

**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, 2020

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 October 27, 2020: 30,610,153

James River Group Holdings, Ltd.
Form 10-Q
Index

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets—September 30, 2020 and December 31, 2019</u>	5
<u>Condensed Consolidated Statements of Income (Loss) and Comprehensive Income—Three and Nine Months Ended September 30, 2020 and 2019</u>	7
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity—Three and Nine Months Ended September 30, 2020 and 2019</u>	8
<u>Condensed Consolidated Statements of Cash Flows—Nine Months Ended September 30, 2020 and 2019</u>	10
<u>Notes to Condensed Consolidated Financial Statements</u>	11
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Critical Accounting Policies and Estimates</u>	32
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	54
<u>Item 4. Controls and Procedures</u>	54
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	54
<u>Item 1A. Risk Factors</u>	54
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	56
<u>Item 3. Defaults Upon Senior Securities</u>	56
<u>Item 4. Mine Safety Disclosure</u>	56
<u>Item 5. Other Information</u>	56
<u>Item 6. Exhibits</u>	57
<u>Signatures</u>	58

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, or decision to terminate, 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, such as natural disasters and terrorist acts, which substantially exceed our expectations and/or exceed the amount of reinsurance we have purchased to protect us from such events;
- the effects of the COVID-19 pandemic and associated government actions on our operations and financial performance (see “*Impact of the COVID-19 Pandemic*” in *Part I, Item 2 of this Quarterly Report*);
- 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 Part II, Item 1A "Risk Factors" in this Quarterly Report, and 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, 2020.

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, 2020	December 31, 2019
	<i>(in thousands)</i>	
Assets		
Invested assets:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost: 2020 – \$1,724,561; 2019 – \$1,398,533)	\$ 1,813,471	\$ 1,433,626
Equity securities, at fair value (cost: 2020 – \$79,300; 2019 – \$73,244)	79,896	80,735
Bank loan participations (2020: at fair value; 2019: held-for-investment, at amortized cost, net of allowance)	131,198	260,864
Short-term investments	71,986	156,925
Other invested assets	45,621	61,210
Total invested assets	<u>2,142,172</u>	<u>1,993,360</u>
Cash and cash equivalents	139,969	206,912
Restricted cash equivalents	940,221	1,199,164
Accrued investment income	11,730	13,597
Premiums receivable and agents' balances, net	331,008	369,462
Reinsurance recoverable on unpaid losses, net	769,815	668,045
Reinsurance recoverable on paid losses	36,591	33,221
Prepaid reinsurance premiums	237,544	178,976
Deferred policy acquisition costs	53,967	62,006
Intangible assets, net	36,493	36,940
Goodwill	181,831	181,831
Other assets	103,012	80,891
Total assets	<u>\$ 4,984,353</u>	<u>\$ 5,024,405</u>

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES**Condensed Consolidated Balance Sheets (continued)**

	(Unaudited) September 30, 2020	December 31, 2019
<i>(in thousands, except share amounts)</i>		
Liabilities and Shareholders' Equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 2,106,749	\$ 2,045,506
Unearned premiums	581,098	524,377
Payables to reinsurers	109,727	108,059
Funds held	940,221	1,199,164
Senior debt	217,300	158,300
Junior subordinated debt	104,055	104,055
Accrued expenses	54,907	58,416
Other liabilities	48,890	47,947
Total liabilities	4,162,947	4,245,824
Commitments and contingent liabilities	—	—
Shareholders' equity:		
Common Shares – 2020 and 2019: \$0.0002 par value; 200,000,000 shares authorized; 30,610,153 and 30,424,391 shares issued and outstanding, respectively	6	6
Preferred Shares – 2020 and 2019: \$0.00125 par value; 20,000,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	664,092	657,875
Retained earnings	78,761	89,586
Accumulated other comprehensive income	78,547	31,114
Total shareholders' equity	821,406	778,581
Total liabilities and shareholders' equity	\$ 4,984,353	\$ 5,024,405

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(in thousands, except share amounts)</i>				
Revenues				
Gross written premiums	\$ 311,852	\$ 388,228	\$ 897,332	\$ 1,095,565
Ceded written premiums	(166,693)	(164,359)	(451,762)	(424,045)
Net written premiums	145,159	223,869	445,570	671,520
Change in net unearned premiums	7,803	(10,495)	2,125	(68,880)
Net earned premiums	152,962	213,374	447,695	602,640
Net investment income	14,959	17,878	51,145	54,844
Net realized and unrealized gains (losses) on investments	8,929	(2,357)	(27,885)	331
Other income	615	2,579	3,543	8,160
Total revenues	177,465	231,474	474,498	665,975
Expenses				
Losses and loss adjustment expenses	106,155	214,084	301,757	501,064
Other operating expenses	38,224	41,692	133,242	132,287
Other expenses	60	372	1,792	1,055
Interest expense	2,129	2,594	7,970	8,086
Amortization of intangible assets	149	149	447	447
Total expenses	146,717	258,891	445,208	642,939
Income (loss) before taxes	30,748	(27,417)	29,290	23,036
Income tax expense (benefit)	4,465	(2,250)	4,208	5,168
Net income (loss)	26,283	(25,167)	25,082	17,868
Other comprehensive income:				
Net unrealized gains, net of taxes of \$849 and \$6,384 in 2020 and \$638 and \$3,949 in 2019	5,039	9,457	47,433	50,449
Total comprehensive income (loss)	\$ 31,322	\$ (15,710)	\$ 72,515	\$ 68,317
Per share data:				
Basic earnings (loss) per share	\$ 0.86	\$ (0.83)	\$ 0.82	\$ 0.59
Diluted earnings (loss) per share	\$ 0.85	\$ (0.83)	\$ 0.81	\$ 0.58
Dividend declared per share	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.90
Weighted-average common shares outstanding:				
Basic	30,582,540	30,382,105	30,529,557	30,230,490
Diluted	30,946,843	30,382,105	30,838,595	30,659,389

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	Total
<i>(in thousands, except share amounts)</i>							
Balances at June 30, 2020	30,553,178	\$ 6	\$ —	\$ 660,427	\$ 61,770	\$ 73,508	\$ 795,711
Net income	—	—	—	—	26,283	—	26,283
Other comprehensive income	—	—	—	—	—	5,039	5,039
Dividends	—	—	—	—	(9,292)	—	(9,292)
Exercise of stock options	50,474	—	—	1,691	—	—	1,691
Vesting of RSUs	6,501	—	—	(123)	—	—	(123)
Compensation expense under share incentive plans	—	—	—	2,097	—	—	2,097
Balances at September 30, 2020	<u>30,610,153</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 664,092</u>	<u>\$ 78,761</u>	<u>\$ 78,547</u>	<u>\$ 821,406</u>
Balances at December 31, 2019	30,424,391	\$ 6	\$ —	\$ 657,875	\$ 89,586	\$ 31,114	\$ 778,581
Net income	—	—	—	—	25,082	—	25,082
Other comprehensive income	—	—	—	—	—	47,433	47,433
Dividends	—	—	—	—	(27,815)	—	(27,815)
Exercise of stock options	79,615	—	—	2,529	—	—	2,529
Vesting of RSUs	106,147	—	—	(2,186)	—	—	(2,186)
Compensation expense under share incentive plans	—	—	—	5,874	—	—	5,874
Cumulative effect of fair value option election (see Note 1)	—	—	—	—	(7,827)	—	(7,827)
Cumulative effect of adoption of ASU No. 2016-13 (see Note 1)	—	—	—	—	(265)	—	(265)
Balances at September 30, 2020	<u>30,610,153</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 664,092</u>	<u>\$ 78,761</u>	<u>\$ 78,547</u>	<u>\$ 821,406</u>

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	—	—	—	—	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 Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2020	2019
	(in thousands)	
Operating activities		
Net cash (used in) provided by operating activities (a)	\$ (222,060)	\$ 213,787
Investing activities		
Securities available-for-sale:		
Purchases – fixed maturity securities	(509,764)	(327,725)
Sales – fixed maturity securities	17,465	102,030
Maturities and calls – fixed maturity securities	163,974	85,921
Purchases – equity securities	(10,057)	(4,975)
Sales – equity securities	3,945	3,131
Bank loan participations:		
Purchases	(36,168)	(73,102)
Sales	113,432	41,707
Maturities	22,786	34,303
Other invested assets:		
Purchases	(1,687)	—
Return of capital	314	1,477
Redemptions	16,292	7,016
Short-term investments, net	84,939	32,082
Securities receivable or payable, net	(487)	10,673
Purchases of property and equipment	(315)	(442)
Net cash used in investing activities	(135,331)	(87,904)
Financing activities		
Senior debt issuances	119,000	—
Senior debt repayments	(60,000)	(20,000)
Dividends paid	(27,838)	(27,463)
Issuance of common shares under equity incentive plans	2,529	7,961
Common share repurchases	(2,186)	(2,536)
Net cash provided by (used in) financing activities	31,505	(42,038)
Change in cash, cash equivalents, and restricted cash equivalents	(325,886)	83,845
Cash, cash equivalents, and restricted cash equivalents at beginning of period	1,406,076	172,457
Cash, cash equivalents, and restricted cash equivalents at end of period	\$ 1,080,190	\$ 256,302
Supplemental information		
Interest paid	\$ 9,023	\$ 9,510

(a) Cash used in operating activities for the nine months ended September 30, 2020 primarily reflects \$258.9 million of restricted cash equivalents returned to a former insured, per the terms of a collateral trust (see *Amounts Recoverable from an Indemnifying Party in Liquidity and Capital Resources*). Excluding the reduction in the collateral funds, cash provided by operating activities was \$36.9 million for the nine months ended September 30, 2020.

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, 2019 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, 2019 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 \$30.5 million and \$31.2 million at September 30, 2020 and December 31, 2019, 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 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. For the nine months ended September 30, 2020, our U.S. federal income tax expense was 14.4% of income before taxes. For the nine months ended September 30, 2019, our U.S. federal income tax expense was 22.4% of income before taxes. 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.

Adopted Accounting Standards

On January 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, using the modified retrospective approach, by which a cumulative-effect adjustment was made to retained earnings as of the date of adoption. This update requires 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 are 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.

In connection with the adoption of this ASU, the Company elected the fair value option in accounting for bank loan participations effective January 1, 2020. The targeted transition relief offered by ASU 2019-05, *Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief* was applied to elect the fair value option to account for bank loan participations already held at the January 1, 2020 date of adoption. Under the fair value option, bank loan participations are measured at fair value, and changes in unrealized gains and losses in bank loan participations are reported in our income statement as net realized and unrealized gains (losses) on investments. At adoption on January 1, 2020, the Company reduced the carrying value of its bank loan portfolio to fair value through an \$8.4 million adjustment with a \$7.8 million (net of tax) cumulative effect adjustment to reduce retained earnings.

Upon adoption of this ASU, the Company established an allowance for uncollectible reinsurance balances through a \$265,000 (net of tax) cumulative effect adjustment to retained earnings. Because we purchase reinsurance from financially strong reinsurers or we have collateral securing the recoverables, the effect of adoption was not 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, 2020				
Fixed maturity securities:				
State and municipal	\$ 271,218	\$ 17,484	\$ (106)	\$ 288,596
Residential mortgage-backed	297,932	8,591	(54)	306,469
Corporate	727,678	50,067	(790)	776,955
Commercial mortgage and asset-backed	324,966	12,535	(1,667)	335,834
U.S. Treasury securities and obligations guaranteed by the U.S. government	100,742	2,852	—	103,594
Redeemable preferred stock	2,025	—	(2)	2,023
Total fixed maturity securities, available-for-sale	\$ 1,724,561	\$ 91,529	\$ (2,619)	\$ 1,813,471
December 31, 2019				
Fixed maturity securities:				
State and municipal	\$ 159,894	\$ 7,949	\$ (742)	\$ 167,101
Residential mortgage-backed	261,524	3,244	(622)	264,146
Corporate	611,304	21,306	(389)	632,221
Commercial mortgage and asset-backed	249,309	3,954	(806)	252,457
U.S. Treasury securities and obligations guaranteed by the U.S. government	114,477	1,229	(39)	115,667
Redeemable preferred stock	2,025	9	—	2,034
Total fixed maturity securities, available-for-sale	\$ 1,398,533	\$ 37,691	\$ (2,598)	\$ 1,433,626

The amortized cost and fair value of available-for-sale investments in fixed maturity securities at September 30, 2020 are summarized, by contractual maturity, as follows:

	Cost or Amortized Cost	Fair Value
<i>(in thousands)</i>		
One year or less	\$ 104,099	\$ 105,328
After one year through five years	456,660	483,155
After five years through ten years	306,679	330,510
After ten years	232,200	250,152
Residential mortgage-backed	297,932	306,469
Commercial mortgage and asset-backed	324,966	335,834
Redeemable preferred stock	2,025	2,023
Total	\$ 1,724,561	\$ 1,813,471

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, 2020						
Fixed maturity securities:						
State and municipal	\$ 17,967	\$ (106)	\$ —	\$ —	\$ 17,967	\$ (106)
Residential mortgage-backed	14,601	(54)	—	—	14,601	(54)
Corporate	41,182	(790)	—	—	41,182	(790)
Commercial mortgage and asset-backed	23,964	(1,118)	38,344	(549)	62,308	(1,667)
Redeemable preferred stock	2,023	(2)	—	—	2,023	(2)
Total fixed maturity securities, available-for-sale	\$ 99,737	\$ (2,070)	\$ 38,344	\$ (549)	\$ 138,081	\$ (2,619)
December 31, 2019						
Fixed maturity securities:						
State and municipal	\$ 30,028	\$ (741)	\$ 667	\$ (1)	\$ 30,695	\$ (742)
Residential mortgage-backed	23,632	(78)	37,363	(544)	60,995	(622)
Corporate	45,550	(365)	9,933	(24)	55,483	(389)
Commercial mortgage and asset-backed	46,434	(406)	56,720	(400)	103,154	(806)
U.S. Treasury securities and obligations guaranteed by the U.S. government	8,474	(22)	7,168	(17)	15,642	(39)
Total fixed maturity securities, available-for-sale	\$ 154,118	\$ (1,612)	\$ 111,851	\$ (986)	\$ 265,969	\$ (2,598)

At September 30, 2020, the Company held fixed maturity securities of 27 issuers that were in an unrealized loss position with a total fair value of \$138.1 million and gross unrealized losses of \$2.6 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, 2020, 99.5% 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, 2020 had an aggregate fair value of \$8.8 million and an aggregate net unrealized gain of \$56,000.

The Company adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* on January 1, 2020. This update changed the impairment model for available-for-sale fixed maturities and requires the Company to determine whether unrealized losses on available-for-sale fixed maturities are due to credit-related factors. An allowance for credit losses is established for any credit-related impairments, limited to the amount by which fair value is below amortized cost. Changes in the allowance for credit losses are recognized in earnings and included in net realized and unrealized gains (losses) on investments. Unrealized losses that are not credit-related will continue to be recognized in other comprehensive income.

The Company considers the extent to which fair value is below amortized cost in determining whether a credit-related loss exists. The Company also considers the credit quality rating of the security, with a special emphasis on securities downgraded below investment grade. A comparison is made between the present value of expected future cash flows for a security and its amortized cost. If the present value of future expected cash flows is less than amortized cost, a credit loss is presumed to exist and an allowance for credit losses is established. Management may conclude that a qualitative analysis is sufficient to support its conclusion that the present value of the expected cash flows equals or exceeds a security's amortized cost. As a result of this review, management concluded that there were no credit-related impairments of fixed maturity securities at September 30, 2020. Management does not intend to sell the securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs.

Management concluded that none of the fixed maturity securities with an unrealized loss at December 31, 2019 had experienced an other-than-temporary impairment. At March 31, 2019, management concluded that three fixed maturity

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

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 had experienced an other-than-temporary impairment.

In connection with the adoption of ASU 2016-13, the Company elected the fair value option in accounting for bank loan participations effective January 1, 2020. The targeted transition relief offered by ASU 2019-05, *Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief* was applied to elect the fair value option to account for bank loan participations already held at the January 1, 2020 date of adoption. Under the fair value option, bank loan participations are measured at fair value, and changes in unrealized gains and losses in bank loan participations are reported in our income statement as net realized and unrealized gains (losses) on investments. At adoption on January 1, 2020, the Company applied the amendments on a modified retrospective basis, reducing the carrying value of its bank loan portfolio to fair value through an \$8.4 million adjustment with a \$7.8 million (net of tax) cumulative effect adjustment to reduce retained earnings.

Applying the fair value option to the bank loan portfolio increases volatility in the Company's financial statements, but management believes it is less subjective and less burdensome to implement and maintain than ASU 2016-13, which would have otherwise been required. At September 30, 2020, the Company's bank loan portfolio had an aggregate fair value of \$131.2 million and unpaid principal of \$151.8 million. Investment income on bank loan participations included in net investment income was \$2.4 million and \$9.7 million for the three and nine months ended September 30, 2020, respectively. Net realized and unrealized gains (losses) on investments includes gains of \$9.7 million and losses of \$7.6 million related to changes in unrealized gains and losses on bank loan participations in the three and nine months ended September 30, 2020, respectively, and management concluded that \$437,000 and \$8.2 million of unrealized losses were due to credit-related impairments for the three and nine months ended September 30, 2020, respectively. Losses due to credit-related impairments were determined based upon consultations and advice from the Company's specialized investment manager and consideration of any adverse situations that could affect the borrower's ability to repay, the estimated value of underlying collateral, and other relevant factors.

Prior to the election of the fair value option on January 1, 2020, bank loan participations were classified as held-for-investment and carried at amortized cost net of any allowance for credit losses. Under the prior accounting method, management concluded that seven loans from six issuers in the Company's bank loan portfolio were impaired at December 31, 2019. At December 31, 2019, the impaired loans had a carrying value of \$6.9 million, unpaid principal of \$14.3 million, and an allowance for credit losses of \$7.2 million, \$5.1 million of which related to two loans from one issuer that was experiencing liquidity concerns resulting from revenue declines and poor growth prospects in its most profitable segment. Management concluded that five of the loans in the Company's 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 that was experiencing liquidity concerns resulting from revenue declines and poor growth prospects in its most profitable segment.

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.

Interest income on bank loan participations is accrued on the unpaid principal balance, and discounts and premiums on bank loan participations are amortized to income using the interest method. Generally, the accrual 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, 2020 or December 31, 2019.

The average recorded investment in impaired bank loans was \$3.2 million during the nine months ended September 30, 2019. Investment income of \$23,000 was recognized during the time within that period that the loans were impaired. The

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

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.

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,	
	2020	2019	2020	2019
	<i>(in thousands)</i>			
Fixed maturity securities:				
Gross realized gains	\$ 386	\$ 445	\$ 906	\$ 1,033
Gross realized losses	—	(9)	(1)	(494)
	386	436	905	539
Bank loan participations:				
Gross realized gains	24	79	357	229
Gross realized losses	(3,506)	(6,056)	(14,484)	(9,056)
Changes in fair values of bank loan participations	9,741	—	(7,636)	—
	6,259	(5,977)	(21,763)	(8,827)
Equity securities:				
Gross realized gains	13	11	13	11
Gross realized losses	—	(78)	(170)	(96)
Changes in fair values of equity securities	2,374	3,251	(6,895)	8,700
	2,387	3,184	(7,052)	8,615
Short-term investments and other:				
Gross realized gains	27	1	76	5
Gross realized losses	—	(1)	(1)	(1)
Changes in fair values of short-term investments and other	(130)	—	(50)	—
	(103)	—	25	4
Total	\$ 8,929	\$ (2,357)	\$ (27,885)	\$ 331

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, 2020	December 31, 2019	Three Months Ended September 30,		Nine Months Ended September 30,	
			2020	2019	2020	2019
	<i>(in thousands)</i>					
Renewable energy LLCs (a)	\$ 30,520	\$ 31,219	\$ (526)	\$ 1,602	\$ 320	\$ 2,510
Renewable energy notes receivable (b)	—	8,750	547	328	814	984
Limited partnerships (c)	10,601	16,741	426	(631)	102	2,166
Bank holding companies (d)	4,500	4,500	86	85	258	257
Total other invested assets	\$ 45,621	\$ 61,210	\$ 533	\$ 1,384	\$ 1,494	\$ 5,917

- a) The Company's Corporate and Other segment owns equity interests ranging from 2.6% to 32.6% 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 two former directors served as officers, 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

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

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 \$1.0 million and \$687,000 in the nine months ended September 30, 2020 and 2019, respectively.

- b) The Company's Corporate and Other segment has invested in notes receivable for renewable energy projects. At December 31, 2019, the Company held an \$8.8 million note issued by an entity for which two of our former directors serve as officers. During the nine months ended September 30, 2020, the Company received the total principal balance of \$8.8 million for the note issued. Interest on the note was fixed at 15.0%. Interest income on the note was \$547,000 and \$814,000 for the three and nine months ended September 30, 2020, respectively (\$328,000 and \$984,000 for the three and nine months ended September 30, 2019, 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, 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 \$3.5 million at September 30, 2020. The Company recognized investment income of \$100,000 and \$182,000 on the investment for the nine months ended September 30, 2020 and 2019, respectively. The Company's Excess and Surplus Lines segment holds investments in limited partnerships of \$7.1 million at September 30, 2020. Investment income of \$2,000 and \$2.0 million was recognized on the investments for the nine months ended September 30, 2020 and 2019, respectively. At September 30, 2020, the Company's Excess and Surplus Lines segment has outstanding commitments to invest another \$3.9 million 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 for both nine month periods ended September 30, 2020 and 2019, respectively.

At September 30, 2020 and December 31, 2019, 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 \$677,000 at September 30, 2020, 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, 2020 and December 31, 2019.

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

	Life (Years)	September 30, 2020		December 31, 2019	
		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	6,282	11,611	5,835
Identifiable intangible assets subject to amortization		11,611	6,282	11,611	5,835
		<u>\$ 42,775</u>	<u>\$ 6,282</u>	<u>\$ 42,775</u>	<u>\$ 5,835</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,	
	2020	2019	2020	2019
	<i>(in thousands, except share and per share amounts)</i>			
Net income (loss) to shareholders	\$ 26,283	\$ (25,167)	\$ 25,082	\$ 17,868
Weighted average common shares outstanding:				
Basic	30,582,540	30,382,105	30,529,557	30,230,490
Common share equivalents	364,303	—	309,038	428,899
Diluted	<u>30,946,843</u>	<u>30,382,105</u>	<u>30,838,595</u>	<u>30,659,389</u>
Earnings (loss) per share:				
Basic	\$ 0.86	\$ (0.83)	\$ 0.82	\$ 0.59
Common share equivalents	(0.01)	—	(0.01)	(0.01)
Diluted	<u>\$ 0.85</u>	<u>\$ (0.83)</u>	<u>\$ 0.81</u>	<u>\$ 0.58</u>

For the three and nine months ended September 30, 2020, all common share equivalents are dilutive. 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 were 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. Reinsurance recoverables on unpaid losses and loss adjustment expenses are presented gross of a \$335,000 allowance for uncollectible reinsurance balances at June 30, 2020 and September 30, 2020.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(in thousands)</i>			
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period	\$ 1,339,534	\$ 1,237,930	\$ 1,377,461	\$ 1,194,088
Add: Incurred losses and loss adjustment expenses net of reinsurance:				
Current year	101,921	157,113	295,523	440,810
Prior years	4,234	56,971	6,234	60,254
Total incurred losses and loss and adjustment expenses	106,155	214,084	301,757	501,064
Deduct: Loss and loss adjustment expense payments net of reinsurance:				
Current year	6,950	21,021	13,558	46,275
Prior years	102,140	104,513	329,061	322,397
Total loss and loss adjustment expense payments	109,090	125,534	342,619	368,672
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at end of period	1,336,599	1,326,480	1,336,599	1,326,480
Add: Reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	770,150	614,827	770,150	614,827
Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	<u>\$ 2,106,749</u>	<u>\$ 1,941,307</u>	<u>\$ 2,106,749</u>	<u>\$ 1,941,307</u>

The Company experienced \$4.2 million of net adverse reserve development in the three months ended September 30, 2020 on the reserve for losses and loss adjustment expenses held at December 31, 2019. This reserve development included \$27,000 of net adverse development in the Excess and Surplus Lines segment, \$2.0 million of net favorable development in the Specialty Admitted Insurance segment due to favorable development in the workers' compensation business for prior accident years, and \$6.2 million of net adverse development in the Casualty Reinsurance segment due to higher than expected levels of reported losses in the quarter.

The Company experienced \$57.0 million of net 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 net 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 net favorable development due to favorable development in the workers' compensation business for prior accident years. The Company also experienced \$7.9 million of net adverse development in the Casualty Reinsurance segment due to higher than expected levels of reported losses in the quarter.

The Company experienced \$6.2 million of net adverse reserve development in the nine months ended September 30, 2020 on the reserve for losses and loss adjustment expenses held at December 31, 2019. This reserve development included \$2.8 million of net favorable development in the Excess and Surplus Lines segment, \$4.0 million of net favorable development in the Specialty Admitted Insurance segment due to favorable development in the workers' compensation business for prior accident years, and \$13.1 million of net adverse development in the Casualty Reinsurance segment due to higher than expected levels of reported losses in the nine months ended September 30, 2020.

The Company experienced \$60.3 million of net 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 net 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 net favorable

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

development due to favorable development in the workers' compensation business for prior accident years. The Company also experienced \$13.3 million of net adverse development in the Casualty Reinsurance segment due to higher than expected levels of reported losses in the nine months ended September 30, 2019.

6. Other Comprehensive Income

The following table summarizes the components of other comprehensive income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(in thousands)</i>			
Unrealized gains arising during the period, before U.S. income taxes	\$ 6,274	\$ 10,531	\$ 54,722	\$ 54,937
U.S. income taxes	(881)	(690)	(6,441)	(4,045)
Unrealized gains arising during the period, net of U.S. income taxes	5,393	9,841	48,281	50,892
Less reclassification adjustment:				
Net realized investment gains	386	436	905	539
U.S. income taxes	(32)	(52)	(57)	(96)
Reclassification adjustment for investment gains realized in net income	354	384	848	443
Other comprehensive income	<u>\$ 5,039</u>	<u>\$ 9,457</u>	<u>\$ 47,433</u>	<u>\$ 50,449</u>

In addition to the \$386,000 and \$905,000 of net realized investment gains on available-for-sale fixed maturities for the three and nine months ended September 30, 2020, respectively (\$436,000 and \$539,000 of net realized investment gains for the three and nine months ended September 30, 2019, respectively), the Company also recognized \$6.3 million of net realized and unrealized investment gains and \$21.8 million of net realized and unrealized investment losses in the respective periods on its investments in bank loan participations (\$6.0 million and \$8.8 million of net realized investment losses in the prior year respective periods) and \$2.4 million of net realized and unrealized gains and \$7.1 million of net realized and unrealized losses in the respective periods on its investments in equity securities (\$3.2 million and \$8.6 million of net realized and unrealized gains in the prior year respective 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.

In response to the outbreak of the coronavirus pandemic in the first quarter of 2020, many state and local governments in the United States and around the world have instituted emergency restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. Many states have extended the expiration date of restrictions and some states that eased restrictions subsequently re-imposed them as the spread of COVID-19 worsened. These restrictions could result in significant adverse effects on our policyholders and many different types of small and mid-sized businesses within the Company's client base, particularly those in the retail, hospitality and food and beverage industries, among many others. The ultimate effect and severity of COVID-19 on the economy is not known nor is the ultimate length of the restrictions and any accompanying effects caused by it. Moreover, the Federal Reserve has taken action to lower the Federal Funds rate and the U.S. equity markets have experienced substantial volatility in reaction to COVID-19 since February 2020, both of which have, along with other factors, placed pressure on net investment income and resulted in material realized and unrealized losses in our investment portfolio in the first quarter of 2020. Investment markets recovered substantially in the second and third quarters, leading to unrealized gains in our investment portfolio for those quarters.

The effect of COVID-19 and related events could have a negative effect on the Company, including as a result of quarantines, market volatility, market downturns, actions of lawmakers and regulators, changes in consumer behavior, business closures, deterioration in the credit quality of policyholders or the inability of policyholders to pay their premium and deductible obligations to the Company, and deterioration in the credit quality of reinsurers or insurance entities with which we have a fronting arrangement or the inability of insurers or the insurance entities for which we are fronting to pay their obligations to the Company. At the federal and state level, there have been proposals by lawmakers to retroactively amend business interruption insurance policies to cover claims related to COVID-19 when such insurance policies otherwise would exclude such risks. In addition, a number of states have instituted, and other states are considering instituting, changes designed to effectively expand workers' compensation coverage by creating presumptions of compensability of claims for certain types

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

of workers. The Company has received both business interruption and workers' compensation claims related to COVID-19 and we expect that we will continue to receive claims related to COVID-19. If the efforts of lawmakers to effectively expand coverage under business interruption, workers' compensation or other policies on a retroactive basis are successful and enforceable, the Company may be forced to pay claims under policies for which it received inadequate premiums to cover such risks, and therefore the Company's reserves may be inadequate to pay such claims. At the state level, insurance departments throughout the country have issued bulletins and regulations urging or requiring insurers to extend grace periods for the payment of policy premiums and to refrain from canceling or non-renewing policies for the non-payment of policy premiums for policyholders adversely affected by COVID-19. While many of these requirements and recommendations have expired or are scheduled to expire in the near future, insurance departments could reinstate or extend them as conditions deteriorate and/or the negative impact of the pandemic on policyholders persists. It is uncertain what impact these government mandates may have on our ability to recover unpaid premiums on the affected policies or what our obligations may be for the payment of claims made under policies for which we have not received premium payments. Further, demand for the insurance policies that the Company offers is highly dependent upon the business environment in the markets in which the Company operates. Given the ongoing and dynamic nature of the circumstances, it is not possible to predict the ultimate impact of the coronavirus outbreak, but it could have a material adverse impact on the business prospects, financial condition or results of operations of the Company.

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, \$12.2 million of letters of credit were issued through September 30, 2020 which were secured by deposits of \$25.2 million. Under a \$102.5 million facility, \$76.0 million of letters of credit were issued through September 30, 2020 which were secured by deposits of \$96.7 million. Under a \$100.0 million facility, \$17.5 million of letters of credit were issued through September 30, 2020 which were secured by deposits of \$28.3 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 \$302.1 million at September 30, 2020.

The Company previously issued a set of insurance contracts to Rasier LLC and its affiliates (collectively, "Rasier") under which the Company pays losses and loss adjustment expenses on the contracts. The Company has indemnity agreements with Rasier (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 Rasier and other expenses incurred by the Company. Rasier is 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 provided through a collateral trust arrangement established in favor of the Company by a captive insurance company affiliate of Rasier.

As permitted under our indemnification agreements with Rasier and the associated trust agreement, we have withdrawn the collateral posted to the trust account. At September 30, 2020, the Company held collateral funds of \$940.2 million. The funds withdrawn from the trust account, currently invested in short term securities and included in restricted cash equivalents on the Company's consolidated balance sheet, will be used to reimburse the Company for the losses and loss adjustment expenses paid on behalf of Rasier and other related expenses incurred by the Company to the extent not paid as required under the indemnity agreements.

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.

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. Included in "other income" on the condensed consolidated statements of income (loss) and comprehensive income (loss) is gross fee income of \$363,000 and \$2.7 million for the three and nine months ended September 30, 2020, respectively, (\$2.3 million and \$7.3 million the three and nine months ended September 30, 2019, respectively) that is included in underwriting profit for the respective three and nine month periods. Segment results are reported prior to the effects of intercompany reinsurance agreements among the Company's insurance subsidiaries.

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

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, 2020					
Gross written premiums	\$ 179,458	\$ 112,589	\$ 19,805	\$ —	\$ 311,852
Net earned premiums	104,933	14,985	33,044	—	152,962
Underwriting profit (loss) of insurance segments	15,581	1,859	(689)	—	16,751
Net investment income	3,751	807	10,033	368	14,959
Interest expense	—	—	—	2,129	2,129
Segment revenues	112,800	16,843	47,385	437	177,465
Segment goodwill	181,831	—	—	—	181,831
Segment assets	2,243,065	877,619	1,806,341	57,328	4,984,353
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
Nine Months Ended September 30, 2020					
Gross written premiums	\$ 502,649	\$ 303,831	\$ 90,852	\$ —	\$ 897,332
Net earned premiums	305,521	42,660	99,514	—	447,695
Underwriting profit (loss) of insurance segments	39,788	2,301	(3,119)	—	38,970
Net investment income	15,028	2,547	32,171	1,399	51,145
Interest expense	—	—	—	7,970	7,970
Segment revenues	309,972	45,386	117,459	1,681	474,498
Segment goodwill	181,831	—	—	—	181,831
Segment assets	2,243,065	877,619	1,806,341	57,328	4,984,353
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

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

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,	
	2020	2019	2020	2019
<i>(in thousands)</i>				
Underwriting profit (loss) of the insurance segments:				
Excess and Surplus Lines	\$ 15,581	\$ (29,351)	\$ 39,788	\$ (439)
Specialty Admitted Insurance	1,859	837	2,301	3,758
Casualty Reinsurance	(689)	(4,288)	(3,119)	(4,061)
Total underwriting profit (loss) of insurance segments	16,751	(32,802)	38,970	(742)
Other operating expenses of the Corporate and Other segment	(7,805)	(7,302)	(23,556)	(22,641)
Underwriting profit (loss)	8,946	(40,104)	15,414	(23,383)
Net investment income	14,959	17,878	51,145	54,844
Net realized and unrealized gains (losses) on investments	8,929	(2,357)	(27,885)	331
Amortization of intangible assets	(149)	(149)	(447)	(447)
Other income and expenses	192	(91)	(967)	(223)
Interest expense	(2,129)	(2,594)	(7,970)	(8,086)
Income (loss) before taxes	<u>\$ 30,748</u>	<u>\$ (27,417)</u>	<u>\$ 29,290</u>	<u>\$ 23,036</u>

9. Other Operating Expenses and Other Expenses

Other operating expenses consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(in thousands)</i>				
Amortization of policy acquisition costs	\$ 16,660	\$ 21,258	\$ 62,406	\$ 63,029
Other underwriting expenses of the operating segments	13,759	13,132	47,280	46,617
Other operating expenses of the Corporate and Other segment	7,805	7,302	23,556	22,641
Total	<u>\$ 38,224</u>	<u>\$ 41,692</u>	<u>\$ 133,242</u>	<u>\$ 132,287</u>

Other expenses of \$60,000 and \$1.8 million for the three and nine months ended September 30, 2020 (\$372,000 and \$1.1 million for the three and nine months ended September 30, 2019), primarily consist of employee severance costs.

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, who utilize independent pricing services. 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) and bank loan participations generally incorporate significant Level 2 inputs, and in some cases, Level 3 inputs, using the market approach and income approach valuation techniques. There have been no changes in the Company's use of valuation techniques since December 31, 2018.

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

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 or other alternative sources. 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 managers that obtain fair values from independent pricing services.

Assets measured at fair value on a recurring basis as of September 30, 2020 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	\$ —	\$ 288,596	\$ —	\$ 288,596
Residential mortgage-backed	—	306,469	—	306,469
Corporate	—	776,955	—	776,955
Commercial mortgage and asset-backed	—	335,834	—	335,834
U.S. Treasury securities and obligations guaranteed by the U.S. government	103,130	464	—	103,594
Redeemable preferred stock	—	2,023	—	2,023
Total fixed maturity securities, available-for-sale	<u>\$ 103,130</u>	<u>\$ 1,710,341</u>	<u>\$ —</u>	<u>\$ 1,813,471</u>
Equity securities:				
Preferred stock	—	65,576	—	65,576
Common stock	9,305	5,015	—	14,320
Total equity securities	<u>\$ 9,305</u>	<u>\$ 70,591</u>	<u>\$ —</u>	<u>\$ 79,896</u>
Bank loan participations	<u>\$ —</u>	<u>\$ 130,890</u>	<u>\$ 308</u>	<u>\$ 131,198</u>
Short-term investments	<u>\$ —</u>	<u>\$ 71,986</u>	<u>\$ —</u>	<u>\$ 71,986</u>

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 December 31, 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	\$ —	\$ 167,101	\$ —	\$ 167,101
Residential mortgage-backed	—	264,146	—	264,146
Corporate	—	632,221	—	632,221
Commercial mortgage and asset-backed	—	252,457	—	252,457
U.S. Treasury securities and obligations guaranteed by the U.S. government	115,173	494	—	115,667
Redeemable preferred stock	—	2,034	—	2,034
Total fixed maturity securities, available-for-sale	<u>\$ 115,173</u>	<u>\$ 1,318,453</u>	<u>\$ —</u>	<u>\$ 1,433,626</u>
Equity securities:				
Preferred stock	—	62,747	—	62,747
Common stock	14,669	3,276	43	17,988
Total equity securities	<u>\$ 14,669</u>	<u>\$ 66,023</u>	<u>\$ 43</u>	<u>\$ 80,735</u>
Short-term investments	<u>\$ —</u>	<u>\$ 156,925</u>	<u>\$ —</u>	<u>\$ 156,925</u>

A reconciliation of the beginning and ending balances of available-for-sale fixed maturity securities, equity securities, and bank loan participations measured at fair value on a recurring basis (as a result of the fair value option effective January 1, 2020) using significant unobservable inputs (Level 3) is shown below:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Beginning balance	\$ 312	\$ 3,099	\$ 43	\$ 4,442
Transfers out of Level 3	(8)	(3,010)	(729)	(7,238)
Transfers in to Level 3	—	—	358	3,010
Purchases	—	—	703	—
Sales	—	—	—	—
Maturities, calls and paydowns	—	—	(17)	—
Amortization of discount	—	—	3	—
Total gains or losses (realized/unrealized):				
Included in earnings	4	(45)	(53)	(170)
Included in other comprehensive income	—	—	—	—
Ending balance	<u>\$ 308</u>	<u>\$ 44</u>	<u>\$ 308</u>	<u>\$ 44</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. 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. At June 30, 2019, the Company held two equity securities for which the fair value was determined using significant unobservable inputs (Level 3). 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

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

security at September 30, 2019. At September 30, 2019, 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.

At September 30, 2020, the Company held one bank loan participation and one equity security for which the fair value was determined using significant unobservable inputs (Level 3). The Company was able to obtain a quoted price from a pricing vendor for two bank loan participations at June 30, 2020 and transferred them to Level 2. During the three months ended September 30, 2020, the Company was able to obtain a quoted price from a pricing vendor for one equity security and transferred it to Level 2. At December 31, 2019, 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 securities of \$308,000 at September 30, 2020 and \$43,000 at December 31, 2019.

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 three months or nine months ended September 30, 2020 or 2019. The Company recognizes transfers between levels at the beginning of the reporting period.

In connection with the adoption of ASU 2016-13, the Company elected the fair value option in accounting for bank loan participations effective January 1, 2020. Prior to the election, bank loan participations were classified as held-for-investment and carried at amortized cost net of any allowance for credit losses. Prior to January 1, 2020, the Company measured certain bank loan participations at fair value on a non-recurring basis as part of the Company's impairment evaluation when loans were determined by management to be impaired. Bank loan participations held-for-investment that were determined to be impaired were written down to their fair value at December 31, 2019 as shown 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>			
December 31, 2019				
Bank loan participations held-for-investment	\$ —	\$ —	\$ 6,949	\$ 6,949

In the determination of the fair value for bank loan participations, 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, 2020 and December 31, 2019, there were no investments for which external sources were unavailable to determine fair value.

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

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

	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	<i>(in thousands)</i>			
Assets				
Fixed maturity securities, available-for-sale	\$ 1,813,471	\$ 1,813,471	\$ 1,433,626	\$ 1,433,626
Equity securities	79,896	79,896	80,735	80,735
Bank loan participations	131,198	131,198	260,864	252,423
Cash and cash equivalents	139,969	139,969	206,912	206,912
Restricted cash equivalents	940,221	940,221	1,199,164	1,199,164
Short-term investments	71,986	71,986	156,925	156,925
Other invested assets – notes receivable	4,500	5,275	13,250	18,756
Liabilities				
Senior debt	217,300	204,601	158,300	158,043
Junior subordinated debt	104,055	106,203	104,055	122,193

The fair values of fixed maturity securities, equity securities, and bank loan participations have been determined by independent pricing services 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, 2020 and December 31, 2019 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, 2020 and December 31, 2019, respectively.

The fair values of senior debt and junior subordinated debt at September 30, 2020 and December 31, 2019 were determined using inputs to the valuation methodology that are unobservable (Level 3).

11. Senior Debt

In the three months ended March 31, 2020, the Company drew \$60.0 million on the \$212.5 million unsecured revolving facility in its \$315.0 million senior revolving credit facility (as amended or amended and restated, the "2013 Facility"). The borrowing was a precautionary measure to increase the Company's cash position and preserve financial flexibility in light of uncertainty in the global markets resulting from the coronavirus (COVID-19) outbreak. The Company repaid \$30.0 million in the three months ended June 30, 2020. At September 30, 2020, the Company had a drawn balance of \$163.3 million outstanding on the unsecured revolver. The 2013 Facility contains certain financial and other covenants (including minimum net worth, maximum ratio of total adjusted debt outstanding to total capitalization, and financial strength ratings) with which the Company was in compliance at September 30, 2020.

Also in the three months ended March 31, 2020, the Company drew \$59.0 million of unsecured capacity on a credit agreement (the "2017 Facility") that provides the Company with a revolving line of credit of up to \$100.0 million, which may be used for loans and letters of credit made or issued, at the borrowers' option, on a secured or unsecured basis. The borrowing was a precautionary measure to increase the Company's cash position and preserve financial flexibility in light of uncertainty in the global markets resulting from the coronavirus (COVID-19) outbreak. The Company repaid \$30.0 million in the three months ended June 30, 2020. At September 30, 2020, unsecured loans of \$39.0 million and secured letters of credit totaling \$17.5 million were outstanding under the facility. The 2017 Facility contains certain financial and other covenants which the Company was in compliance with at September 30, 2020.

12. Capital Stock and Equity Awards

The Company issued 185,762 common shares in the nine months ended September 30, 2020. 79,615 of the new shares were related stock option exercises and 106,147 were related vesting of restricted share units ("RSUs"). The total common shares outstanding increased from 30,424,391 at December 31, 2019 to 30,610,153 at September 30, 2020.

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

The Company declared the following dividends during the first nine months of 2020 and 2019:

Date of Declaration	Dividend per Common Share	Payable to Shareholders of Record on	Payment Date	Total Amount (thousands)
2020				
February 19, 2020	\$ 0.30	March 16, 2020	March 31, 2020	\$ 9,269
April 28, 2020	\$ 0.30	June 15, 2020	June 30, 2020	\$ 9,271
July 28, 2020	\$ 0.30	September 14, 2020	September 30, 2020	\$ 9,292
	\$ 0.90			\$ 27,832
2019				
February 20, 2019	\$ 0.30	March 11, 2019	March 29, 2019	\$ 9,146
April 30, 2019	\$ 0.30	June 10, 2019	June 28, 2019	\$ 9,205
July 30, 2019	\$ 0.30	September 16, 2019	September 30, 2019	\$ 9,231
	\$ 0.90			\$ 27,582

Included in the total dividends for the nine months ended September 30, 2020 and 2019 are \$329,000 and \$327,000, respectively, of dividend equivalents on unvested RSUs. The balance of dividends payable on unvested RSUs was \$600,000 at September 30, 2020 and \$623,000 at December 31, 2019.

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, 2020, 1,401,535 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, 2020, 101,746 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,			
	2020		2019	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding:				
Beginning of period	643,851	\$ 30.41	1,115,324	\$ 29.02
Granted	—	\$ —	—	\$ —
Exercised	(79,615)	\$ 31.77	(450,514)	\$ 26.68
Forfeited	—	\$ —	(12,058)	\$ 36.84
End of period	<u>564,236</u>	<u>\$ 30.22</u>	<u>652,752</u>	<u>\$ 30.50</u>
Exercisable, end of period	<u>564,236</u>	<u>\$ 30.22</u>	<u>599,241</u>	<u>\$ 29.44</u>

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 exercisable at September 30, 2020 was 2.2 years.

RSUs

The following table summarizes RSU activity:

	Nine Months Ended September 30,			
	2020		2019	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Unvested, beginning of period	340,368	\$ 41.50	300,142	\$ 39.22
Granted	197,518	\$ 43.77	197,078	\$ 42.56
Vested	(156,434)	\$ 41.50	(111,212)	\$ 39.90
Forfeited	(16,846)	\$ 42.17	(22,445)	\$ 41.32
Unvested, end of period	<u>364,606</u>	<u>\$ 42.70</u>	<u>363,563</u>	<u>\$ 40.69</u>

The vesting period of RSUs granted to employees range from one to three 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,	
	2020	2019	2020	2019
	<i>(in thousands)</i>			
Share based compensation expense	\$ 2,097	\$ 1,779	\$ 5,874	\$ 5,263
U.S. tax benefit on share based compensation expense	287	211	786	631

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

As of September 30, 2020, the Company had \$10.7 million of unrecognized share based compensation expense expected to be charged to earnings over a weighted-average period of 1.8 years.

13. Subsequent Events

On October 28, 2020, the Board of Directors declared a cash dividend of \$0.30 per common share. The dividend is payable on December 31, 2020 to shareholders of record on December 14, 2020.

On October 28, 2020, the Company announced the retirement of its Chief Executive Officer, J. Adam Abram, and the appointment of Frank D'Orazio as Chief Executive Officer, effective as of November 2, 2020. Mr. Abram's retirement will be effective November 1, 2020, but he will continue to serve on the Company's Board of Directors as non-executive chairman.

On October 28, 2020, the Board of Directors granted awards under the 2014 LTIP to the Company's employees. RSUs for 12,421 shares were awarded with a fair value on the date of grant of \$52.33 per share. The RSUs vest over three years.

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" and Part II, Item 1A "Risk Factors" 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, 2019. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2020, 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, 2019.

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 approaches the insurance market in two ways: as a risk bearing underwriter, and as a "fronting" company. The Company's risk bearing underwriting is focused on niche classes within the standard insurance markets, such as workers' compensation coverage for residential contractors, light manufacturing operations, transportation workers and healthcare workers. In its fronting business, the Specialty Admitted segment works with distributors, such as MGAs and other producers, by using our licensure, rating and administrative services in order to produce and service insurance policies for reinsurers and other third party risk bearing entities. We charge fees for "fronting" for these capital providers. In some instances, we retain a small percentage of the risk on fronted business. This segment has admitted licenses and the authority to write excess and surplus lines insurance in 50 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.

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, 2019. There have been no significant changes to any of these policies during the current year.

Impact of the COVID-19 Pandemic

The Company is continually monitoring the impact that the outbreak of the coronavirus (COVID-19) pandemic may be having on the Company's financial condition and results of operations. The Company closed its offices except for certain essential functions, and directed its employees to work from their homes or other locations where they could 'shelter in place'. While the Company's investment portfolio was impacted by the volatility in the global financial markets during the first quarter of this year as discussed in "-Results of Operations-Investing Results" in the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020, filed with the SEC on April 30, 2020, investment markets recovered substantially in the second and third quarters, leading to unrealized gains in our investment portfolio for those quarters. To date the Company has not experienced a decline in gross written premiums or a material increase in total claims as a result of the coronavirus pandemic. However, in light of the uncertainty in the global financial markets resulting from COVID-19, the Company has taken precautionary measures to preserve financial flexibility by borrowing under its existing credit facilities as discussed in "-Liquidity and Capital Resources-Sources and Uses of Funds", and the Company is continually evaluating whether additional measures may be prudent to protect the Company's financial condition and results of operations in the current economic environment. In addition, we are closely monitoring a number of risks that COVID-19 poses to the Company's financial condition and results of operations. For a description of these risks, see "Part II-Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

The following table summarizes our results:

	Three Months Ended September 30,		% Change	Nine Months Ended September 30,		% Change
	2020	2019		2020	2019	
	(\$ in thousands)					
Gross written premiums	\$ 311,852	\$ 388,228	(19.7)%	\$ 897,332	\$ 1,095,565	(18.1)%
Net retention (1)	46.5 %	57.7 %		49.7 %	61.3 %	
Net written premiums	\$ 145,159	\$ 223,869	(35.2)%	\$ 445,570	\$ 671,520	(33.6)%
Net earned premiums	\$ 152,962	\$ 213,374	(28.3)%	\$ 447,695	\$ 602,640	(25.7)%
Losses and loss adjustment expenses	(106,155)	(214,084)	(50.4)%	(301,757)	(501,064)	(39.8)%
Other operating expenses	(37,861)	(39,394)	(3.9)%	(130,524)	(124,959)	4.5 %
Underwriting profit (loss) (2), (3)	8,946	(40,104)	–	15,414	(23,383)	–
Net investment income	14,959	17,878	(16.3)%	51,145	54,844	(6.7)%
Net realized and unrealized gains (losses) on investments	8,929	(2,357)	–	(27,885)	331	–
Other income and expense	192	(91)	–	(967)	(223)	333.6 %
Interest expense	(2,129)	(2,594)	(17.9)%	(7,970)	(8,086)	(1.4)%
Amortization of intangible assets	(149)	(149)	–	(447)	(447)	–
Income (loss) before taxes	30,748	(27,417)	–	29,290	23,036	27.1 %
Income tax expense (benefit)	4,465	(2,250)	–	4,208	5,168	(18.6)%
Net income (loss)	\$ 26,283	\$ (25,167)	–	\$ 25,082	\$ 17,868	40.4 %
Adjusted net operating income (loss) (4)	\$ 17,382	\$ (22,208)	–	\$ 50,179	\$ 19,682	154.9 %
Ratios:						
Loss ratio	69.4 %	100.3 %		67.4 %	83.1 %	
Expense ratio	24.8 %	18.5 %		29.2 %	20.8 %	
Combined ratio	94.2 %	118.8 %		96.6 %	103.9 %	

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

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

(3) Included in underwriting results for the three and nine months ended September 30, 2020 is gross fee income of \$4.6 million and \$15.8 million, respectively (\$6.1 million and \$18.7 million for the same periods in the prior year).

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

Three Months Ended September 30, 2020 and 2019

The Company had an underwriting profit of \$8.9 million for the three months ended September 30, 2020. This compares to an underwriting loss of \$40.1 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, 2020 and 2019 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 \$8.9 million and \$(2.4) million for the three months ended September 30, 2020 and 2019, respectively. For the three months ended September 30, 2020, net realized and unrealized gains on investments include gains of \$2.4 million and \$9.7 million related to changes in unrealized gains and losses on equity securities and bank loan participations (accounted for at fair value pursuant to the Company's election of the fair value option on January 1, 2020), respectively. For the three months ended September 30, 2019, net realized and unrealized losses on investments included gains of \$3.3 million related to changes in unrealized gains and

losses on equity securities. See “— Investing Results” for more information on these realized and unrealized investment gains (losses).

We define adjusted net operating income (loss) as net income (loss) 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, and severance costs associated with terminated employees. We use adjusted net operating income (loss) 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 (loss) should not be viewed as a substitute for net income (loss) calculated in accordance with GAAP, and our definition of adjusted net operating income (loss) may not be comparable to that of other companies.

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

	Three Months Ended September 30,			
	2020		2019	
	Income Before Taxes	Net Income	(Loss) Income Before Taxes	Net (Loss) Income
	(\$ in thousands)			
Income (loss) as reported	\$ 30,748	\$ 26,283	\$ (27,417)	\$ (25,167)
Net realized and unrealized investment (gains) losses	(8,929)	(8,824)	2,357	2,665
Other expenses	(21)	(77)	372	294
Adjusted net operating income (loss)	\$ 21,798	\$ 17,382	\$ (24,688)	\$ (22,208)

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, 2020 was 94.2%. 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, 2020 includes \$4.2 million, or 2.8 percentage points, of net adverse reserve development on prior accident years, including \$27,000 of net adverse reserve development from the Excess and Surplus Lines segment, \$2.0 million of net favorable reserve development from the Specialty Admitted Insurance segment, and \$6.2 million of net adverse reserve development from the Casualty Reinsurance segment.

The combined ratio for the three months ended September 30, 2019 was 118.8%. 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.

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 increased from 18.5% for the three months ended September 30, 2019 to 24.8% for the three months ended September 30, 2020. The increase reflects the termination of the Rasier business effective December 31, 2019 (the Rasier business carried higher loss ratios, but lower expense ratios). This was partially offset by a 21.1% increase in the non-commercial auto (“Core E&S”) net earned premiums of the Excess and Surplus Lines segment including in lines 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 68.6% of consolidated net earned premiums for the three months ended September 30, 2020 compared to 77.2% for the three months

ended September 30, 2019. Gross fee income for the Company declined from \$6.1 million for the three months ended September 30, 2019 to \$4.6 million for the three months ended September 30, 2020. The Rasier termination resulted in a \$2.2 million decline of gross fee income in the Excess and Surplus Lines segment for the three months ended September 30, 2020. This was partially offset by \$673,000 higher fee income in the Specialty Admitted Insurance segment due to new fronting programs and growth in existing fronting programs.

Nine Months Ended September 30, 2020 and 2019

The Company had an underwriting profit of \$15.4 million for the nine months ended September 30, 2020. This compares to an underwriting loss of \$23.4 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, 2020 and 2019 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 \$(27.9) million and \$331,000 for the nine months ended September 30, 2020 and 2019, respectively. For the nine months ended September 30, 2020, net realized and unrealized losses on investments include losses of \$6.9 million and \$7.6 million related to changes in unrealized gains and losses on equity securities and bank loan participations, respectively. For the nine months ended September 30, 2019, net realized and unrealized gains on investments included gains of \$8.7 million related to changes in unrealized gains and losses on equity securities. See “— Investing Results” for more information on these realized and unrealized investment (losses) gains.

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

	Nine Months Ended September 30,			
	2020		2019	
	Income Before Taxes	Net Income	Income Before Taxes	Net Income
	(\$ in thousands)			
Income as reported	\$ 29,290	\$ 25,082	\$ 23,036	\$ 17,868
Net realized and unrealized investment losses (gains)	27,885	23,646	(331)	980
Other expenses	1,711	1,451	1,055	834
Adjusted net operating income	<u>\$ 58,886</u>	<u>\$ 50,179</u>	<u>\$ 23,760</u>	<u>\$ 19,682</u>

Combined Ratios

Our combined ratio for the nine months ended September 30, 2020 was 96.6%. The combined ratio for the nine months ended September 30, 2020 includes \$6.2 million, or 1.4 percentage points, of net adverse reserve development on prior accident years, including \$2.8 million of net favorable reserve development from the Excess and Surplus Lines segment, \$4.0 million of net favorable reserve development from the Specialty Admitted Insurance segment, and \$13.1 million of net adverse reserve development from the Casualty Reinsurance segment.

The 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.

Expense Ratios

Our expense ratio increased from 20.8% for the nine months ended September 30, 2019 to 29.2% for the nine months ended September 30, 2020. The increase reflects the termination of the Rasier business effective December 31, 2019 (the Rasier business carried higher loss ratios, but lower expense ratios). This was partially offset by a 32.2% increase in the Core E&S net earned premiums of the Excess and Surplus Lines segment including in lines 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 68.2% of consolidated net earned premiums for the nine months ended September 30, 2020 compared to 75.9% for nine months ended September 30, 2019. Gross fee income for the Company declined from \$18.7 million for the nine months ended September 30, 2019 to \$15.8 million for the nine months ended September 30, 2020. The Rasier termination resulted in a \$5.6 million decline of gross fee income in the Excess and

Surplus Lines segment for the nine months ended September 30, 2020. This was partially offset by \$2.6 million higher fee income in the Specialty Admitted Insurance segment due to new fronting programs and growth in existing fronting programs.

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,		% Change	Nine Months Ended September 30,		% Change
	2020	2019		2020	2019	
	(\$ in thousands)					
Gross written premiums:						
Excess and Surplus Lines	\$ 179,458	\$ 241,045	(25.6)%	\$ 502,649	\$ 687,871	(26.9)%
Specialty Admitted Insurance	112,589	100,459	12.1 %	303,831	292,884	3.7 %
Casualty Reinsurance	19,805	46,724	(57.6)%	90,852	114,810	(20.9)%
	<u>\$ 311,852</u>	<u>\$ 388,228</u>	<u>(19.7)%</u>	<u>\$ 897,332</u>	<u>\$ 1,095,565</u>	<u>(18.1)%</u>
Net written premiums:						
Excess and Surplus Lines	\$ 109,170	\$ 171,715	(36.4)%	\$ 328,190	\$ 522,200	(37.2)%
Specialty Admitted Insurance	16,184	14,570	11.1 %	42,279	43,625	(3.1)%
Casualty Reinsurance	19,805	37,584	(47.3)%	75,101	105,695	(28.9)%
	<u>\$ 145,159</u>	<u>\$ 223,869</u>	<u>(35.2)%</u>	<u>\$ 445,570</u>	<u>\$ 671,520</u>	<u>(33.6)%</u>
Net earned premiums:						
Excess and Surplus Lines	\$ 104,933	\$ 164,759	(36.3)%	\$ 305,521	\$ 457,352	(33.2)%
Specialty Admitted Insurance	14,985	14,242	5.2 %	42,660	39,688	7.5 %
Casualty Reinsurance	33,044	34,373	(3.9)%	99,514	105,600	(5.8)%
	<u>\$ 152,962</u>	<u>\$ 213,374</u>	<u>(28.3)%</u>	<u>\$ 447,695</u>	<u>\$ 602,640</u>	<u>(25.7)%</u>

Gross written premiums for the Excess and Surplus Lines segment (which represents 56.0% of our consolidated gross written premiums in the nine months ended September 30, 2020) decreased 25.6% and 26.9% from the corresponding three and nine month periods in the prior year, respectively. The decrease was largely due to the termination of the Rasier commercial auto business in the fourth quarter of 2019. 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. A majority of the insurance policies were due to expire on February 29, 2020. Excluding commercial auto policies, gross written premiums increased 27.9% and 26.1% over the corresponding three and nine month periods in the prior year, respectively. Policy submissions excluding commercial auto policies were 13.8% higher and 17.8% more policies were bound in the nine months ended September 30, 2020 than in the nine months ended September 30, 2019. Renewal rates for the Excess and Surplus Lines segment were up 15.6% compared to the nine months ended September 30, 2019. The change in gross written premiums compared to the same periods in 2019 was notable in several divisions as shown below:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2020	2019		2020	2019	
	(\$ in thousands)					
Excess Casualty	\$ 62,492	\$ 32,062	94.9 %	\$ 146,293	\$ 78,708	85.9 %
General Casualty	26,817	24,917	7.6 %	93,708	89,897	4.2 %
Manufacturers & Contractors	30,833	25,320	21.8 %	90,878	76,857	18.2 %
Energy	11,806	18,632	(36.6)%	32,808	35,751	(8.2)%
Excess Property	8,259	6,825	21.0 %	28,342	24,085	17.7 %
Life Sciences	9,977	6,746	47.9 %	24,122	16,950	42.3 %
Small Business	6,343	5,071	25.1 %	18,453	14,619	26.2 %
All other Core E&S divisions	13,212	13,104	0.8 %	44,503	43,091	3.3 %
Total Core E&S divisions	169,739	132,677	27.9 %	479,107	379,958	26.1 %
Commercial Auto	\$ 9,719	\$ 108,368	(91.0)%	23,542	307,913	(92.4)%
Excess and Surplus Lines gross written premium	\$ 179,458	\$ 241,045	(25.6)%	\$ 502,649	\$ 687,871	(26.9)%

The components of gross written premiums for the Specialty Admitted Insurance segment (which represents 33.9% of our consolidated gross written premiums for the nine months ended September 30, 2020) are as follows:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2020	2019		2020	2019	
	(\$ in thousands)					
Individual risk workers' compensation premium	\$ 16,033	\$ 15,618	2.7 %	\$ 49,670	\$ 48,599	2.2 %
Fronting and program premium	96,556	84,841	13.8 %	254,161	244,285	4.0 %
Specialty Admitted gross written premium	\$ 112,589	\$ 100,459	12.1 %	\$ 303,831	\$ 292,884	3.7 %

The premium growth in fronting and programs was largely driven by three new fronting relationships that generated \$25.8 million and \$45.7 million of gross written premium in the three and nine months ended September 30, 2020 (\$9.1 million in the comparable three and nine month periods of the prior year). Our largest fronting relationship produced \$33.4 million and \$96.3 million of gross written premium for the three and nine months ended September 30, 2020, respectively, down from \$36.2 million and \$113.9 million for the three and nine months ended September 30, 2019 and representing 31.7% of the segment's gross written premium in the nine months ended September 30, 2020 down from 38.9% in the nine months ended September 30, 2019.

Gross written premiums for the Casualty Reinsurance segment (which represents 10.1% of our consolidated gross written premiums in the first nine months of 2020) decreased 57.6% and 20.9% from the corresponding three and nine month periods in the prior year, respectively. The decline in gross written premiums was due to the non-renewal of one large treaty and the change in renewal dates of three 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,	
	2020	2019	2020	2019
Excess and Surplus Lines	60.8 %	71.2 %	65.3 %	75.9 %
Specialty Admitted Insurance	14.4 %	14.5 %	13.9 %	14.9 %
Casualty Reinsurance	100.0 %	80.4 %	82.7 %	92.1 %
Total	46.5 %	57.7 %	49.7 %	61.3 %

The net premium retention for the Excess and Surplus Lines segment decreased for the three and nine months ended September 30, 2020 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. Additionally, the net premium retention for the Commercial Auto underwriting division is higher than the net premium retention for the other underwriting divisions in the Excess and Surplus Lines segment, and the Company terminated its largest Commercial Auto customer, Rasier, effective December 31, 2019.

The net premium retention for the Specialty Admitted Insurance segment decreased slightly for the three and nine months ended September 30, 2020 as compared to the respective periods in the prior year. The net retention on the individual risk workers' compensation business was 29.5% and 29.7% for the three and nine months ended September 30, 2020, respectively (46.1% and 45.0% for the three and nine months ended September 30, 2019, respectively), reflecting an increase in the percentage of premiums ceded under a third-party quota share reinsurance treaty from 50% in 2019 to 70% in 2020. The net retention on the segment's fronting business was 11.9% and 10.8% for the three and nine months ended September 30, 2020, respectively (8.7% and 8.9% for the three and nine months ended September 30, 2019, respectively).

The net premium retention for the Casualty Reinsurance segment as compared to the prior year increased for the three month period, but decreased for the nine month period primarily due to the change in renewal date of a retrocessional treaty/fronting arrangement under which 100% of the premiums are ceded. Ceded written premiums under the treaty were \$15.8 million in the first quarter of 2020 compared to \$9.1 million in the third quarter of 2019.

Underwriting Results

The following table compares our combined ratios by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Excess and Surplus Lines	85.2 %	117.8 %	87.0 %	100.1 %
Specialty Admitted Insurance	87.6 %	94.1 %	94.6 %	90.5 %
Casualty Reinsurance	102.1 %	112.5 %	103.1 %	103.8 %
Total	94.2 %	118.8 %	96.6 %	103.9 %

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,		%
	2020	2019		2020	2019	
	(\$ in thousands)					
Gross written premiums	\$ 179,458	\$ 241,045	(25.6)%	\$ 502,649	\$ 687,871	(26.9)%
Net written premiums	\$ 109,170	\$ 171,715	(36.4)%	\$ 328,190	\$ 522,200	(37.2)%
Net earned premiums	\$ 104,933	\$ 164,759	(36.3)%	\$ 305,521	\$ 457,352	(33.2)%
Losses and loss adjustment expenses	(69,938)	(176,154)	(60.3)%	(198,877)	(399,996)	(50.3)%
Underwriting expenses	(19,414)	(17,956)	8.1 %	(66,856)	(57,795)	15.7 %
Underwriting profit (loss) (1), (2)	\$ 15,581	\$ (29,351)	–	\$ 39,788	\$ (439)	–
Ratios:						
Loss ratio	66.7 %	106.9 %		65.1 %	87.5 %	
Expense ratio	18.5 %	10.9 %		21.9 %	12.6 %	
Combined ratio	85.2 %	117.8 %		87.0 %	100.1 %	

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

(2) Underwriting results include gross fee income of \$— and \$1.6 million for the three and nine months ended September 30, 2020, respectively (\$2.2 million and \$7.1 million for the same periods in the prior year).

The loss ratios of 66.7% and 65.1% for the three and nine months ended September 30, 2020 include \$27,000 of net adverse reserve development and \$2.8 million of net favorable reserve development (0.0 and 0.9 percentage points), respectively, in our loss estimates for prior accident years. The loss ratios of 106.9% and 87.5% for the three and nine months ended September 30, 2019 include \$50.0 million and \$51.2 million (30.4 and 11.2 percentage points, respectively) of net

adverse reserve development in our loss estimates for prior accident years. The net adverse development in 2019 was primarily related to the 2016 and 2017 accident years for the commercial auto business. The lower current year loss ratios in this segment also reflect the termination of the Rasier commercial auto business effective December 31, 2019 (the Rasier business carried higher loss ratios, but lower expense ratios).

The expense ratio for this segment increased from 10.9% and 12.6% for the three and nine months ended September 30, 2019, respectively, to 18.5% and 21.9% for the three and nine months ended September 30, 2020, respectively, due to the termination of the Rasier commercial auto business effective December 31, 2019 (the Rasier business carried higher loss ratios, but lower expense ratios). This was partially offset by increases of 21.1% and 32.2%, respectively, in the Core E&S net earned premiums of the Excess and Surplus Lines segment including in lines that have meaningful ceding commissions. Commercial auto made up 6.0% and 7.3% of the segment's net earned premiums for the three and nine months ended September 30, 2020, respectively, down from 50.6% and 53.1% in the respective prior year periods. Gross fee income contributed to a reduction in the expense ratio of 0.0 and 0.5 percentage points for the three and nine months ended September 30, 2020, respectively (1.3 and 1.6 percentage points for the same periods in the prior year).

As a result of the items discussed above, the underwriting results of the Excess and Surplus Lines segment improved from underwriting losses of \$29.4 million and \$439,000 for the three and nine months ended September 30, 2019, respectively, to underwriting profits of \$15.6 million and \$39.8 million for the three and nine months ended September 30, 2020, 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,		%
	2020	2019		2020	2019	
	(\$ in thousands)					
Gross written premiums	\$ 112,589	\$ 100,459	12.1 %	\$ 303,831	\$ 292,884	3.7 %
Net written premiums	\$ 16,184	\$ 14,570	11.1 %	\$ 42,279	\$ 43,625	(3.1)%
Net earned premiums	\$ 14,985	\$ 14,242	5.2 %	\$ 42,660	\$ 39,688	7.5 %
Losses and loss adjustment expenses	(10,745)	(9,481)	13.3 %	(31,209)	(25,085)	24.4 %
Underwriting expenses	(2,381)	(3,924)	(39.3)%	(9,150)	(10,845)	(15.6)%
Underwriting profit (1), (2)	\$ 1,859	\$ 837	122.1 %	\$ 2,301	\$ 3,758	(38.8)%
Ratios:						
Loss ratio	71.7 %	66.6 %		73.2 %	63.2 %	
Expense ratio	15.9 %	27.5 %		21.4 %	27.3 %	
Combined ratio	87.6 %	94.1 %		94.6 %	90.5 %	

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

(2) Underwriting results include gross fee income of \$4.6 million and \$14.2 million for the three and nine months ended September 30, 2020, respectively (\$4.0 million and \$11.6 million for the same periods in the prior year).

The loss ratio of 71.7% and 73.2% for the three and nine months ended September 30, 2020 includes \$2.0 million and \$4.0 million (13.3 and 9.4 percentage points), respectively, of net favorable development in our loss estimates for prior accident years. 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 reserve development in our loss estimates for prior accident years. The favorable reserve development for both periods reflects the fact that actual loss emergence of the workers' compensation book has been better than expected.

The expense ratio of the Specialty Admitted Insurance segment was 15.9% and 21.4% for the three and nine months ended September 30, 2020, respectively, compared to the prior year ratios of 27.5% and 27.3%, respectively. Gross fee income from the fronting business increased 17.0% and 22.8% for the three and nine months ended September 30, 2020, respectively, compared to the same periods in the prior year as a result of a mix shift to fronting arrangements with higher fees and an increase in the total number of fronted programs. Through three quarters of 2020, the segment has added eight new fronting relationships.

Underwriting results for the Specialty Admitted Insurance segment in the nine months ended September 30, 2020 were favorably impacted by a \$1.2 million adjustment to fee income on one fronted program (a reduction in commission expense, representing a 2.8 point reduction in the combined ratio for the respective period).

As a result of the items discussed above, the Specialty Admitted Insurance segment had an underwriting profit of \$1.9 million and \$2.3 million for the three and nine months ended September 30, 2020, respectively, compared to an underwriting profit of \$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,		% Change	Nine Months Ended September 30,		% Change
	2020	2019		2020	2019	
(\$ in thousands)						
Gross written premiums	\$ 19,805	\$ 46,724	(57.6)%	\$ 90,852	\$ 114,810	(20.9)%
Net written premiums	\$ 19,805	\$ 37,584	(47.3)%	\$ 75,101	\$ 105,695	(28.9)%
Net earned premiums	\$ 33,044	\$ 34,373	(3.9)%	\$ 99,514	\$ 105,600	(5.8)%
Losses and loss adjustment expenses	(25,472)	(28,449)	(10.5)%	(71,671)	(75,983)	(5.7)%
Underwriting expenses	(8,261)	(10,212)	(19.1)%	(30,962)	(33,678)	(8.1)%
Underwriting loss (1)	\$ (689)	\$ (4,288)	(83.9)%	\$ (3,119)	\$ (4,061)	(23.2)%
Ratios:						
Loss ratio	77.1 %	82.8 %		72.0 %	72.0 %	
Expense ratio	25.0 %	29.7 %		31.1 %	31.8 %	
Combined ratio	102.1 %	112.5 %		103.1 %	103.8 %	

(1) Underwriting Loss is a non-GAAP Measure. See "Reconciliation of Non-GAAP Measures" for a reconciliation to income (loss) 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 77.1% and 72.0% for the three and nine months ended September 30, 2020, respectively, includes \$6.2 million and \$13.1 million (18.8 and 13.1 percentage points), respectively, of net adverse development in our loss estimates for prior accident years. The loss ratio of 82.8% and 72.0% for the three and nine months ended September 30, 2019, respectively, includes \$7.9 million and \$13.3 million (23.1 and 12.6 percentage points) of net adverse reserve development in our loss estimates for prior accident years.

The expense ratio of the Casualty Reinsurance segment was 25.0% and 31.1% for the three and nine months ended September 30, 2020, respectively, compared to 29.7% and 31.8% in the respective prior year periods. Commission slide adjustments related to incurred losses reduced the expense ratio by 8.9 and 4.4 points in the three months ended September 30, 2020 and 2019, respectively (3.6% and 2.3% for the respective nine month periods).

As a result of the items discussed above, the Casualty Reinsurance segment had underwriting losses of \$689,000 and \$3.1 million for the three and nine months ended September 30, 2020, respectively, compared to underwriting losses of \$4.3 million and \$4.1 million for the three and nine months ended September 30, 2019.

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, 2020 was \$2,106.7 million. Of this amount, 59.8% relates to amounts that are IBNR. This amount was 63.1% at December 31, 2019. The Company's gross reserves for losses and loss adjustment expenses by segment are summarized as follows:

	Gross Reserves at September 30, 2020		
	Case	IBNR	Total
(\$ in thousands)			
Excess and Surplus Lines	\$ 511,010	\$ 731,618	\$ 1,242,628
Specialty Admitted Insurance	219,114	354,173	573,287
Casualty Reinsurance	117,687	173,147	290,834
Total	\$ 847,811	\$ 1,258,938	\$ 2,106,749

At September 30, 2020, the amount of net reserves prior to the \$335,000 allowance for uncollectible reinsurance recoverables of \$1,336.6 million that related to IBNR was 56.3%. This amount was 60.3% at December 31, 2019. The Company's net reserves for losses and loss adjustment expenses by segment are summarized as follows:

	Net Reserves at September 30, 2020		
	Case	IBNR	Total
	(\$ in thousands)		
Excess and Surplus Lines	\$ 430,219	\$ 528,998	\$ 959,217
Specialty Admitted Insurance	38,560	55,077	93,637
Casualty Reinsurance	115,610	168,135	283,745
Total	\$ 584,389	\$ 752,210	\$ 1,336,599

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 \$7.8 million and \$23.6 million for the three and nine months ended September 30, 2020, respectively, compared to \$7.3 million and \$22.6 million for the same periods in the prior year.

Investing Results

Net investment income was \$15.0 million and \$51.1 million for the three and nine months ended September 30, 2020, respectively, compared to \$17.9 million and \$54.8 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,		
	2020	2019	% Change	2020	2019	% Change
	(\$ in thousands)					
Renewable energy LLCs	\$ (526)	\$ 1,602	–	\$ 320	\$ 2,510	(87.3)%
Other private investments	1,059	(218)	–	1,174	3,407	(65.5)%
Other invested assets	533	1,384	(61.5)%	1,494	5,917	(74.8)%
All other net investment income	14,426	16,494	(12.5)%	49,651	48,927	1.5 %
Total net investment income	\$ 14,959	\$ 17,878	(16.3)%	\$ 51,145	\$ 54,844	(6.7)%

The Company's private investments generated income of \$533,000 and \$1.5 million for the three and nine months ended September 30, 2020, respectively (compared to income of \$1.4 million and \$5.9 million in the respective prior year periods). Excluding private investments, our net investment income for the three months ended September 30, 2020 decreased 12.5% from the prior year principally due to lower investment income from bank loan participations resulting from a smaller portfolio and lower investment yields. For the nine months ended September 30, 2020, our net investment income excluding private investments increased by 1.5% over the prior year driven by asset growth in our portfolio and income on restricted cash equivalents. The average duration of our fixed maturity portfolio was 4.3 years at September 30, 2020.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(\$ in thousands)			
Fixed maturity securities	\$ 11,359	\$ 10,229	\$ 33,424	\$ 29,876
Bank loan participations	2,396	4,752	9,668	14,978
Equity securities	1,246	1,326	3,677	3,958
Other invested assets	533	1,384	1,494	5,917
Cash, cash equivalents, restricted cash equivalents and short-term investments	456	1,184	6,470	3,490
Gross investment income	15,990	18,875	54,733	58,219
Investment expense	(1,031)	(997)	(3,588)	(3,375)
Net investment income	\$ 14,959	\$ 17,878	\$ 51,145	\$ 54,844

The following table summarizes our investment returns:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Annualized gross investment yield on:				
Average cash and invested assets	2.7 %	3.8 %	2.9 %	3.9 %
Average fixed maturity securities	2.8 %	3.7 %	3.0 %	3.8 %

Of our total cash and invested assets of \$2,282.1 million at September 30, 2020 (excluding restricted cash equivalents), \$140.0 million represents the cash and cash equivalents portion of the portfolio. The majority of the portfolio, or \$1,813.5 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. Also included in our investments are \$131.2 million of bank loan participations, \$79.9 million of equity securities, \$72.0 million of short-term investments, and \$45.6 million of other invested assets.

In connection with the adoption of ASU 2016-13 on January 1, 2020, the Company elected the fair value option in accounting for its portfolio of bank loan participations. Under the fair value option, bank loan participations are measured at fair value, and changes in unrealized gains and losses in bank loan participations are reported in our income statement as net realized and unrealized gains (losses) on investments. Prior to January 1, 2020, bank loans were classified as held-for-investment and reported at amortized cost, net of any allowance for credit losses. Changes in the credit allowance were included in net realized and unrealized gains (losses). At December 31, 2019, management concluded that seven loans from six issuers in the Company's bank loan portfolio were impaired. The impaired loans had a carrying value of \$6.9 million, unpaid principal of \$14.3 million, and an allowance for credit losses of \$7.2 million, \$5.1 million of which related to two loans from one issuer who was experiencing liquidity concerns resulting from revenue declines and poor growth prospects in its most profitable segment.

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, 2020 and December 31, 2019, the fair market value of these securities was \$131.2 million and \$252.4 million, respectively.

For the nine months ended September 30, 2020, the Company recognized net realized and unrealized investment losses of \$27.9 million (\$8.9 million of net realized and unrealized investment gains for the three months ended September 30, 2020), including \$7.6 million of net unrealized losses on bank loan participations, \$6.9 million of losses for the change in the fair value of equity securities, \$14.1 million of net realized investment losses on the sale of bank loan securities, and \$905,000 of net realized investment gains on the sale of fixed maturity securities.

For the nine months ended September 30, 2019, the Company recognized net realized and unrealized investment gains of \$331,000 (\$2.4 million of net 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.

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 none of its fixed maturity securities were impaired at September 30, 2020 or December 31, 2019. At September 30, 2020, 99.5% 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 available-for-sale securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs.

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

	September 30, 2020			December 31, 2019		
	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	\$ 271,218	\$ 288,596	15.9 %	\$ 159,894	\$ 167,101	11.7 %
Residential mortgage-backed	297,932	306,469	16.9 %	261,524	264,146	18.4 %
Corporate	727,678	776,955	42.9 %	611,304	632,221	44.1 %
Commercial mortgage and asset-backed	324,966	335,834	18.5 %	249,309	252,457	17.6 %
U.S. Treasury securities and obligations guaranteed by the U.S. government	100,742	103,594	5.7 %	114,477	115,667	8.1 %
Redeemable preferred stock	2,025	2,023	0.1 %	2,025	2,034	0.1 %
Total fixed maturity securities, available-for-sale	<u>\$ 1,724,561</u>	<u>\$ 1,813,471</u>	<u>100.0 %</u>	<u>\$ 1,398,533</u>	<u>\$ 1,433,626</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, 2020:

Standard & Poor's or Equivalent Designation	Fair Value	% of Total
<i>(\$ in thousands)</i>		
AAA	\$ 367,331	20.3 %
AA	663,995	36.6 %
A	578,440	31.9 %
BBB	194,880	10.7 %
Below BBB and unrated	8,825	0.5 %
Total	<u>\$ 1,813,471</u>	<u>100.0 %</u>

At September 30, 2020, our portfolio of fixed maturity securities contained corporate fixed maturity securities (available-for-sale) with a fair value of \$777.0 million. A summary of these securities by industry segment is shown below as of September 30, 2020:

Industry	Fair Value	% of Total
<i>(\$ in thousands)</i>		
Industrials and Other	\$ 174,373	22.5 %
Financial	205,907	26.5 %
Consumer Discretionary	112,882	14.5 %
Health Care	98,808	12.7 %
Consumer Staples	69,459	8.9 %
Utilities	115,526	14.9 %
Total	<u>\$ 776,955</u>	<u>100.0 %</u>

Corporate fixed maturity securities (available-for-sale) include publicly traded securities and privately placed bonds as shown below as of September 30, 2020:

Public/Private	Fair Value	% of Total
	(\$ in thousands)	
Publicly traded	\$ 711,494	91.6 %
Privately placed	65,461	8.4 %
Total	\$ 776,955	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, 2020		
	Amortized Cost	Fair Value	% of Total Value
	(\$ in thousands)		
Due in:			
One year or less	\$ 104,099	\$ 105,328	5.8 %
After one year through five years	456,660	483,155	26.7 %
After five years through ten years	306,679	330,510	18.2 %
After ten years	232,200	250,152	13.8 %
Residential mortgage-backed	297,932	306,469	16.9 %
Commercial mortgage and asset-backed	324,966	335,834	18.5 %
Redeemable preferred stock	2,025	2,023	0.1 %
Total	\$ 1,724,561	\$ 1,813,471	100.0 %

At September 30, 2020, the Company had no investments in securitizations of alternative-A mortgages or sub-prime mortgages.

Interest Expense

Interest expense was \$2.1 million and \$2.6 million for the three months ended September 30, 2020 and 2019, respectively (\$8.0 million and \$8.1 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, 2020 and 2019, 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 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. For the nine months ended September 30, 2020, our U.S. federal income tax expense was 14.4% of income before taxes. For the nine months ended September 30, 2019, our U.S. federal income tax expense was 22.4% of income before taxes. 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.

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 2020 without regulatory approval is \$26.7 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 2020 is calculated to be approximately \$125.6 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, 2020, the Bermuda holding company had \$2.0 million of cash and cash equivalents. The U.S. holding company had \$50.0 million of cash and invested assets, comprised of cash and cash equivalents of \$11.5 million and other invested assets of \$38.5 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, 2020.

Credit Agreements

The Company has a \$315.0 million senior revolving credit facility (as amended or amended and restated, the "2013 Facility"). The 2013 Facility is comprised of the following at September 30, 2020:

- 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, 2020, the Company had \$76.0 million of letters of credit issued under the secured facility.
- A \$212.5 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, 2020, the Company had a drawn balance of \$163.3 million outstanding on the unsecured revolver. We drew \$60.0 million on this credit facility in the three months ended March 31, 2020 as a precautionary measure to increase our cash position and preserve financial flexibility in light of current uncertainty in the global markets resulting from the coronavirus (COVID-19) outbreak. \$30.0 million was repaid in the three months ended June 30, 2020.

The 2013 Facility has been amended from time to time since its inception in 2013. On November 8, 2019, the Company entered into a Second Amended and Restated Credit Agreement for the 2013 Facility which, among other things, extended the maturity date of the 2013 Facility until November 8, 2024, increased the amount available under the unsecured revolving credit facility to \$212.5 million, lowered the applicable interest rate and letter of credit fees, and modified certain negative covenants to be less restrictive.

The 2013 Facility contains certain financial and other covenants (including minimum net worth, maximum ratio of total adjusted debt outstanding to total capitalization, and financial strength ratings) with which the Company was in compliance at September 30, 2020.

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 \$100.0 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, 2020. 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. On November 8, 2019, the Company entered into a First Amendment to Credit Agreement which, among other things, lowered the applicable interest rate and modified certain negative covenants to be less restrictive. Interest accrues quarterly and is payable in arrears at variable rates which are subject to change according to terms in the credit agreement. At September 30, 2020, unsecured loans of \$39.0 million and secured letters of credit totaling \$17.5 million were outstanding on the 2017 Facility. We drew \$59.0 million of unsecured capacity on this credit facility in the three months ended March 31, 2020 as a precautionary measure to increase our cash position and preserve financial flexibility in light of current uncertainty in the global markets resulting from the coronavirus (COVID-19) outbreak. \$30.0 million was repaid in the three months ended June 30, 2020.

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, 2020, 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, 2020 (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, 2020.

At September 30, 2020 and December 31, 2019, 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 28.1% and 25.2%, 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, 2020 and 2019, our net premium retention was 46.5% and 57.7%, respectively (49.7% and 61.3% 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, 2020:

	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, it would take an event beyond our 1 in 1000 year PML to exhaust our \$45.0 million property catastrophe treaty. In the event of a catastrophe loss exhausting our \$45.0 million property catastrophe treaty, we estimate our pre-tax cost at approximately \$7.3 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, Rasier, our largest Commercial Auto account, was subject to an auto liability quota share reinsurance contract that contained a \$10.0 million occurrence cap and an annual aggregate of 200% of subject premium. In conjunction with the termination of the Rasier account, effective December 31, 2019, we simultaneously canceled our quota share reinsurance contract that protected this portfolio.

The following is a summary of our Specialty Admitted Insurance segment's ceded reinsurance in place as of September 30, 2020:

Line of Business	Coverage
Casualty	
Workers' Compensation	Quota share coverage for 70% of the first \$1.0 million. ⁽¹⁾⁽²⁾ Excess of loss coverage for \$29.0 million in excess of \$1.0 million. ⁽¹⁾⁽²⁾
Auto Programs	Quota share coverage for 75-90% 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 70% - 100% of limits up to \$3.0 million per occurrence.
Umbrella and Excess Casualty - Programs	Quota share coverage for 95%-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	
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.
Aviation Programs	Quota share coverage for 80% of limits up to \$20 million liability and \$2.5 million hull per occurrence, each aircraft; and excess of loss coverage for up to \$7.3M excess of \$200 thousand of our 20% share of the quota share each occurrence.

(1) Excluding one program which has quota share coverage for 81.25% 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 a reinsurance coverage for up to 90% of the first \$1,000,000 and excess of loss coverage for \$39.0 million in excess of \$1,000,000 per risk per occurrence.

Our Specialty Admitted Insurance segment purchases reinsurance for at least 70% 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, 2020, our average net retained limit per risk is \$2.5 million.

Effective January 1, 2020, we purchased an additional \$10.0 million in claims made coverage for excess policy limits and extra contractual obligations exposures above the clash and contingency treaty for the period 2014 to present. This treaty has one reinstatement.

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, 2020, the allowance for such uncollectible reinsurance recoverables was \$335,000. 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, 2020, we had reinsurance recoverables on unpaid losses of \$769.8 million and reinsurance recoverables on paid losses of \$36.6 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 previously issued a set of insurance contracts to Rasier under which the Company pays losses and loss adjustment expenses on the contracts. The Company has indemnity agreements with Rasier (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 Rasier and other expenses incurred by the Company. Rasier is 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 provided through a collateral trust arrangement established in favor of the Company by a captive insurance company affiliate of Rasier.

As permitted under our indemnification agreements with Rasier and the associated trust agreement, we have withdrawn the collateral posted to the trust account. At September 30, 2020, the Company held collateral funds of \$940.2 million. The funds withdrawn from the trust account, currently invested in short term securities and included in restricted cash equivalents on the Company’s consolidated balance sheet, will be used to reimburse the Company for the losses and loss adjustment expenses paid on behalf of Rasier and other related expenses incurred by the Company to the extent not paid as required under the indemnity agreements.

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.

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,	
	2020	2019
	<i>(\$ in thousands)</i>	
Cash, cash equivalents, and restricted cash equivalents (used in) provided by:		
Operating activities	\$ (222,060)	\$ 213,787
Investing activities	(135,331)	(87,904)
Financing activities	31,505	(42,038)
Change in cash, cash equivalents, and restricted cash equivalents	<u>\$ (325,886)</u>	<u>\$ 83,845</u>

Cash used in operating activities for the nine months ended September 30, 2020 primarily reflects decreasing amounts of restricted cash equivalents as the collateral funds required on the terminated Rasier account declines as the outstanding claims on this business are settled (see *Amounts Recoverable from an Indemnifying Party* above). In the nine months ended September 30, 2020, the Company returned \$258.9 million to its former insured, per the terms of the collateral trust. Excluding the reduction in the collateral funds, cash provided by operating activities was \$36.9 million for the nine months ended September 30, 2020. Cash provided by operating activities for the nine months ended September 30, 2019 reflected growth in our U.S. segments and the collection of premiums receivable at a quicker rate than payments of loss and loss adjustment expenses.

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 investments. Cash and cash equivalents (excluding restricted cash equivalents) comprised 6.1% and 12.3% of total cash and invested assets at September 30, 2020 and 2019, respectively.

Cash used in financing activities for the nine months ended September 30, 2020 and 2019 included \$27.8 million and \$27.5 million of dividends paid to shareholders, respectively. In addition, we drew a net \$59.0 million on our senior credit facilities in the nine months ended September 30, 2020 as a precautionary measure to increase our cash position and preserve financial

flexibility in light of uncertainty in the global markets resulting from the coronavirus (COVID-19) outbreak. 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 185,762 common shares in the nine months ended September 30, 2020. The new shares were related to stock option exercises and vesting RSUs. The total common shares outstanding increased from 30,424,391 at December 31, 2019 to 30,610,153 at September 30, 2020.

Share Based Compensation Expense

For the three months ended September 30, 2020 and 2019, the Company recognized \$2.1 million and \$1.8 million of share based compensation expense, respectively (\$5.9 million and \$5.3 million for the respective nine month periods). As of September 30, 2020, the Company had \$10.7 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,			
	2020		2019	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding:				
Beginning of period	643,851	\$ 30.41	1,115,324	\$ 29.02
Granted	—	\$ —	—	\$ —
Exercised	(79,615)	\$ 31.77	(450,514)	\$ 26.68
Forfeited	—	\$ —	(12,058)	\$ 36.84
End of period	<u>564,236</u>	\$ 30.22	<u>652,752</u>	\$ 30.50
Exercisable, end of period	<u>564,236</u>	\$ 30.22	<u>599,241</u>	\$ 29.44

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,			
	2020		2019	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Unvested, beginning of period	340,368	\$ 41.50	300,142	\$ 39.22
Granted	197,518	\$ 43.77	197,078	\$ 42.56
Vested	(156,434)	\$ 41.50	(111,212)	\$ 39.90
Forfeited	(16,846)	\$ 42.17	(22,445)	\$ 41.32
Unvested, end of period	<u>364,606</u>	\$ 42.70	<u>363,563</u>	\$ 40.69

The vesting period of RSUs granted to employees range from one to three 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 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 profit (loss) by individual segment and for the entire Company to consolidated income (loss) before U.S. Federal income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Underwriting profit (loss) of the insurance segments:				
Excess and Surplus Lines	\$ 15,581	\$ (29,351)	\$ 39,788	\$ (439)
Specialty Admitted Insurance	1,859	837	2,301	3,758
Casualty Reinsurance	(689)	(4,288)	(3,119)	(4,061)
Total underwriting profit (loss) of insurance segments	16,751	(32,802)	38,970	(742)
Other operating expenses of the Corporate and Other segment	(7,805)	(7,302)	(23,556)	(22,641)
Underwriting profit (loss) (1)	8,946	(40,104)	15,414	(23,383)
Net investment income	14,959	17,878	51,145	54,844
Net realized and unrealized gains (losses) on investments	8,929	(2,357)	(27,885)	331
Amortization of intangible assets	(149)	(149)	(447)	(447)
Other income and expenses	192	(91)	(967)	(223)
Interest expense	(2,129)	(2,594)	(7,970)	(8,086)
Income (loss) before taxes	\$ 30,748	\$ (27,417)	\$ 29,290	\$ 23,036

(1) Included in underwriting results for the three and nine months ended September 30, 2020 is gross fee income of \$4.6 million and \$15.8 million, respectively (\$6.1 million and \$18.7 million for the same periods in the prior year).

Reconciliation of Adjusted Net Operating Income (Loss)

We define adjusted net operating income (loss) as net income (loss) 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, and severance costs associated with terminated employees. We use adjusted net operating income (loss) 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 (loss) should not be viewed as a substitute for net income (loss) calculated in accordance with GAAP, and our definition of adjusted net operating income (loss) may not be comparable to that of other companies.

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

	Three Months Ended September 30,			
	2020		2019	
	Income Before Taxes	Net Income	(Loss) Income Before Taxes	Net (Loss) Income
	(\$ in thousands)			
Income (loss) as reported	\$ 30,748	\$ 26,283	\$ (27,417)	\$ (25,167)
Net realized and unrealized investment (gains) losses	(8,929)	(8,824)	2,357	2,665
Other expenses	(21)	(77)	372	294
Adjusted net operating income (loss)	\$ 21,798	\$ 17,382	\$ (24,688)	\$ (22,208)

	Nine Months Ended September 30,			
	2020		2019	
	Income Before Taxes	Net Income	Income Before Taxes	Net Income
	(\$ in thousands)			
Income as reported	\$ 29,290	\$ 25,082	\$ 23,036	\$ 17,868
Net realized and unrealized investment losses (gains)	27,885	23,646	(331)	980
Other expenses	1,711	1,451	1,055	834
Adjusted net operating income	<u>\$ 58,886</u>	<u>\$ 50,179</u>	<u>\$ 23,760</u>	<u>\$ 19,682</u>

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, 2020, our tangible equity per share increased by 7.1%. Absent the \$27.8 million in dividends to shareholders in the nine months ended September 30, 2020, our tangible equity per share increased by 12.0% for the nine months ended September 30, 2020. The coronavirus pandemic in 2020 has led to declines in the fair values of our investments and reduced tangible equity through earnings with \$6.9 million of net unrealized losses on equity securities and \$7.6 million of net unrealized losses on bank loan participations for the nine months ended September 30, 2020 (as discussed in Investing Results). Our operating return on tangible shareholders' equity was 11.9% for the nine months ended September 30, 2020.

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, 2020 and December 31, 2019 and reconciles tangible equity to pre-dividend tangible equity as of September 30, 2020:

	September 30, 2020		December 31, 2019	
	Equity	Equity per Share	Equity	Equity per Share
	(\$ in thousands, except share amounts)			
Shareholders' equity	\$ 821,406	\$ 26.83	\$ 778,581	\$ 25.59
Less:				
Goodwill	181,831	5.94	181,831	5.98
Intangible assets, net	36,493	1.19	36,940	1.21
Tangible equity	<u>\$ 603,082</u>	<u>\$ 19.70</u>	<u>\$ 559,810</u>	<u>\$ 18.40</u>
Dividends to shareholders for the nine months ended September 30, 2020	27,815	0.90		
Pre-dividend tangible equity	<u>\$ 630,897</u>	<u>\$ 20.60</u>		

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, 2019.

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, 2020, 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, 2020.

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, 2020 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, 2020 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019, except as follows:

The recent global coronavirus outbreak could harm business and results of operations of the Company.

In December 2019, a coronavirus (COVID-19) outbreak was reported in China, and, in March 2020, the World Health Organization declared it a pandemic. The coronavirus has spread throughout the United States, including states in which the Company operates. In response, many governments, including Bermuda, the state and local governments of the States of Virginia and North Carolina, and governments in many other states in which our policyholders are located, have instituted emergency restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. Many states have extended the expiration date of restrictions and some states that eased restrictions subsequently re-imposed them as the spread of COVID-19 worsened. These restrictions could result in significant adverse effects on our policyholders and many different types of small and mid-sized businesses within the Company’s client base, particularly those in the retail, hospitality and food and beverage industries, among many others. The ultimate effect and severity of COVID-19 on the economy is not known nor is the ultimate length of the restrictions and any accompanying effects caused by it.

The effect of COVID-19 and related events, including those described above and those not yet known or knowable, began to impact our results of operations in March 2020 and could have a negative effect on the stock price, business prospects, financial condition and results of operations of the Company, including as a result of quarantines, market volatility, market downturns, actions of lawmakers and regulators, changes in consumer behavior, business closures, deterioration in the credit quality of policyholders or the inability of policyholders to pay their premium and deductible obligations to the Company, and

deterioration in the credit quality of reinsurers or insurance entities with which we have a fronting arrangement or the inability of reinsurers or the insurance entities for which we are fronting to pay their obligations to the Company.

The uncertainty around the extent of the economic impact of COVID-19 caused severe volatility in global financial markets since February 2020. As a result of this volatility, the Company experienced net realized and unrealized losses on investments in its senior secured bank loan portfolio and its equity portfolio in the first quarter. While the investment markets meaningfully recovered since March 31, 2020, further disruptions in global financial markets could result in additional net realized and unrealized investment losses, including potential impairments in our fixed income portfolio. Moreover, the Federal Reserve has taken action to lower the Federal Funds rate, which, along with other factors, has placed pressure on net investment income by causing the yields on many of the types of investments that we make to decline. For further discussion of risks related to our investment portfolio see “*Our investment portfolio is subject to significant market and credit risks, which could result in a material adverse impact on our financial condition and results of operations*” in “Part I-Item 1A-Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

The outbreak has resulted in authorities implementing numerous measures in an attempt to contain the virus, such as quarantines and shelter in place orders. These measures may remain in place for a significant period of time and, even if they are lifted, may be reinstated if conditions deteriorate. These measures and the uncertainty they create may adversely affect the business, operations and financial condition of our policyholders and business partners and therefore our business, operations and financial condition. The Company may be materially affected by a downturn in the economic well-being of policyholders and business partners and the economy in general in numerous ways, including without limitation as follows:

- Collection of premiums, deductibles or self-insured retentions from our policyholders and reinsurance recoverables from our reinsurers may become increasingly difficult. We have incurred, and may continue to incur, increased estimated credit losses on premiums receivable.
- A material portion of the Company’s premiums are calculated based on policyholder payroll costs or revenues, and therefore such premiums will decrease, perhaps materially so, to the extent that policyholders reduce staffing levels or suffer declines in revenue.
- Declines in certain sectors of the economy may have an especially negative impact on the Company due to the concentration of premiums written in such sectors. For example, a material portion of the Company’s direct written premiums are related in various ways to construction. A decline in construction activity or employment would have a material adverse effect on the Company’s premium volume.
- Demand for the insurance policies that the Company offers is highly dependent upon the business environment in the markets in which the Company operates. Suppressed demand for the Company’s insurance policies may lead to reduced premium rates on new or renewal policies or on reinsurance contracts and such reduced rates may not be appropriate for the risks we insure, which in turn may adversely affect the number of policies or contracts we can write.
- Claims frequency and/or severity may increase in certain lines of business, such as, but not exclusively, workers’ compensation, and therefore we may incur increased losses and loss adjustment expenses.

A reduction in premium volume would increase the Company’s expense ratio and, combined with an increase in losses and loss adjustment expenses, would negatively affect the ability of the Company to earn an underwriting profit. For a further discussion of these risks, see “*Adverse economic factors, including recession, inflation, periods of high unemployment or lower economic activity could result in the sale of fewer policies than expected or an increase in frequency or severity in claims and premium defaults or both, which, in turn, could affect our growth and profitability*” in “Part I-Item 1A-Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Efforts of lawmakers at the federal and state level to address the effects of COVID-19 on businesses may have an adverse effect on the financial condition and results of operations of the Company. At the federal and state level, there have been proposals by lawmakers to retroactively amend business interruption insurance policies to cover claims related to COVID-19 when such insurance policies otherwise would exclude such risks. In addition, a number of states have instituted, and other states are considering instituting, changes designed to effectively expand workers’ compensation coverage by creating presumptions of compensability of claims for certain types of workers. The Company has received both business interruption and workers’ compensation claims related to COVID-19, and we expect that we will continue to receive claims related to COVID-19. If the efforts of lawmakers to effectively expand coverage under business interruption, workers’ compensation and other policies on a retroactive basis are successful and enforceable, the Company may be forced to pay claims under policies for which it received inadequate premiums to cover such risks, and therefore the Company’s reserves may be inadequate to pay such claims. At the state level, insurance departments throughout the country have issued bulletins and regulations urging or requiring insurers to extend grace periods for the payment of policy premiums and to refrain from canceling or non-renewing policies for the non-payment of policy premiums for policyholders adversely affected by COVID-19. While many of these

requirements and recommendations have expired or are scheduled to expire in the near future, insurance departments could reinstate or extend them as conditions deteriorate and/or the negative impact of the pandemic on policyholders persists. It is uncertain what impact these government mandates may have on our ability to recover unpaid premiums on the affected policies or what our obligations may be for the payment of claims made under policies for which we have not received premium payments. Some state regulators have issued orders requiring insurers to issue premium refunds or credits, and regulators in other states could take similar action. It is not yet clear the extent of impact on the Company these new regulations will have or what other actions may be taken by government bodies, both legislative and regulatory, in reaction to COVID-19. For further discussion on risks related to emerging claim and coverage issues see *“The effect of emerging claim and coverage issues on our business is uncertain”* and *“If we are unable to underwrite risks accurately and charge competitive yet profitable rates to our policyholders, our business, financial condition and results of operations will be materially adversely affected”* in “Part I-Item 1A-Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

The spread of the virus has caused us to modify our business practices (including employee work locations and cancellation of physical participation in meetings) in ways that might become detrimental to the operation of our business (including working remotely and its attendant cybersecurity risks). We may take further actions as may be required by government authorities or that we determine are in the best interests of our employees and policyholders. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or otherwise be satisfactory to government authorities. A return to work in the office environment could result in an outbreak of COVID-19 illness affecting a large number of the Company’s employees and/or require a large number of employees to self-quarantine. Our operations could be disrupted if key members of our senior management or a significant percentage of our workforce or the workforce of our agents, brokers or service providers are unable to continue to work because of illness from COVID-19, government directives, loss of childcare or eldercare resulting from the closure of schools and/or child or senior care facilities, or otherwise. For a further discussion of these risks, see *“We rely on our systems and employees, and those of certain third-party vendors and service providers in conducting our operations, and certain failures, including internal or external fraud, operational errors, systems malfunctions, or cybersecurity incidents, could materially adversely affect our operations”* in “Part I-Item 1A-Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Given the ongoing and dynamic nature of the circumstances, it is not possible to predict the ultimate impact of the coronavirus outbreak on the stock price, business prospects, financial condition or results of operations of the Company. Notwithstanding any actions by national, state and local governments to mitigate the impact of COVID-19 or by the Company to address the adverse impacts of COVID-19, there can be no assurance that any of the foregoing activities will be successful in mitigating or preventing significant adverse effects on the Company. The Company may also incur additional costs to remedy damages caused by such disruptions, which could adversely affect its financial condition and results of operations.

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).
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	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document in Exhibit 101.

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: October 29, 2020

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

Date: October 29, 2020

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

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: October 29, 2020

/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: October 29, 2020

/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, 2020 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)
October 29, 2020

/s/ Sarah C. Doran

Sarah C. Doran
Chief Financial Officer
(Principal Financial Officer)
October 29, 2020