverage for \$44.0 million in excess of \$1.0 million per occurrence.

⁽¹⁾ Excluding one program which has quota share coverage for 89% of the first \$1.0 million per occurrence and excess of loss coverage for \$49.0 million in excess of \$1.0 million per occurrence.

(2) *Includes any residual market pools.*

(3) *Excluding one program which has quota share coverage for 80% of the first \$500,000 and excess of loss coverage for \$39.5 million in excess of \$500,000 per risk per occurrence.*

Our Specialty Admitted Insurance segment purchases reinsurance for at least 50% of the exposed limits on specialty admitted property-casualty business. The segment enters into reinsurance contracts for the individual risk workers' compensation business as well as fronting and program business. While the segment focuses on casualty business, incidental property risk is incurred in the fronting and program business. The segment is covered for \$44.0 million in excess of \$1.0 million per occurrence to manage its property exposure to an approximate 1 in 1,000 year PML.

In our Casualty Reinsurance segment, we also have limited property catastrophe exposure, primarily through auto physical damage coverage. In the aggregate, we believe our pre-tax group-wide PML from a 1 in 1,000 year property catastrophe event would not exceed \$10.0 million, inclusive of reinstatement premiums payable.

We also have a clash and contingency reinsurance treaty to cover both the Excess and Surplus Lines and Specialty Admitted Insurance segments in the event of a claims incident involving more than one of our insureds. The treaty covers \$10.0 million in excess of a \$2.0 million retention for loss occurrences within the treaty term. This coverage has two reinstatements in the event we exhaust any of the coverage. As of September 30, 2019, our average net retained limit per risk is \$2.5 million.

The Company's insurance segments remain liable to policyholders if its reinsurers are unable to meet their contractual obligations under applicable reinsurance agreements. We establish allowances for amounts considered uncollectible. At September 30, 2019, there was no allowance for such uncollectible reinsurance recoverables. 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 generally seeks to purchase reinsurance from reinsurers with A.M. Best financial strength ratings of "A-" (Excellent) or better. The Company's reinsurance contracts generally require reinsurers that are not authorized as reinsurers under U.S. state insurance regulations or that experience rating downgrades from rating agencies 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. In fronting arrangements, which the Company conducts through its Specialty Admitted Insurance segment, we are subject to credit risk with regard to insurance companies who act as reinsurers for us in such arrangements. We customarily require a collateral trust arrangement to secure the obligations of the insurance entity for whom we are fronting.

At September 30, 2019, we had reinsurance recoverables on unpaid losses of \$614.8 million and reinsurance recoverables on paid losses of \$40.8 million, and all material recoverable amounts were from companies with A.M. Best ratings of "A-" or better or collateral had been posted by the reinsurer for our benefit.

Amounts Recoverable from an Indemnifying Party

The Company is a party to a set of insurance contracts with an insured group of companies under which the Company pays losses and loss adjustment expenses on the contract. The Company has indemnity agreements with this group of insured parties (non-insurance entities) and is contractually entitled to receive reimbursement for a significant portion of the losses and loss adjustment expenses paid on behalf of the insured parties and other expenses incurred by the Company. The insured parties are required to collateralize all amounts currently due to the Company and to provide additional collateral sufficient to cover the amounts that may be recoverable under the indemnity agreements, including, among other things, case loss and loss adjustment expense reserves, IBNR loss and loss adjustment expense reserves, extra contractual obligations and excess of policy limits liabilities. The collateral is currently provided through a collateral trust arrangement established in favor of the Company by a captive insurance company affiliate of the insured group. At September 30, 2019, the cash equivalent collateral held in the collateral trust arrangement was approximately \$1,168.9 million. The Company has ongoing exposure to estimated losses and expenses on these contracts growing at a faster pace than growth in our collateral balances. In addition, we have credit exposure if our estimates of future losses and loss adjustment expenses and other amounts recoverable, which are the basis for establishing collateral balances, are lower than actual amounts paid or payable. The amount of our credit exposure in any of these instances could be material. To mitigate these risks, we closely and frequently monitor our exposure compared to our collateral held, and we request additional collateral when our analysis indicates that we have uncollateralized exposure.

On October 8, 2019, the Company delivered a notice of early cancellation, effective December 31, 2019, of all insurance policies issued to the insured group of insured parties. As permitted under the indemnity agreements with this group of insured parties, the Company withdrew \$1,170.7 million from the collateral trust account. The collateral funds may be used to reimburse the Company for a significant portion of the losses and loss adjustment expenses paid on behalf of the insured parties and other related expenses incurred by the Company to the extent not paid under the indemnity agreements. Amounts that may be recoverable under the indemnity agreement include, among other things, case loss and loss adjustment expense reserves, IBNR loss and loss adjustment expense reserves, extra contractual obligations and excess of policy limits liabilities.

For additional information regarding the termination of the insurance policies issued to the insured group of companies, see "Recent Developments".

Cash Flows

Our sources of funds consist primarily of premiums written, investment income, reinsurance recoveries, proceeds from sales and redemptions of investments, borrowings on our credit facilities, and the issuance of common shares. We use operating cash flows primarily to pay operating expenses, losses and loss adjustment expenses, reinsurance premiums, and income taxes. The following table summarizes our cash flows:

	Nine Months Ended September 30,	
	2019	2018
	<i>(\$ in thousands)</i>	
Cash and cash equivalents provided by (used in):		
Operating activities	\$ 213,787	\$ 251,913
Investing activities	(87,904)	(205,574)
Financing activities	(42,038)	(25,417)
Change in cash and cash equivalents	<u>\$ 83,845</u>	<u>\$ 20,922</u>

Cash provided by operating activities for the nine months ended September 30, 2019 and 2018 reflects the growth in our U.S. segments and the fact that we are collecting premiums receivable at a quicker rate than we are paying loss and loss adjustment expenses. Cash provided by operating activities has declined compared to the prior year due in part to higher paid losses in the nine months ended September 30, 2019.

Cash used in investing activities reflects our efforts to enhance the yield in our investment portfolio by investing available cash and cash equivalents into higher yielding fixed maturity securities and bank loan participations. Cash and cash equivalents comprised 12.3% and 10.2% of total cash and invested assets at September 30, 2019 and 2018, respectively.

Cash used in financing activities for the nine months ended September 30, 2019 and 2018 included \$27.5 million and \$27.0 million of dividends paid to shareholders, respectively. In addition, we repaid \$20.0 million on our 2017 Facility in the nine months ended September 30, 2019.

Ratings

The A.M. Best financial strength rating for our group's regulated insurance subsidiaries is "A" (Excellent). This rating reflects A.M. Best's opinion of our insurance subsidiaries' financial strength, operating performance and ability to meet obligations to policyholders and is not an evaluation directed towards the protection of investors. The rating for our operating insurance and reinsurance companies of "A" (Excellent) is the third highest rating of the thirteen ratings issued by A.M. Best and is assigned to insurers that have, in A.M. Best's opinion, an excellent ability to meet their ongoing obligations to policyholders.

The financial strength ratings assigned by A.M. Best have an impact on the ability of our regulated subsidiaries to attract and retain agents and brokers and on the risk profiles of the submissions for insurance that our subsidiaries receive. The "A" (Excellent) ratings assigned to our insurance and reinsurance subsidiaries are consistent with our business plans and we believe allow our subsidiaries to actively pursue relationships with the agents and brokers identified in their marketing plans.

EQUITY

The Company issued 412,810 common shares in the nine months ended September 30, 2019 with 336,533 of the new shares related to stock option exercises and 76,277 of the new shares related to vesting of RSUs. The total common shares outstanding increased from 29,988,460 at December 31, 2018 to 30,401,270 at September 30, 2019.

Share Based Compensation Expense

For the three months ended September 30, 2019 and 2018, the Company recognized \$1.8 million and \$1.7 million, respectively, of share based compensation expense (\$5.3 million and \$4.8 million for the respective nine month periods). As of September 30, 2019, the Company had \$10.5 million of unrecognized share based compensation expense expected to be charged to earnings over a weighted-average period of 1.8 years.

Equity Incentive Plans

Options

The following table summarizes option activity:

	Nine Months Ended September 30,			
	2019		2018	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding:				
Beginning of period	1,115,324	\$ 29.02	1,479,236	\$ 27.81
Granted	—	\$ —	—	\$ —
Exercised	(450,514)	\$ 26.68	(280,683)	\$ 21.03
Forfeited	(12,058)	\$ 36.84	(42,215)	\$ 36.86
End of period	652,752	\$ 30.50	1,156,338	\$ 29.13
Exercisable, end of period	599,241	\$ 29.44	841,763	\$ 26.64

All of the outstanding options vest over three or four years and have a contractual life of seven years from the original date of grant.

RSUs

The following table summarizes RSU activity:

	Nine Months Ended September 30,			
	2019		2018	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Unvested, beginning of period	300,142	\$ 39.22	178,882	\$ 37.93
Granted	197,078	\$ 42.56	218,475	\$ 39.75
Vested	(111,212)	\$ 39.90	(63,191)	\$ 40.92
Forfeited	(22,445)	\$ 41.32	(5,889)	\$ 40.81
Unvested, end of period	363,563	\$ 40.69	328,277	\$ 38.51

The vesting period of RSUs granted to employees range from one to five years and vest ratably over the respective vesting period, and the majority vest in three years. All RSUs granted to date to non-employee directors had a one year vesting period.

RECONCILIATION OF NON-GAAP MEASURES

Reconciliation of Underwriting (Loss) Profit

We believe that the disclosure of underwriting profit by individual segment and of the Company as a whole is useful to investors, analysts, rating agencies and other users of our financial information in evaluating our performance because our objective is to consistently earn underwriting profits. We evaluate the performance of our segments and allocate resources based primarily on underwriting profit. Our definition of underwriting profit may not be comparable to that of other companies.

The following table reconciles the underwriting (loss) profit by individual segment and for the entire Company to consolidated (loss) income before U.S. Federal income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	<i>(in thousands)</i>			
Underwriting (loss) profit of the insurance segments:				
Excess and Surplus Lines	\$ (29,351)	\$ 11,302	\$ (439)	\$ 32,718
Specialty Admitted Insurance	837	1,769	3,758	4,380
Casualty Reinsurance	(4,288)	1,576	(4,061)	5,049
Total underwriting (loss) profit of insurance segments	(32,802)	14,647	(742)	42,147
Other operating expenses of the Corporate and Other segment	(7,302)	(6,526)	(22,641)	(21,264)
Underwriting (loss) profit (1)	(40,104)	8,121	(23,383)	20,883
Net investment income	17,878	16,410	54,844	45,801
Net realized and unrealized (losses) gains on investments	(2,357)	467	331	(407)
Amortization of intangible assets	(149)	(149)	(447)	(447)
Other income and expenses	(91)	258	(223)	366
Interest expense	(2,594)	(2,991)	(8,086)	(8,459)
(Loss) income before taxes	\$ (27,417)	\$ 22,116	\$ 23,036	\$ 57,737

(1) Included in underwriting results for the three and nine months ended September 30, 2019 is gross fee income of \$6.1 million and \$18.7 million, respectively (\$6.8 million and \$22.4 million for the same periods in the prior year).

Reconciliation of Adjusted Net Operating (Loss) Income

We define adjusted net operating (loss) income as net (loss) income excluding certain non-operating expenses such as net realized and unrealized investment gains and losses, expenses related to due diligence costs for various merger and acquisition activities, professional service fees related to the filing of registration statements for the offering of securities, severance costs associated with terminated employees and interest expense and other income and expenses on a leased building that we were previously deemed to own for accounting purposes. We use adjusted net operating income as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Adjusted net operating income should not be viewed as a substitute for net income calculated in accordance with GAAP, and our definition of adjusted net operating income may not be comparable to that of other companies.

Our (loss) income before taxes and net (loss) income reconcile to our adjusted net operating (loss) income as follows:

	Three Months Ended September 30,			
	2019		2018	
	(Loss) Income Before Taxes	Net (Loss) Income	Income Before Taxes	Net Income
	<i>(\$ in thousands)</i>			
(Loss) income as reported	\$ (27,417)	\$ (25,167)	\$ 22,116	\$ 19,581
Net realized and unrealized investment losses (gains)	2,357	2,665	(467)	(397)
Other expenses	372	294	(131)	(101)
Interest expense on leased building the Company was previously deemed to own for accounting purposes	—	—	404	319
Adjusted net operating (loss) income	\$ (24,688)	\$ (22,208)	\$ 21,922	\$ 19,402

	Nine Months Ended September 30,			
	2019		2018	
	Income Before Taxes	Net Income	Income Before Taxes	Net Income
	(\$ in thousands)			
Income as reported	\$ 23,036	\$ 17,868	\$ 57,737	\$ 52,198
Net realized and unrealized investment (gains) losses	(331)	980	407	366
Other expenses	1,055	834	(34)	45
Interest expense on leased building the Company was previously deemed to own for accounting purposes	—	—	1,179	931
Adjusted net operating income	\$ 23,760	\$ 19,682	\$ 59,289	\$ 53,540

Tangible Equity (per Share) and Pre Dividend Tangible Equity (per Share)

Key financial measures that we use to assess our longer term financial performance include the percentage growth in our tangible equity per share and our return on tangible equity. We believe tangible equity is a good measure to evaluate the strength of our balance sheet and to compare returns relative to this measure. For the nine months ended September 30, 2019, our tangible equity per share increased by 10.8%. Absent the \$27.6 million in dividends to shareholders in the nine months ended September 30, 2019, our tangible equity per share increased by 16.3% for the nine months ended September 30, 2019. Our operating return on tangible shareholders' equity was 4.9% for the nine months ended September 30, 2019.

We define tangible equity as the sum of shareholders' equity less goodwill and intangible assets (net of amortization). Our definition of tangible equity may not be comparable to that of other companies, and it should not be viewed as a substitute for shareholders' equity calculated in accordance with GAAP. The following table reconciles shareholders' equity to tangible equity as of September 30, 2019 and December 31, 2018 and reconciles tangible equity to tangible equity before dividends as of September 30, 2019:

	September 30, 2019		December 31, 2018	
	Equity	Equity per Share	Equity	Equity per Share
	(\$ in thousands, except share amounts)			
Shareholders' equity	\$ 768,969	\$ 25.29	\$ 709,241	\$ 23.65
Less:				
Goodwill	181,831	5.98	181,831	6.06
Intangible assets	37,090	1.22	37,537	1.25
Tangible equity	\$ 550,048	\$ 18.09	\$ 489,873	\$ 16.34
Dividends to shareholders for the nine months ended September 30, 2019	27,557	0.90		
Pre-dividend tangible equity	\$ 577,605	\$ 18.99		

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our consolidated balance sheets include assets and liabilities with estimated fair values that are subject to market risk. Our primary market risks have been interest rate risk associated with investments in fixed maturities and equity price risk associated with investments in equity securities. We do not have material exposure to foreign currency exchange rate risk or commodity risk.

There have been no material changes in market risk from the information provided in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required financial disclosure. In connection with the preparation of this quarterly report on Form 10-Q, our management carried out an evaluation, under the supervision and with the participation of our management, including the CEO and CFO, as of September 30, 2019, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2019.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The effectiveness of any system of controls and procedures is subject to certain limitations, and, as a result, there can be no assurance that our controls and procedures will detect all errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be attained.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are party to legal proceedings which arise in the ordinary course of business. We believe that the outcome of such matters, individually and in the aggregate, will not have a material adverse effect on our consolidated financial position.

Item 1A. Risk Factors

There have been no material changes in our risk factors in the quarter ended September 30, 2019 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of James River Group Holdings, Ltd. (incorporated by reference to Exhibit 3.1 of the Registration Statement on Form S-1, Registration No. 333-199958, filed with the Commission on November 7, 2014).
3.2	Certificate of Incorporation on Change of Name (incorporated by reference to Exhibit 3.2 of the Registration Statement on Form S-1, Registration No. 333-199958, filed with the Commission on November 7, 2014).
3.3	Memorandum of Association of James River Group Holdings, Ltd. (incorporated by reference to Exhibit 3.3 of the Registration Statement on Form S-1, Registration No. 333-199958, filed with the Commission on November 7, 2014).
3.4	Certificate of Deposit of Memorandum of Increase of Share Capital, dated December 24, 2007 (incorporated by reference to Exhibit 3.4 of the Registration Statement on Form S-1, Registration No. 333-199958, filed with the Commission on November 7, 2014).
3.5	Certificate of Deposit of Memorandum of Increase of Share Capital, dated October 7, 2009 (incorporated by reference to Exhibit 3.5 of the Registration Statement on Form S-1, Registration No. 333-199958, filed with the Commission on November 7, 2014).
3.6	Third Amended and Restated Bye-Laws of James River Group Holdings, Ltd. (incorporated by reference to Exhibit 3.6 to the Annual Report on Form 10-K filed on March 12, 2015, Commission File No. 001-36777).
10.1	Employment Agreement, dated as of August 5, 2019, by and among James River Group Holdings, Ltd., James River Group, Inc., and J. Adam Abram*
10.2	Amended and Restated Employment Agreement, effective August 5, 2019, by and between James River Group Holdings, Ltd. and Robert P. Myron*
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a)/15d-14(a).
32	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Denotes a management contract or compensatory plan or arrangement.

Signatures

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

James River Group Holdings, Ltd.

Date: November 7, 2019

By: /s/ J. Adam Abram
J. Adam Abram
Chief Executive Officer and
Chairman of the Board
(Principal Executive Officer)

Date: November 7, 2019

By: /s/ Sarah C. Doran
Sarah C. Doran
Chief Financial Officer
(Principal Financial Officer)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), dated as of August 5, 2019 (the "Effective Date"), is entered into among (a) James River Group Holdings, Ltd., a Bermuda company (the "Company"), (b) J. Adam Abram ("Executive") and (c) James River Group, Inc., a Delaware corporation ("James River").

Recitals

A. Executive currently serves as Non-Executive Chairman of the Board of Directors of the Company.

B. The Company and Executive have agreed that Executive will as of the Effective Date be employed as Executive Chairman of the Board of Directors of the Company and Chief Executive Officer of the Company, and James River and Executive have agreed that Executive will as of the Effective Date be employed as Chairman of the Board of Directors of James River and Chief Executive Officer of James River.

NOW THEREFORE, in consideration of the foregoing, of the mutual promises contained in this Agreement, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement hereby agree as follows:

1. **EMPLOYMENT AND TERM.** Effective as of the Effective Date, (a) the Company agrees to employ Executive as Executive Chairman of the Board of Directors of the Company ("Board") and Chief Executive Officer of the Company (together, for purposes hereof, "Chairman"), and (b) James River agrees to continue to employ Executive as Chairman of the Board of Directors of James River ("JR Board") and Chief Executive Officer of James River (together, for purposes hereof, "JR Chairman"). Executive hereby accepts such employment on the terms hereinafter set forth. The term of this Agreement shall commence as of the Effective Date and the term of this Agreement shall end on the date immediately preceding the second anniversary of the Effective Date, subject to the termination provisions of Section 6. The term of this Agreement shall thereafter be automatically renewed for additional 18-month periods unless written notice to the contrary shall be given by either party to the other not less than 180 days prior to the end of the initial or any renewal term that the term shall not thereafter be renewed ("Non-Renewal Notice"), subject to the termination provisions of Section 6. The initial term plus any renewals thereof shall hereafter be referred to as the "Term."

2. **COMPENSATION.**

(a) Executive shall be paid a base salary at the rate of not less than \$850,000 per year, payable in periodic installments in accordance with James River's normal payroll practices.

(b) For each fiscal year during the Term in which Executive is employed by the Company as of the last day of such fiscal year, Executive shall be eligible to receive a discretionary bonus (each, a "Bonus") in an amount as the Board (other than Executive), in its discretion, may determine based on Executive's performance during such fiscal year, which Bonus shall be paid on or before March 15 of the subsequent fiscal year. Executive's target cash bonus for each calendar year he is employed through the end of the year will be 100% of his base salary, provided that the determination of whether Executive will be awarded a cash bonus and the amount of the cash bonus will be determined by the Board in its discretion, provided, however, for any bonus awarded for 2019 the base salary will be prorated to be \$344,658. In addition, Executive shall be eligible to participate in any long-term incentive plan of the Company ("LTIP") in effect from time to time. For long term incentive equity grants, Executive will have a target equity grant equivalent in value to 100% of his base salary for each calendar year he is employed through the end of the year, provided that the determination of whether Executive will be awarded an LTIP equity award and the amount of the award will be determined by the Board in its discretion. Options to acquire common shares (the "Shares") of the Company will be valued using a Black Scholes valuation model, and restricted share units ("RSUs") of the Company will be valued based upon the closing price of the Company's publicly traded Shares on the day of the grant.

(c) Within ten business days following the Effective Date, Executive shall receive a one-time equity award of RSUs of the Company in an amount equal to \$850,000 (based upon the closing price of the Company's publicly traded common stock on the Effective Date). The RSUs will vest and the restrictions shall lapse in substantially equal installments of whole shares on each of the first two anniversaries of the Effective Date, subject to Executive's continued employment on such dates. The RSUs shall be subject to the terms of an award agreement acceptable to the Company and consistent with the Company's equity.

(d) Following the close of each fiscal year of the Company during the Term, the Board shall review Executive's performance during such fiscal year and decide whether to increase Executive's base salary within 60 days after receipt of the Company's audited financial statements for such fiscal year.

(e) Executive shall also be entitled, during the Term to participate in all retirement, disability, pension, savings, health, medical, dental, insurance, and other fringe benefits or plans of the Company generally available to executive employees of the Company Group (as defined below) as recommended by Executive. Such benefits shall specifically include, at the Company's expense:

(i) a total of six weeks of paid vacation per annum (not subject to rollover);

(ii) coverage under the Company's current health care insurance plans, including coverage for Executive's dependents, on the same terms and conditions, including any required payment of premiums or other costs by Executive, as are applicable to other executive employees;

(iii) coverage under the Company's group term life and accidental death and dismemberment and long term disability coverage, all on the same terms and conditions, including any required payment of premiums or other costs by Executive, as are applicable to other executive employees; and

(iv) business expense reimbursement for all reasonable business expenses upon the presentation of reasonably itemized statements of such expenses in accordance with the Company's policies and procedures. The amount of expenses eligible for reimbursement pursuant to this Agreement, including with respect to Section 3 below, during any tax year of Executive shall not affect the expenses eligible for reimbursement in any other tax year. The right to reimbursement provided in this Agreement, including with respect to Section 3 below, is not subject to liquidation or exchange for another benefit. In no event shall the reimbursement of an eligible expense under this Agreement, including reimbursements of expenses described in Section 3 below, occur later than the earlier of (i) six months from the date of incurrence and (ii) the end of the calendar year following the calendar year in which such expense was incurred.

(f) All payments and compensation under this Agreement shall be subject to all required withholdings and deductions, and such deductions as Executive may instruct the Company to take that are authorized by applicable law.

(g) Executive acknowledges that to the extent required by applicable law or written company policy adopted by the Board to implement the requirements of such law (including without limitation Section 304 of the Sarbanes Oxley Act and Section 954 of the Dodd Frank Act), any bonus and other incentive compensation (if any) shall be subject to any clawback, forfeiture, recoupment or similar requirement ("Clawback Rights") as the Board may determine in its sole discretion is necessary or desirable to implement such law or policy. Holdings may only exercise Clawback Rights with respect to any bonus and other incentive compensation received during the three completed fiscal years immediately preceding the date on which Holdings is required to prepare an accounting restatement and, if applicable, any transition period resulting from a change in fiscal year within or immediately following the three completed fiscal years.

3. Temporary Housing and Transportation Expenses.

(a) The Company shall provide Executive with transportation, in accordance with the Company's policies, to locations to which Executive may be required to travel in order to perform his duties hereunder. In addition, to the extent that Executive is required to perform services in Bermuda, the Company shall provide Executive with temporary housing or a customary temporary housing allowance approved by the Board or a designated committee thereof.

(b) The Company hereby agrees that from time to time Executive may travel on chartered aircraft in connection with the performance of his duties hereunder. Such aircraft may be owned by others, or may be a plane that is owned by a company of which Executive is the sole shareholder and which is managed by an aircraft management company in which Executive has no ownership interest. When chartering a plane in connection with his duties hereunder, the Company will pay lease rates consistent with those that have been charged in the past but in no event higher than the lease rates charged by such aircraft management company to unrelated third parties. The Company further agrees that Executive may continue to charter planes for business travel as is reasonably necessary to efficiently carry out his duties.

4. Tax Gross-Up Payments.

(a) To the extent that Executive incurs or is required to pay or have withheld any United States Federal, state or local income, FICA, FUTA and other similar taxes (the "U.S. Taxes") with respect to the payments and benefits

provided under Section 3 above or this Section 4(a), the Company shall, subject to Section 4(c) below, provide Executive with a gross-up payment (“US Gross-Up Payment”) so that the net amount received and retained by Executive, after taking into account withholdings and payments for such U.S. Taxes, equals the amount that he would have received had there been no U.S. Taxes on such payments and benefits.

(b) To the extent that Executive incurs or is required to pay or have withheld any Bermuda social services, health, income or payroll taxes (the “Bermuda Taxes”) with respect to any payments or benefits contemplated by this Agreement, the Company shall, subject to Section 4(c) below, provide Executive with a gross-up payment (the “Bermuda Gross-Up Payment” and, together with the US Gross-Up Payment, the “Gross-Up Payment”) in amount equal to (x) the excess, if any, of (A) the sum of the Bermuda Taxes actually imposed on Executive and the U.S. Taxes actually imposed on Executive on the compensation and benefits payable under this Agreement (net of all tax credits and deductions arising from the payment of such Bermuda Taxes and U.S. Taxes) over (B) the taxes that would have been imposed on Executive if the compensation and benefits were earned solely in Chapel Hill, North Carolina and subject solely to U.S. Taxes plus (y) any Bermuda Taxes or U.S. Taxes imposed on the payments provided in this Section 4(b) so that the net amount received and retained by Executive, after taking into account withholdings and payments for such taxes (and any available tax credits and deductions), equals the net amount that he would have received and retained had there been no Bermuda Taxes and had the payments and benefits provided under this Agreement (other than under this Section 4(b)) been earned in Chapel Hill, North Carolina and subject to only U.S. Taxes (assuming that all such payments and benefits were subject to U.S. Tax).

(c) For U.S. Taxes and Bermuda Taxes required to be collected by withholding by the Company Group, such Gross-Up Payment shall be paid contemporaneously with the withholding. For U.S. Taxes and Bermuda Taxes required to be paid by Executive (such as quarterly estimated or extension tax payments, and payments required to be included with a tax return), such Gross-Up Payment shall be paid by the Company to Executive no later than the later of: (i) two days prior to the due date for such payment and (ii) five (5) days after the receipt by the Company of a written request for payment from Executive accompanied by a calculation in reasonable detail of the Gross-Up Payment, provided that Executive’s U.S. tax return reflecting such payments must be filed by Executive and such written request for payment must be made, in all cases, no later 60 days prior to the end of the taxable year of Executive beginning after the taxable year of Executive in which the Executive is required to remit the taxes to which such Gross-Up Payment relates, provided that the Executive timely remitted such taxes to the relevant tax authorities. Within 60 days after the earlier of (i) the filing of his U.S. federal, state and local tax returns for a taxable year or (ii) the last date for the filing of the last such return, including all available extensions, Executive shall furnish to the Company a statement, prepared by a certified public accounting firm, and based upon such filed tax returns and other available information, and any tax returns filed with Bermuda, in reasonable detail, as to the proper amount of the Gross-Up Payment for such taxable year (the “Final Gross-Up Amount”). Prior to payment, the Company shall have the right to review and dispute all such calculations and statements and have a certified public accountant selected by the Company review such calculations and statements and Executive shall provide such accounting firm with full access to all supporting documentation, including any related tax returns; provided that such accounting firm agrees that it will keep such return confidential and not share it with the Company. The Company shall have no right to see or review any tax return of Executive. If the Gross-Up Payments received by Executive with respect to any taxable year are less than the Final Gross-Up Amount, the Company shall pay to Executive such deficiency within forty-five (45) days of demand, provided that such demand is received at least 60 days prior to the end of the taxable year of Executive beginning after the taxable year of Executive in which the Executive is required to remit the taxes to which such Gross-Up Payment relates, provided that the Executive timely remitted such taxes to the relevant tax authorities. If the Gross-Up Payments received by Executive with respect to such taxable year are greater than the Final Gross-Up Amount, Executive shall return such excess to the Company within five (5) days of the determination of the Final Gross-Up Amount.

5. DUTIES. Executive shall perform all duties normally associated with the position of Chairman and such other reasonable duties as may be assigned to him by the Board, and all duties normally associated with the position of JR Chairman and such other reasonable duties as may be assigned to him by the JR Board. In his capacity as Chairman, Executive shall report solely and directly to the Board. In his capacity as JR Chairman, Executive shall report solely and directly to the JR Board. Executive will devote sufficient working time, attention, and energies as is necessary to carry out and fulfill his duties and responsibilities under this Agreement. Executive agrees to abide by all policies applicable to employees of the Company Group adopted by the Board, including without limitation any tax or other guidelines relating to business activities within the United States. Executive represents that he is able and willing to engage in international travel as is necessary to perform his duties as Chairman and to further the Company’s business interests. Executive may, with the permission of the Board (which permission shall not be unreasonably withheld), perform duties for and receive compensation from business ventures in addition to the Company and James River, but in no event may Executive perform duties for and receive compensation from any Competitive Business (as defined in Section 7(c)(ii) below). During the Term, Executive shall serve as a member of the Board and the JR Board and may serve as an officer of any of the Company’s Affiliates (as defined herein), without additional compensation.

6. CONFIDENTIAL INFORMATION AND PRIVILEGED INFORMATION.

(a) Executive will not at any time during the Term or thereafter:

(i) reveal, divulge, or make known to any person, firm, or corporation or use for his personal benefit or the benefit of others (except the Company and any of its direct or indirect subsidiaries (hereinafter referred to as "Affiliates," and the Company, together with such Affiliates, the "Company Group")), directly or indirectly, any confidential or proprietary information received or developed by him during the course of his employment. For the purposes of this Section 6(a)(i) confidential and proprietary information ("Confidential Information") shall be defined to mean (1) all historical and pro forma projections of loss ratios incurred by the Company Group; (2) all historical and pro forma actuarial data relating to the Company Group; (3) historical and pro forma financial results, revenue statements, and projections for the Company Group; (4) all information relating to the Company Group's systems and software (other than the portion thereof provided by the vendor to all purchasers of such systems and software); (5) all information relating to the Company's unique underwriting approach; (6) all information relating to plans for acquisitions of any business entities or blocks of business; (7) non-public business plans; (8) all other information relating to the financial, business, or other affairs of the Company Group including their customers; and (9) any information about any shareholder of the Company or any of its Affiliates or employees that has been furnished to Executive as a result of his position with the Company. Section 6(a)(i) shall not apply to Executive following the termination of his employment with the Company Group with respect to any Confidential Information known or made generally available to the general public or within the industry; or

(ii) reveal, divulge, or make known to any person, firm, or corporation, or use for his personal benefit or the benefit of others (except the Company Group), directly or indirectly, the name or names of any Customers (as defined in Section 7 below) of the Company Group, nor will he reveal, divulge, or make known to any person, firm, or corporation or use for his personal benefit or the benefit of others (except the Company Group), directly or indirectly, any trade secrets or any knowledge or information concerning any business methods or operational procedures engaged in by the Company Group (collectively, "Privileged Information"); provided, however, the restrictions set forth in this Section 6(a)(ii) shall not apply to Executive following the termination of his employment with the Company Group with respect to any Privileged Information known or made generally available to the general public or within the industry.

(b) Notwithstanding any provision of this Agreement to the contrary, under 18 U.S.C. §1833(b), "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal." Nothing in this Agreement or any other policy of the Companies is intended to conflict with this statutory protection, and no director, officer, or member of management has the authority to impose any rule to the contrary

7. NON-COMPETITION.

(a) Executive acknowledges and agrees that as Chairman (i) he has responsibilities for and is directly involved in developing customer goodwill and relationships for the benefit of the Company Group; (ii) he has knowledge of the Company Group's Confidential Information and Privileged Information, and has been and will be compensated for the development, and supervising the development, of the same and (iii) he has unique insight into and knowledge of the skills, talents and capabilities of the Company Group's key employees. Executive also acknowledges and agrees that at the inception of his employment with the Company it was agreed that he would be bound by noncompetition restrictions similar to those set forth herein, and furthermore, execution of this Agreement provides changes in the terms and conditions of his employment favorable to Executive that constitute sufficient consideration for Executive's agreement to the noncompetition restrictions set forth in this Section 7.

(b) Executive agrees that during his employment by the Company, and for the restricted period ("Restricted Period") after his employment with the Company ceases, he will not:

(i) compete against the Company Group by engaging in, or by assisting any other person or entity to engage in, or by having an ownership interest in, any Competitive Business in the Territory (as defined below);

(ii) compete against the Company Group by soliciting any Customer of the Company Group to provide any goods or services in competition against the Company Group;

(iii) induce or persuade any Customer of the Company Group not to do business with, or to switch business from, the Company Group;

(iv) solicit, or assist others in soliciting, Key Employees (as defined below) to either leave the Company Group or to engage in a Competitive Business.

(c) For purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

(i) “Restricted Period” shall mean eighteen (18) months, unless a court of competent jurisdiction determines that such period is overbroad or unenforceable in which case it shall mean either one year, six months, or three months, whichever period is the maximum enforceable Restricted Period.

(ii) “Competitive Business” shall mean the business of acquiring, holding, and/or operating excess and surplus lines insurance companies, and any other material business that the Company Group is engaged in as of the date of this Agreement and as the business of the Company Group evolves during the Term; provided, however, that if a court of competent jurisdiction determines that such definition is overbroad or unenforceable, it shall be further limited to the business of the Company Group regarding which Executive had Confidential Information or Privileged Information during the last year of the Term, and if this narrowed definition is still deemed by such court to be overbroad or unenforceable, it shall be further limited to business of the Company Group under Executive’s management and control during the last year of the Term;

(iii) “Territory” shall mean Bermuda and each and every state or other United States jurisdiction (“State(s)”) where the Company Group is licensed or admitted at the end of the Term and/or is then in the process of seeking to be licensed; provided, however, that if a court of competent jurisdiction determines that such definition is overbroad or unenforceable, it shall be further limited to Bermuda and States with respect to which Executive had Confidential Information or Privileged Information regarding the Company Group’s business or operations during the last year of the Term, and if this narrowed definition is still deemed by such court to be overbroad or unenforceable, it shall be further limited to Bermuda and States where Executive conducted, or supervised the conduct of, Company Group business during the last year of the Term;

(iv) “Customer” shall mean any customer of the Company Group that purchased products or services from the Company during the last year of the Term; provided, however, that if a court of competent jurisdiction determines that such definition is overbroad or unenforceable, it shall be further limited to customers about which Executive either had Confidential Information or Privileged Information or personal or management responsibility for customer contact or service, and if this narrowed definition is still deemed by such court to be overbroad or unenforceable, it shall be further limited to customers of the Company Group with which Executive had direct contact during the last six months of the Term;

(v) “Key Employees” shall mean any executive, managerial, sales, marketing, or supervisory level employees of the Company Group under Executive’s management authority during the last year of the Term.

(d) The restrictions contained in this Section 7 shall not prevent the purchase of ownership by Executive of not more than 3% of the securities of any class of any corporation, whether or not such corporation is engaged in any Competitive Business, which are publicly traded on any securities exchange or any “over the counter” market or held through an ownership interest in a private equity or investment firm otherwise permitted pursuant to Section 7(e) below.

(e) Notwithstanding the foregoing, nothing contained in this Agreement shall prohibit or restrict Executive, during the Restricted Period and thereafter, from engaging in the business of, assisting any other person or entity engaging in the business of, or having an ownership interest in, in each case as an employee, consultant, partner or otherwise, any private equity or investment firm which invests in financial institutions, in each case so long as Executive’s activities, interest, and association with any such private equity or investment firm does not in any way relate to any Competitive Business (other than through ownership of 3% or less of the securities of any corporation engaged in any Competitive Business, which are held through an ownership interest in such private equity or investment firm or its affiliated investment funds) and Executive does not use or disclose Confidential Information or Privileged Information in connection with such activities .

8. TERMINATION. Executive’s employment hereunder shall terminate under the following circumstances:

(a) Termination for Cause. Upon the approval of not less than such number of members of the Board of Directors of the Company constituting 75% of the entire Board, excluding entirely from such calculation Executive and any other member of management serving on such Board, who will be excused from voting (such approval, “Supermajority”).

Approval”), the Company may terminate the employment of Executive for Cause at any time by providing written notice to Executive specifying the cause of the termination. For the purposes of this Agreement, “Cause” shall mean that: (i) Executive willfully violated Sections 6 or 7 of this Agreement; (ii) Executive grossly neglected his duties hereunder; (iii) Executive was convicted of a felony or a crime involving moral turpitude (meaning a crime that includes the commission of an act of depravity, dishonesty, or bad morals); (iv) Executive has committed an act of dishonesty, fraud, or embezzlement against the Company Group; or (v) Executive willfully and/or knowingly breached this Agreement in any material respect or willfully and/or knowingly violated the Company’s operating guidelines.

In the event that the Company provides written notice of termination for Cause, Executive shall first be entitled to cure any violation of Sections 6 or 7 of this Agreement or any alleged neglect of his duties within 30 days of receiving written notice from the Company specifying in detail the factual basis for its belief that Executive willfully violated Sections 6 or 7 of this Agreement or grossly neglected his duties hereunder. Following expiration of the opportunity to cure, the Company shall provide Executive with the opportunity to meet with the Board to address the allegations. Executive may be represented by counsel at this meeting. Following the completion of Executive’s presentation, the Board (other than Executive, if Executive is a member of the Board) shall deliberate. If Supermajority Approval is obtained a second time, the Company shall terminate Executive for Cause.

If the employment of Executive is terminated for Cause, Executive’s salary and right to receive fringe benefits shall terminate on the date of the final vote by the Board, as applicable, to terminate Executive.

(b) Company Failure to Renew or Termination Without Cause. Upon Supermajority Approval, the Company may terminate the employment of Executive at any time without Cause or may elect to have the Term of this Agreement expire.

(c) Executive Failure to Renew or Termination Without Good Reason. Executive shall have the right to elect to have the Term of this Agreement expire. In addition, upon the date one year and one day following the Effective Date and any date thereafter, Executive shall have the right to terminate employment hereunder without Good Reason by providing the Company with a written notice of termination at least 90 days prior to his Termination Date.

(d) Termination by Executive for Good Reason. Executive may, at his option, terminate this Agreement for Good Reason. “Good Reason” shall mean the occurrence of any one or more of the following events without the prior consent of Executive:

(i) The assignment to Executive of any duties inconsistent in any material adverse respect with his position, authority, or responsibilities, or any other material adverse change in such position, including titles, authority, or responsibilities;

(ii) The failure of the Company and James River to continue to provide Executive with substantially similar compensation, or perquisites or benefits under the Company’s benefit programs; provided that, with respect to perquisites or benefits provided to substantially all salaried employees of the Company, any amendment, modification, or discontinuation of any plans or benefits that generally affect substantially all salaried employees of the Company shall not be deemed to constitute Good Reason;

(iii) The Company’s or James River’s requiring Executive to be based at any office or location more than 35 miles from the location at which he performed services for James River when he previously served as Chief Executive Officer of the Company (it being understood that Executive shall be required to have an office in and to discharge certain duties in Bermuda); or

(iv) Any breach by the Company or James River of any of the provisions of this Agreement or any failure by the Company to carry out any of its obligations hereunder;

and, in each case, the failure by the Company or James River, as applicable, to cure such condition within the 30 day period after receipt of written notice from Executive specifying in detail the factual basis for his belief that he has Good Reason to resign (“Good Reason Notice”). Executive must deliver a Good Reason Notice within 30 calendar days after the initial existence of a Good Reason condition, and, if the Company or James River, as applicable, fails to timely cure such Good Reason condition, Executive must terminate his employment with both the Company and James River within one year after the initial existence of such Good Reason condition, and any failure by Executive to timely comply with either of these requirements shall constitute a waiver of Executive’s right to resign for Good Reason for such condition.

(e) Termination due to Death or Disability. Upon Supermajority Approval, the Company may terminate Executive's employment if he is prevented from performing his responsibilities under this Agreement for a consecutive period of six months or longer during any 12-month period of the Term hereof, by reason of any accident, illness, or mental, or physical disability. Executive's employment hereunder shall terminate upon his death.

9. COMPENSATION AND BENEFITS UPON TERMINATION; INFORMATION RIGHTS.

(a) In the event that the Company terminates Executive's employment without Cause or elects to have the Term of this Agreement expire in connection with the Executive's termination of employment, or if Executive terminates his employment for Good Reason:

(i) as soon as practicable following such termination but no later than ten (10) days after the Termination Date (as defined below), the Company shall pay to Executive his accrued but yet unpaid base salary earned through the Termination Date and any accrued, but unused vacation pay through the Termination Date (the "Accrued Obligations");

(ii) Within 45 days following the Termination Date, the Company shall reimburse Executive for reasonable expenses incurred, but not paid prior to the Termination Date;

(iii) Any accrued but unpaid obligations of the Company pursuant to Section 4 shall be paid in accordance with Section 4;

(iv) subject to the execution and delivery of a mutual release (which release shall in no way alter or result in the waiver of the post-termination restrictions set forth in Sections 6 and 7 above) in a form acceptable to Executive and the Company within 45 days after the Termination Date (the "Release Expiration Date"), which release has not been revoked, Executive is entitled to receive:

(1) a gross amount equal to \$70,833.33 per month, subject to any applicable deductions and withholdings, for a period of 36 months after the Termination Date, which shall be paid in periodic installments in accordance with the Company's normal payroll practices in place at the time of such termination, with such installments commencing on the first payroll cycle on or after the 60th day after the Termination Date unless such amount is required to be delayed pursuant to Section 11 below;

(2) the continuation at the Company's expense of coverage under all plans, insurance policies, and other fringe benefits described in Section 2 above, for a period of 12 months after the Termination Date, to the extent such post-employment coverage is authorized by such plans, provided, however if post-employment coverage is not authorized under such health insurance plan, then the Company will pay Executive the premium cost for health insurance coverage that the Company would have paid if Executive had continued being a participant in such health insurance plan during the applicable 12 month period; and

(3) any discretionary bonus to which Executive is entitled on the Termination Date, which shall be paid in a lump sum on the normal bonus payment date.

(v) In the event that Executive fails to execute the Release on or prior to the Release Expiration Date, Executive shall not be entitled to any payments or benefits pursuant to Section 9(a)(iv). Notwithstanding the foregoing, if the Release could become effective during the calendar year following the calendar year of the Termination Date, then no such payments that constitute "deferred compensation" under Internal Revenue Code Section 409A shall be made earlier than the first day of the calendar year following the calendar year of the Termination Date.

(b) If Executive's employment is terminated by the Company for Cause or due to death or disability, or if Executive terminates his employment with the Company without Good Reason or by failing to renew the terms of this Agreement pursuant to Section 1:

(i) within ten days following the Termination Date, the Company shall pay to Executive the Accrued Obligations;

(ii) within 45 days following the Termination Date, the Company shall reimburse Executive for reasonable expenses incurred, but not paid prior to the Termination Date; and

(iii) any accrued but unpaid obligations of the Company pursuant to Section 4 shall be paid in accordance with Section 4.

(c) Except for payments provided under Sections 9(a)(i), 9(a)(ii), 9(a)(iii) and 9(b), all compensation and benefits paid pursuant to this Section 9 shall cease and Executive shall promptly return any amount paid under Section 9(a)(iv) to the Company if Executive violates any of the terms of Sections 6 or 7 above during the Restricted Period, and the Company shall not be required to provide Executive with any information described in Section 9(e). In addition to these remedies, the Company shall have all other remedies provided by this Agreement and by law for the breach of Sections 6 or 7 above.

(d) For purposes of this Agreement, "Termination Date" means the date of Executive's "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder ("Section 409A").

10 COOPERATION. Executive agrees that, upon reasonable notice and without the necessity of the Company obtaining a subpoena or court order, Executive shall provide reasonable cooperation in connection with any suit, action or proceeding (or any appeal from any suit, action or proceeding), or the decision to commence on behalf of the Company any suit, action or proceeding, and any investigation and/or defense of any claims asserted against any of the Company's or its Affiliates' current or former directors, officers, employees, shareholders, partners, members, agents or representatives of any of the foregoing, which relates to events occurring during Executive's employment hereunder by the Company as to which Executive may have relevant information (including but not limited to furnishing relevant information and materials to the Company or its designee and/or providing testimony at depositions and at trial), provided that with respect to such cooperation occurring following termination of Executive's employment, the Company shall reimburse Executive for expenses reasonably incurred in connection therewith and shall schedule such cooperation to the extent reasonably practicable so as not to unreasonably interfere with Executive's business or personal affairs. Notwithstanding anything to the contrary, in the event the Company requests cooperation from Executive after his employment with the Company has terminated and at a time when Executive is not receiving any severance pay from the Company, Executive shall not be required to devote more than 40 hours of his time per year with respect to this Section 10, except that such 40 hour cap shall not include or apply to any time spent testifying at a deposition or at trial, or spent testifying before or being interviewed by any administrative or regulatory agency.

11. 409A COMPLIANCE. This Agreement shall be interpreted and administered in a manner so that any amount or benefit payable hereunder shall be paid or provided in a manner that is either exempt from or compliant with the requirements Section 409A and applicable Internal Revenue Service guidance and Treasury Regulations issued thereunder (and any applicable transition relief under Section 409A). Notwithstanding anything else contained in this Agreement to the contrary, if Executive is a "specified employee" under the Company's specified employee policy as in effect on the Termination Date, or if no such policy is then in effect, within the meaning of Section 409A, any payment required to be made to Executive hereunder upon or following the Termination Date shall be delayed until after the six-month anniversary of Executive's "separation from service" (as such term is defined in Section 409A) to the extent necessary to comply with, and avoid imposition on Executive of any additional tax, interest, or penalty imposed under, Section 409A. Should payments be delayed in accordance with the preceding sentence, the accumulated payment that would have been made but for the period of the delay shall be paid in a single lump sum during the ten-day period following the six-month anniversary of the Termination Date. For purposes of this Agreement, the terms "termination of employment", "Termination Date", or any similar terms shall refer to the Executive's "separation from service" or date of "separation from service" within the meaning of Section 409A. Each payroll period payment described in Section 9(a)(iv)(1) shall be treated as a separate payment for purposes of Section 409A.

12. UNIQUENESS OF SERVICES; ACKNOWLEDGEMENTS. Executive acknowledges that the services to be rendered under the provisions of this Agreement are of a special, unique, and extraordinary character; involve access to and development of Confidential Information and Privileged Information; involve developing and protecting customer relationships and goodwill; and that it would be difficult or impossible to replace such services and that, by reason thereof, Executive agrees and consents that if he violates any of the provisions of this Agreement, the Company, in addition to any other rights and remedies available under this Agreement or otherwise, shall be entitled to an injunction to be issued by a court of competent jurisdiction restricting Executive from committing or continuing any violation of this Agreement.

13. FURTHER ACKNOWLEDGEMENTS. Executive further acknowledges and agrees that the restrictions contained in Sections 6 and 7 above are reasonable and necessary to protect the legitimate interest of the Company Group, in view of, among other things, the short duration of the restrictions; the narrow scope of the restrictions; the Company Group's interests in protecting its proprietary, trade secret, Confidential Information, and Privileged Information (which Executive agrees has a useful life of more than one year) and its customer relationships and goodwill; Executive's background and capabilities which will allow him to seek and accept employment without violation of the restrictions; Executive's substantial

equity interest in the Company Group; and Executive's entitlements under this Agreement. If any provision contained in Sections 6 or 7 above is adjudged unreasonable by a court of competent jurisdiction in any proceeding, then such provision shall be deemed modified as provided in Sections 6 or 7 above or by reducing the period of time during which such provision is applicable and/or, if applicable, the geographic area to which such provision applies, to the extent necessary for such provision to be adjudged reasonable and enforceable.

14. NOTICES. Any notices provided for or permitted by this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person or three (3) days after it is mailed if delivered by registered or certified mail, return receipt requested, postage prepaid, addressed to the party for whom intended at such party's address set forth below or to such other address as such party may designate by notice in writing given in the manner provided below

To Executive: J. Adam Abram
[Redacted]
Chapel Hill, NC 27514

To James River: James River Group, Inc.
1414 Raleigh Road, Suite 405
Chapel Hill, NC 27517-3600

To the Company: James River Group Holdings, Ltd.
Attn: The Secretary
Clarendon House
2 Church Street
Hamilton HM 11 Bermuda

15. SECTION HEADINGS. The section heading in this Agreement are for convenience of reference only, and they form no part of this Agreement and shall not affect its interpretation.

16. ENTIRE AGREEMENT; AMENDMENTS; COUNTERPARTS. This Agreement constitutes the entire agreement and understanding between Executive and the Company with respect to the subject matter hereof and shall supersede any and all other prior agreements and understandings, whether oral or written, relating thereto or the employment of Executive by the Company and/or James River. This Agreement may not be rescinded, modified, or amended, unless an amendment is agreed to in writing signed by Executive and by an officer of the Company specifically authorized by the Board (other than Executive) and by an officer of James River (other than Executive), and any waiver shall be set forth in writing and signed by the party to be charged. This Agreement may be executed in any number of counterparts, including by facsimile, each of which shall be an original, but all of which together shall constitute one and the same instrument.

17. PARTIAL INVALIDITY. The invalidity or unenforceability, by statute, court decision, or otherwise, of any term or condition of this Agreement shall not affect the validity or enforceability of any other term or condition hereof.

18. GOVERNING LAW. This Agreement shall be construed and administered in accordance with the laws of Bermuda, without regard to the principles of conflicts of law which might otherwise apply.

19. ASSIGNABILITY. This Agreement may not be assigned by Executive, and all its terms and conditions shall be binding upon and inure to the benefit of the Company and its successors. Successors to the Company shall include, without limitation, any corporation or corporations acquiring, directly or indirectly, all or substantially all of the assets of the Company whether by merger, consolidation, purchase, or otherwise and such successor shall thereafter be deemed the "Company" for purposes hereof.

20. DISPUTE RESOLUTION.

(a) Arbitration. In the event of disputes between the parties with respect to the terms and conditions of this Agreement, such disputes shall be resolved by and through an arbitration proceeding to be conducted under the auspices of the American Arbitration Association (or any like organization successor thereto) in either Bermuda or the city of Raleigh, North Carolina; provided, however, that either party may seek temporary, preliminary, and or permanent injunctive relief with respect to appropriate matters (including, without limitation, enforcement of Sections 6 and 7 above) without resort to arbitration. Such arbitration proceeding shall be conducted pursuant to the commercial arbitration rules (formal or informal) of the American Arbitration Association in as expedited a manner as is then permitted by such rules (the "Arbitration"). Both the foregoing agreement of the parties to arbitrate any and all such claims, and the results, determination, finding, judgment, and/or

award rendered through such Arbitration, shall be final and binding on the parties to this Agreement and may be specifically enforced by legal proceedings. This Section 20(a) is without prejudice to the Executive's statutory right to complain to an employment inspector and/or employment tribunal under Bermuda's Employment Act 2.

(b) Procedure. Such Arbitration may be initiated by written notice from either party to the other which shall be a compulsory and binding proceeding on each party. The Arbitration shall be conducted by an arbitrator selected in accordance with the procedures of the American Arbitration Association. Time is of the essence of this arbitration procedure, and the arbitrator shall be instructed and required to render his or her decision within thirty (30) days following completion of the Arbitration.

(c) Venue and Jurisdiction. Any action to compel arbitration hereunder or otherwise relating to this Agreement shall be brought exclusively in either a Bermuda court or a state court or federal court located in the City of New York, New York; provided that, with respect to an action brought in New York, if a federal court has jurisdiction over the subject matter thereof, then such action shall be brought in federal court, and the Company and Executive hereby irrevocably submit with regard to any such action or proceeding for itself and in respect to its property, generally and unconditionally, to the jurisdiction of the aforesaid courts.

(d) Waiver of Jury Trial. IN THE EVENT OF ANY LITIGATION WITH RESPECT TO ANY MATTER CONNECTED WITH THIS AGREEMENT OR THE AGREEMENTS OR TRANSACTIONS CONTEMPLATED HEREUNDER ALL OF THE PARTIES HERETO WAIVE ALL RIGHTS TO A TRIAL BY JURY.

21. JOINT OBLIGATIONS. Both the Company and James River are jointly liable for all payment obligations of the Company pursuant to this Agreement, and James River may satisfy the Company's obligations to provide benefits to Executive pursuant to Sections 2(b) and 2(c) of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

THIS CONTRACT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

**JAMES RIVER GROUP
HOLDINGS LTD.**

By: /s/ Sarah C. Doran
Name: Sarah C. Doran
Title: Chief Financial Officer

JAMES RIVER GROUP, INC.

By: /s/ Sarah C. Doran
Name: Sarah C. Doran
Title: Chief Financial Officer

EXECUTIVE

/s/ J. Adam Abram
Name: J. Adam Abram

JAMES RIVER GROUP HOLDINGS, LTD.

Wellesley House, 2nd Floor
90 Pitts Bay Road
Pembroke HM 08 Bermuda

Mr. Robert P. Myron

Dear Robert:

The purpose of this letter (this "Agreement") is to confirm that we have agreed to amend and restate as of August 5, 2019 (the "Effective Date") our prior agreement (the "Prior Agreement") with respect to the terms of your continued employment by James River Group Holdings, Ltd., a Bermuda company (the "Company").

In consideration of the mutual promises contained in this Agreement, the parties to this Agreement hereby agree as follows:

1. EMPLOYMENT AND TERM. Effective as of the Effective Date, the Company agrees to employ you (the "Executive") as President and Chief Operating Officer, and Executive hereby accepts such employment on the terms hereinafter set forth. The term of this Agreement shall be two years commencing as of the Effective Date and ending on the date immediately preceding the second anniversary of the Effective Date, subject to the termination provisions of Section 6. The term of this Agreement shall thereafter be automatically renewed for additional one year periods unless written notice to the contrary shall be given by either party to the other not less than 60 days prior to the end of the initial or any renewal term that the term shall not thereafter be renewed ("Non-Renewal Notice"), subject to the termination provisions of Section 6. The initial term plus any renewals thereof shall hereafter be referred to as the "Term."

2. COMPENSATION.

(a) Salary. Commencing as of the Effective Date, Executive shall be paid a base salary at a rate of not less than \$650,000 per year, payable in periodic installments in accordance with the Company's normal payroll practices.

(b) Bonus and Long-Term Incentive Plan. For each fiscal year during the Term in which Executive is employed by the Company as of the last day of such fiscal year, Executive shall be eligible to receive a discretionary bonus (each, a "Bonus") in an amount as the Board of Directors of the Company ("Board") (other than Executive, if Executive is a member of the Board), in its discretion, may determine based on Executive's performance during such fiscal year, which Bonus shall be paid on or before March 15 of the subsequent fiscal year. Executive's target cash bonus for each calendar year he is employed through the end of the year will be 100% of his base salary (which, for 2019, is the base salary described in Section 2(a)), provided that the determination of whether Executive will be awarded a cash bonus and the amount of the cash bonus will be determined by the Board in its discretion. In addition, Executive shall be eligible to participate in any long-term incentive plan of the Company ("LTIP") in effect from time to time. For long term incentive equity grants, Executive will have a target equity grant equivalent in value to 100% of his base salary for each calendar year he is employed through the end of the year, provided that the determination of whether Executive will be awarded an LTIP equity award and the amount of the award will be determined by the Board in its discretion. Options to acquire common shares (the "Shares") of the Company will be valued using a Black Scholes valuation model, and restricted share units ("RSUs") of the Company will be valued based upon the closing price of the Company's publicly traded Shares on the day of the grant.

(c) Vacation, Benefits. Executive shall also be entitled, during the Term to participate in all employee benefit plans and other fringe benefits or plans (including certain services and utilities) of the Company generally available to executive employees of the Company Group or generally available to the Company's Bermuda-based executive employees, at the Company's expense, including:

(i) a total of six weeks of paid vacation per annum (not subject to carry over to subsequent years);

(ii) tax equalization payments pursuant to the Company's tax equalization policies ("Tax Equalization Policies"), provided that such tax equalization payments shall be made no later than the end of the second

calendar year after the year in which the Executive's income tax return is required to be filed (including any extensions) for the year to which the compensation subject to the tax equalization payment relates, or, if later, the second calendar year beginning after the latest year in which the Executive's foreign tax return or payment is required to be filed or made for the year to which the compensation subject to the tax equalization payment relates, and further provided that if the right to such tax equalization proceeds arises as a result of audit, litigation, or similar proceeding, such tax equalization payments are scheduled and made in accordance with the tax gross-up payment provisions of Treas. Reg. §1.409A-3(j)(i)(v); and

(iii) business expense reimbursement for all reasonable business expenses upon the presentation of reasonably itemized statements of such expenses in accordance with the Company's policies and procedures.

(d) Housing Expense. Company shall reimburse Executive for up to \$12,500 per month for Executive's "Housing Expense." For purposes of this provision, "Housing Expense" means either (a) if Executive purchases a single family residence (or condominium unit) in Bermuda and lives there during the Term (a "Residence"), the scheduled monthly mortgage principle, interest payment, and property tax payments paid by Executive for such Residence for each month during the Term in which Executive resides in the Residence for the entire month, provided that the term of the mortgage is at least 15 years at prevailing interest rates and that Executive provides a copy of the mortgage and any other documentation relating to such purchase or mortgage payments as requested by the Company, or (b) the rent paid by Executive for a residence in Bermuda for each month during the Term in which Executive resides in such residence for the entire month, provided that Executive provides a copy of the lease and any other documentation relating to such rent payments as requested by the Company. Such Housing Expense reimbursement payments will be made by the end of the month following the month in which documentation of the mortgage or rent payment is provided to the Company.

(e) Reimbursements. The amount of expenses eligible for reimbursement pursuant to this Agreement (including under Sections 2(c)(iii) and 2(d)) during any tax year of Executive shall not affect the expenses eligible for reimbursement in any other tax year. The right to reimbursement provided in this Agreement is not subject to liquidation or exchange for another benefit. In no event shall the reimbursement of an eligible expense under this Agreement occur later than the earlier of (i) six months from the date of incurrence and (ii) the end of the calendar year following the calendar year in which such expense was incurred.

(f) Chartered Aircraft. The Company hereby agrees that at his election, Executive may travel on chartered aircraft in connection with the performance of his duties hereunder. The Company further agrees that the Executive may continue to charter planes for business travel as is reasonably necessary to efficiently carry out his duties.

(g) Claw-Back. Executive acknowledges that to the extent required by applicable law or written company policy adopted by the Board to implement the requirements of such law (including without limitation Section 304 of the Sarbanes Oxley Act and Section 954 of the Dodd Frank Act), any bonus and other incentive compensation (if any) shall be subject to any clawback, forfeiture, recoupment or similar requirement ("Clawback Rights") as the Board may determine in its sole discretion is necessary or desirable to implement such law or policy. Holdings may only exercise Clawback Rights with respect to any bonus and other incentive compensation received during the three completed fiscal years immediately preceding the date on which Holdings is required to prepare an accounting restatement and, if applicable, any transition period resulting from a change in fiscal year within or immediately following the three completed fiscal years.

(h) Withholdings and Deductions. All payments and compensation under this Agreement shall be subject to all required withholdings and deductions, and such deductions as Executive may instruct the Company to take that are authorized by applicable law.

3. DUTIES. Executive shall perform all duties normally associated with the position of President and Chief Operating Officer and such other reasonable duties as may be assigned to him by the Chief Executive Officer of the Company ("CEO") or the Board. Executive shall report directly to the CEO. Executive will devote his entire working time, attention, and energies to carrying out and fulfilling his duties and responsibilities under this Agreement. Executive agrees to abide by all policies applicable to employees of the Company Group adopted by the Board. Executive's duties will primarily be performed at the Company's offices in Bermuda, and Executive represents that he is able and willing to engage in international travel as is necessary to perform his duties as President and Chief Operating Officer and to further the Company's business interests.

4. CONFIDENTIAL INFORMATION AND PRIVILEGED INFORMATION.

(a) Executive will not at any time during the Term or thereafter:

(i) reveal, divulge, or make known to any person, firm, or corporation or use for his personal benefit or the benefit of others (except the Company and any of its direct or indirect subsidiaries (hereinafter referred to as "Affiliates," and the Company, together with such Affiliates, the "Company Group")), directly or indirectly, any confidential or proprietary information received or developed by him during the course of his employment. For the purposes of this Section 4(a)(i) confidential and proprietary information ("Confidential Information") shall be defined to mean (1) all historical and pro forma projections of loss ratios incurred by the Company Group; (2) all historical and pro forma actuarial data relating to the Company Group; (3) historical and pro forma financial results, revenue statements, and projections for the Company Group; (4) all information relating to the Company Group's systems and software (other than the portion thereof provided by the vendor to all purchasers of such systems and software); (5) all information relating to the Company's unique underwriting approach; (6) all information relating to plans for, or internal or external discussions regarding, acquisitions of or mergers with any business or line of business; (7) non-public business plans; (8) all other information relating to the financial, business, or other affairs of the Company Group including their customers; and (9) any information about any shareholder of the Company or any of its Affiliates, or any of their officers or employees, that has been furnished or made available to Executive as a result of his position with the Company. Section 4(a)(i) shall not apply to Executive following the termination of his employment with the Company with respect to any Confidential Information known or made generally available to the general public or within the industry by persons other than Executive or a person acting with or at the request of Executive; or

(ii) reveal, divulge, or make known to any person, firm, or corporation, or use for his personal benefit or the benefit of others (except the Company Group), directly or indirectly, the name or names of any Customers (as defined in Section 5 below) of the Company Group, nor will he reveal, divulge, or make known to any person, firm, or corporation or use for his personal benefit or the benefit of others (except the Company Group), directly or indirectly, any trade secrets or any knowledge or information concerning any business methods or operational procedures engaged in by the Company Group (collectively, "Privileged Information"); provided, however, the restrictions set forth in this Section 4(a)(ii) shall not apply to Executive following the termination of his employment with the Company with respect to any Privileged Information known or made generally available to the general public or within the industry by persons other than Executive or a person acting with or at the request of Executive.

(b) Notwithstanding any provision of this Agreement to the contrary, under 18 U.S.C. §1833(b), "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal." Nothing in this Agreement or any other policy of the Companies is intended to conflict with this statutory protection, and no director, officer, or member of management has the authority to impose any rule to the contrary.

5. NON-COMPETITION.

(a) Executive acknowledges and agrees that as the Company's President and Chief Operating Officer (i) he will be responsible for and directly involved in developing customer goodwill and relationships for the benefit of the Company Group, including personal contact with customers and supervising others who contact customers and develop customer goodwill and relationships; (ii) he will be provided and have access to the Company Group's Confidential Information and Privileged Information, and will be compensated for the development, and supervising the development, of the same and (iii) he will have unique insight into and knowledge of the skills, talents and capabilities of the Company Group's key employees. Executive also acknowledges and agrees that at the inception of his employment with the Company it was agreed that he would be bound by noncompetition restrictions that are similar to the restrictions in this Agreement.

(b) Executive agrees that during his employment by the Company he will not compete against the Company Group in any manner, including without limitation by engaging in, or by assisting any other person or entity to engage in, or by having an ownership interest in, any Competitive Business (as defined below) in the Territory (as defined below), or by engaging in any conduct described in clauses (c)(i), (ii) or (iii) below.

(c) Executive further agrees that after his employment by the Company ends for any reason, he will not during the Restricted Period (as defined below):

(i) compete against the Company Group by engaging in, or by assisting any other person or entity to engage in, or by having an ownership interest in, any Competitive Business in the Territory (as defined below);

(ii) compete against the Company Group by soliciting any Customer (as defined below) in order to provide any goods or services to such Customer in competition against the Company Group, or by soliciting any Agent (as defined below) in order to obtain referrals from such Agent in competition against the Company Group;

(iii) induce or persuade any Customer or Agent not to do business with, or to switch business from, or reduce business with, the Company Group;

(iv) solicit, or assist others in soliciting, Key Employees (as defined below) to either leave the Company Group or to engage in a Competitive Business.

(d) For purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

(i) “Agent” shall mean any insurance agent, insurance broker, wholesale agent, general agent, or other person (A) that acted on behalf of any customer of the Company Group to obtain insurance from any Company Group entity or who referred any insurance business to any Company Group entity during the Final Year (as defined below) and (B) with respect to which either Executive had either (I) Confidential Information or Privileged Information or (II) account responsibility either directly or through managing employees with such account responsibility.

(ii) “Competitive Business” shall mean the business of acquiring, holding, and/or operating excess and surplus line insurance companies, and any other material business that the Company Group is engaged in as of the date of this Agreement and as the business of the Company Group evolves during Executive’s employment with the Company. For informational purposes only and not for the purpose of construing or restricting the scope of the term “Competitive Business,” the parties agree that the following activities in which the Company Group is currently engaged are within the scope of Competitive Business: providing workers' compensation insurance in North Carolina, South Carolina and Virginia, providing excess and surplus lines insurance in the United States and writing working layer casualty reinsurance through a reinsurance company from Bermuda.

(iii) “Customer” shall mean any customer of the Company Group that (A) purchased products or services from the Company during the twelve month period immediately preceding Executive’s last day of employment with the Company (the “Final Year”), and (B) about which Executive either had Confidential Information or Privileged Information or personal or management responsibility for customer contact or service.

(iv) “Key Employees” shall mean any executive, managerial, sales, marketing, or supervisory level employees of the Company Group under Executive’s direct or indirect management authority during the Final Year.

(v) “Restricted Period” shall mean 18 months.

(vi) “Territory” shall mean Bermuda and each and every state or other United States jurisdiction where the Company Group is licensed or admitted at the end of the Term and/or is then in the process of seeking to be licensed.

(e) The restrictions contained in this Section 5 shall not prevent the purchase of ownership by Executive of not more than 3% of the securities of any class of any corporation, whether or not such corporation is engaged in any Competitive Business, which are publicly traded on any securities exchange or any “over the counter” market.

6. TERMINATION. Executive’s employment hereunder shall terminate under the following circumstances:

(a) Termination for Cause. The Company may terminate the employment of Executive for Cause at any time by providing written notice to Executive specifying the cause of the termination. For the purposes of this Agreement, “Cause” means that: (i) Executive willfully violated Sections 4 or 5 of this Agreement; (ii) Executive

grossly neglected his duties hereunder; (iii) Executive was convicted of a felony, or a crime involving moral turpitude (meaning a crime that includes the commission of an act of depravity, dishonesty, or bad morals); (iv) Executive has committed an act of dishonesty, fraud, or embezzlement against any Company Group entity; (v) Executive willfully and/or knowingly breached any provision of this Agreement other than Section 4 or Section 5 in any material respect, or willfully and/or knowingly violated the Company's written policies; or (vi) Executive willfully failed or refused to follow the lawful instructions of the Board that are consistent with this Agreement ("Insubordination"). In the event that the Company provides written notice of termination for Cause pursuant to Section 6(a)(ii) or (vi), Executive shall be entitled to cure any alleged neglect of his duties or Insubordination, to the extent curable, within 30 days of receiving written notice from the Company specifying the factual basis for its belief that Executive grossly neglected his duties hereunder or engaged in Insubordination. If Executive is terminated for Cause, Executive's compensation shall terminate on the date of such termination, and all Company stock options, whether vested or unvested at that time, shall be immediately forfeited and canceled effective as of the date of such termination.

(b) Company Termination Without Cause; Company Non-Renewal Termination. The Company may terminate the employment of Executive at any time without Cause, with or without prior notice. If (i) the Company delivers a timely Non-Renewal Notice and Executive has not timely delivered a timely Non-Renewal Notice, (ii) Executive continues in employment with the Company through the last day of the Term, and (iii) the parties have not executed a written agreement applicable to Executive's employment after the expiration of the Term, then Executive's employment shall terminate on the last day of the Term (a "Company Non-Renewal Termination").

(c) Termination by Executive for Good Reason. Executive may, at his option, terminate this Agreement for Good Reason in accordance with the terms of this Section 6(c). "Good Reason" shall mean the occurrence of any one or more of the following events without the prior consent of Executive:

(i) A material diminution in Executive's authority, duties or responsibilities, or requiring Executive to report directly to a person or persons other than the CEO, provided, however, that Executive's ceasing to be a member of the Board for any reason shall not constitute Good Reason;

(ii) A material diminution in Executive's base salary;

(iii) The Company's requiring Executive to be based at any office or location more than 35 miles from either Sudbury, Massachusetts, Hamilton, Bermuda, Raleigh, North Carolina, or Richmond, Virginia; or

(iv) Any action or inaction by the Company which constitutes a material breach of the terms of this Agreement;

and, in each case, the failure by the Company to cure such condition within the 30-day period after receipt of written notice from Executive specifying in detail the factual basis for his belief that he has Good Reason to resign ("Good Reason Notice"). Executive must deliver a Good Reason Notice within 30 calendar days after the initial existence of a Good Reason condition, and, if the Company fails to timely cure such Good Reason condition, Executive must terminate his employment within one year after the initial existence of such Good Reason condition, and any failure by Executive to timely comply with either of these requirements shall constitute a waiver of Executive's right to resign for Good Reason for such condition.

(d) Termination due to Death or Disability. Executive's employment hereunder shall terminate upon his death. The Company may terminate Executive's employment if he is prevented from performing his responsibilities under this Agreement because of "Disability." A "Disability" means that Executive is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident or disability insurance benefit plan covering Company employees ("Disability Plan"). If Executive is unable to perform his responsibilities, by reason of any accident, illness, or mental, or physical impairment, for a period that is reasonably anticipated by the Company to be longer than the waiting period in the Disability Plan, then, at the Company's request, Executive shall promptly apply for such income replacement benefits.

(e) Expiration of Term. If (i) Executive delivers a timely Non-Renewal Notice pursuant to Section 1 (whether or not the Company has timely delivered a timely Non-Renewal Notice), (ii) Executive continues in employment with the Company through the last day of the Term, and (iii) the parties have not executed a written

agreement applicable to Executive's employment after the expiration of the Term, then Executive's employment shall terminate on the last day of the Term.

7. COMPENSATION AND BENEFITS UPON TERMINATION.

(a) If, during the Term, the Company terminates Executive's employment without Cause, there is a Company Non-Renewal Termination, or Executive terminates his employment for Good Reason, then:

(i) as soon as practicable following such termination but no later than ten days after the Termination Date (as defined below), the Company shall pay to Executive his accrued but yet unpaid base salary earned through the Termination Date and any accrued, but unused vacation pay through the Termination Date (the "Accrued Obligations");

(ii) within 45 days following the Termination Date, the Company shall reimburse Executive for reasonable expenses incurred, but not paid prior to the Termination Date;

(iii) any accrued but unpaid Tax Equalization Policy obligations of the Company shall be paid in accordance with such policy; and

(iv) subject to the execution and delivery of a general release (which release shall not alter or result in the waiver of Executive's right to exercise the portion of any Company stock option that vested through the Termination Date, or any rights under this Section 7(a)) in a form acceptable to the Company within thirty (30) days after the Termination Date (the "Release Expiration Date"), which release has not been revoked, Executive is entitled to receive:

(1) a gross amount equal to (x) Executive's base salary in effect on the Termination Date divided by (y) 12, per month, subject to any applicable deductions and withholdings, for a period of 36 months after the Termination Date, which shall be paid in periodic installments in accordance with the Company's normal payroll practices in effect as of the Termination Date commencing on the first payroll cycle which is at least 45 days after the Termination Date, unless such payments are required to be delayed pursuant to Section 8 below;

(2) the continuation of coverage under all employee benefit insurance plans in which Executive was a participant as of the Termination Date, to the extent such post-employment coverage is authorized by such plans, at the Company's expense for a period of 12 months after the Termination Date, provided, however if post-employment coverage is not authorized under the Company's health insurance plan, then the Company will pay Executive the premium cost for health insurance coverage that the Company would have paid if Executive had continued being a participant in the Company's health insurance plan during such twelve month period, and such amount shall be paid at the time such premiums would have been paid if Executive had continued being a participant in the Company's health insurance plan during such twelve month period; and

(3) any unpaid discretionary bonus awarded to Executive for the year prior to the year in which the Termination Date occurs, which shall be paid in a lump sum on the normal bonus payment date.

(v) In the event that Executive fails to execute the Release on or prior to the Release Expiration Date, Executive shall not be entitled to any payments or benefits pursuant to Section 7(a)(iv). Notwithstanding the foregoing, if the Release could become effective during the calendar year following the calendar year of the Termination Date, then no such payments that constitute "deferred compensation" under Internal Revenue Code Section 409A shall be made earlier than the first day of the calendar year following the calendar year of the Termination Date.

(b) If Executive's employment is terminated as a result of death or by the Company for Cause or because of Disability, or if a termination of employment occurs as a result of Executive's delivering a timely Non-Renewal Notice:

(i) within ten days following the Termination Date, the Company shall pay to Executive the Accrued Obligations;

(ii) within 45 days following the Termination Date, the Company shall reimburse Executive for reasonable expenses incurred, but not paid prior to the Termination Date; and

(iii) any accrued but unpaid Tax Equalization Policy obligations of the Company shall be paid in accordance with such policy.

(c) Except for payments provided under Sections 7(a)(i), 7(a)(ii), 7(a)(iii) and 7(b), all compensation and benefits paid pursuant to this Section 7 shall cease and Executive shall promptly return any amount paid under Section 7(a)(iv) to the Company if Executive violates any of the terms of Sections 4 or 5 above during the Restricted Period. In addition to these remedies, the Company shall have all other remedies provided by this Agreement and by law for the breach of Sections 4 or 5 above.

(d) For purposes of this Agreement, "Termination Date" means the date of Executive's "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder ("Section 409A")."

(e) Executive's rights with respect to the vesting and exercise of Company stock options after the Termination Date for any termination of employment other than a termination for Cause shall be governed by option agreements between Executive and the Company and the Incentive Plan.

8. 409A COMPLIANCE. This Agreement shall be interpreted and administered in a manner so that any amount or benefit payable hereunder shall be paid or provided in a manner that is either exempt from or compliant with the requirements Section 409A and applicable Internal Revenue Service guidance and Treasury Regulations issued thereunder (and any applicable transition relief under Section 409A). Notwithstanding anything else contained in this Agreement to the contrary, if Executive is a "specified employee" under the Company's specified employee policy as in effect on the Termination Date, or if no such policy is then in effect, within the meaning of Section 409A, any payment required to be made to Executive hereunder upon or following the Termination Date shall be delayed until after the six-month anniversary of Executive's "separation from service" (as such term is defined in Section 409A) to the extent necessary to comply with, and avoid imposition on Executive of any additional tax, interest, or penalty imposed under, Section 409A. Should payments be delayed in accordance with the preceding sentence, the accumulated payment that would have been made but for the period of the delay shall be paid in a single lump sum during the ten-day period following the six-month anniversary of the Termination Date. Each payroll period payment described in Section 7(a)(iv)(1) shall be treated as a separate payment for purposes of Section 409A.

9. UNIQUENESS OF SERVICES; ACKNOWLEDGEMENTS. Executive acknowledges that the services to be rendered under the provisions of this Agreement are of a special, unique, and extraordinary character; involve access to and development of Confidential Information and Privileged Information; involve developing and protecting customer relationships and goodwill; and that it would be difficult or impossible to replace such services and that, by reason thereof, Executive agrees and consents that if he violates any of the provisions of Sections 4 and 5 of this Agreement, the Company, in addition to any other rights and remedies available under this Agreement or otherwise, shall be entitled to an injunction to be issued by a court of competent jurisdiction restricting Executive from committing or continuing any violation of Sections 4 and 5 of this Agreement.

10. FURTHER ACKNOWLEDGEMENTS. Executive further acknowledges and agrees that the restrictions contained in Sections 4 and 5 above are reasonable and necessary to protect the legitimate interest of the Company Group, in view of, among other things, the short duration of the restrictions; the narrow scope of the restrictions; the Company Group's interests in protecting its trade secrets, Confidential Information, and Privileged Information (which Executive agrees would be useful to competitors for more than 18 months) and its customer relationships and goodwill; Executive's background and capabilities which will allow him to seek and accept employment without violation of the restrictions; Executive's opportunity to acquire a substantial equity interest in the Company through the award of restricted stock and stock options and other equity based awards; and Executive's entitlements under this Agreement. If any provision contained in Sections 4 or 5 above is adjudged unreasonable by a court of competent jurisdiction or arbitrator in any proceeding, then such provision shall be deemed modified as provided in Sections 4 or 5 above or by reducing the scope of such provision, the period of time during which such provision is applicable and/or the geographic area to which such provision applies, to the extent necessary for such provision to be adjudged reasonable and enforceable.

11. NOTICES. Any notices provided for or permitted by this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person or three days after it is mailed if delivered by registered or certified mail, return receipt requested, postage prepaid, addressed to the party for whom intended at such party's address set forth above (for the Company) or to the most recent address for Executive set forth in the Company's records, or to such other address as such party may designate by notice in writing given in the manner provided herein.

12. SECTION HEADINGS. The section headings in this Agreement are for convenience of reference only, and they form no part of this Agreement and shall not affect its interpretation.

13. ENTIRE AGREEMENT; AMENDMENTS; COUNTERPARTS. This Agreement constitutes the entire agreement and understanding between Executive and the Company with respect to the subject matter hereof and shall supersede any and all other prior agreements and understandings, whether oral or written, relating thereto or the employment of Executive by the Company, including without limitation the Prior Agreement. Executive acknowledges and agrees that the differences between this Agreement and the Prior Agreement, including without limitation the reduction in Executive's base salary and changes in Executive's title, responsibilities and reporting relationship, do not constitute Good Reason under the Prior Agreement or this Agreement. This Agreement may not be rescinded, modified, or amended, unless an amendment is agreed to in a writing signed by Executive and by the Chairman of the Board or an officer of the Company specifically authorized by the Board (other than Executive), and any waiver shall be set forth in writing and signed by the party to be charged. This Agreement may be executed in any number of counterparts, including by facsimile, each of which shall be an original, but all of which together shall constitute one and the same instrument.

14. PARTIAL INVALIDITY. The invalidity or unenforceability, by statute, court decision, or otherwise, of any term or condition of this Agreement shall not affect the validity or enforceability of any other term or condition hereof.

15. GOVERNING LAW. This Agreement shall be construed and administered in accordance with the laws of Bermuda, without regard to the principles of conflicts of law which might otherwise apply.

16. ASSIGNABILITY. This Agreement may not be assigned by Executive, and any purported assignment by Executive shall be null and void. All of the terms and conditions of this Agreement shall be binding upon and inure to the benefit of the Company and its successors (including without limitation any successor to the Company's business as the result of a merger or consolidation of the Company, whether or not the Company survives such merger or consolidation) and assigns. Successors to the Company shall include, without limitation, any corporation or corporations acquiring, directly or indirectly, all or substantially all of the assets of the Company whether by merger, consolidation, purchase, or otherwise and such successor shall thereafter be deemed the "Company" for purposes hereof.

17. DISPUTE RESOLUTION.

(a) Arbitration. In the event of disputes between the parties with respect to the terms and conditions of this Agreement, such disputes shall be resolved by and through an arbitration proceeding to be conducted under the auspices of the American Arbitration Association (or any like organization successor thereto) in either Bermuda or the city of Raleigh, North Carolina; provided, however, that either party may seek temporary or preliminary relief with respect to appropriate matters (including, without limitation, enforcement of Sections 4 and 5 above) from a court in aid of arbitration. Such arbitration proceeding shall be conducted pursuant to the commercial arbitration rules (formal or informal) of the American Arbitration Association in as expedited a manner as is then permitted by such rules (the "Arbitration"). Both the foregoing agreement of the parties to arbitrate any and all such claims, and the results, determination, finding, judgment, and/or award rendered through such Arbitration, shall be final and binding on the parties to this Agreement and may be specifically enforced by legal proceedings. This Section 17(a) is without prejudice to the Executive's statutory right to complain to an employment inspector and/or employment tribunal under Bermuda's Employment Act 2.

(b) Procedure. Such Arbitration may be initiated by written notice from either party to the other which shall be a compulsory and binding proceeding on each party. The Arbitration shall be conducted by an arbitrator selected in accordance with the procedures of the American Arbitration Association. Time is of the essence of this arbitration procedure, and the arbitrator shall be instructed and required to render his or her decision within 30 days following completion of the Arbitration.

(c) Venue and Jurisdiction. Any action to compel arbitration hereunder or otherwise relating to this Agreement shall be brought exclusively in either a Bermuda court or a state court or federal court located in Raleigh, North Carolina, provided that, with respect to an action brought in North Carolina, if a federal court has jurisdiction over the subject matter thereof, then such action shall be brought in federal court, and the Company and Executive hereby irrevocably submit with regard to any such action or proceeding for itself and in respect to its property, generally and unconditionally, to the jurisdiction of the aforesaid courts.

(d) Waiver of Jury Trial. IN THE EVENT OF ANY LITIGATION WITH RESPECT TO ANY MATTER CONNECTED WITH THIS AGREEMENT OR THE AGREEMENTS OR TRANSACTIONS

CONTEMPLATED HEREUNDER ALL OF THE PARTIES HERETO WAIVE ALL RIGHTS TO A TRIAL BY JURY.

18. COOPERATION. Executive agrees that, upon reasonable notice and without the necessity of the Company obtaining a subpoena or court order, Executive shall provide reasonable cooperation in connection with any suit, action or proceeding (or any appeal from any suit, action or proceeding), or the decision to commence on behalf of the Company any suit, action or proceeding, and any investigation and/or defense of any claims asserted against any of the Company's or its Affiliates' current or former directors, officers, employees, shareholders, partners, members, agents or representatives of any of the foregoing, which relates to events occurring during Executive's employment hereunder by the Company as to which Executive may have relevant information (including but not limited to furnishing relevant information and materials to the Company or its designee and/or providing testimony at depositions and at trial), provided that with respect to such cooperation occurring following termination of Executive's employment, the Company shall reimburse Executive for expenses reasonably incurred in connection therewith and shall schedule such cooperation to the extent reasonably practicable so as not to unreasonably interfere with Executive's business or personal affairs. Notwithstanding anything to the contrary, in the event the Company requests cooperation from Executive after his employment with the Company has terminated and at a time when Executive is not receiving any severance pay from the Company, Executive shall not be required to devote more than 40 hours of his time per year with respect to this Section 18, except that such 40 hour cap shall not include or apply to any time spent testifying at a deposition or at trial, or spent testifying before or being interviewed by any administrative or regulatory agency.

Kindly indicate your acceptance of this Agreement by signing and returning a copy of this letter to the Company.

Very truly yours,

JAMES RIVER GROUP HOLDINGS, LTD.

By: /s/ J. Adam Abram

Name: J. Adam Abram

Title: Chairman of the Board of Directors

ACCEPTED AND AGREED TO AS OF

THIS 31 DAY OF July, 2019

/s/ Robert P. Myron

Robert P. Myron

CERTIFICATION

I, J. Adam Abram, certify that:

1. I have reviewed this quarterly report on Form 10-Q of James River Group Holdings, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ J. Adam Abram

J. Adam Abram

Chief Executive Officer and Chairman

(Principal Executive Officer)

CERTIFICATION

I, Sarah C. Doran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of James River Group Holdings, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Sarah C. Doran

Sarah C. Doran

Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of James River Group Holdings, Ltd. (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, J. Adam Abram, Chief Executive Officer and Chairman of the Company, and Sarah C. Doran, Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ J. Adam Abram

J. Adam Abram
Chief Executive Officer and Chairman
(Principal Executive Officer)
November 7, 2019

/s/ Sarah C. Doran

Sarah C. Doran
Chief Financial Officer
(Principal Financial Officer)
November 7, 2019