As filed with the U.S. Securities and Exchange Commission on November 6, 2014

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

JAMES RIVER GROUP HOLDINGS, LTD.
(Exact name of registrant as specified in its charter)

Bermuda	**6331**	**98-0585280**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

32 Victoria Street
Hamilton, Bermuda HM 12
+1-441-278-4580
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Corporation Service Company
1180 Avenue of the Americas, Suite 210
New York, New York 10036
Telephone No. (212) 299-5600
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Kenneth L. Henderson, Esq.
Andrew S. Rodman, Esq.
Bryan Cave LLP
1290 Avenue of the Americas
New York, NY 10104
(212) 541-2000

John M. Schwolsky, Esq.
Michael Groll, Esq.
Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, NY 10019
(212) 728-8000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: □

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. □

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. □

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. □

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

Large accelerated filer □	Accelerated filer □	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company □

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price[(1)(2)]	Amount of Registration Fee[(3)]
Common shares	$287,500,000	$33,407.50

(1) Includes shares to be sold upon full exercise of the underwriters' option to purchase additional common shares.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended (the "Securities Act").

(3) Calculated pursuant to Rule 457(o) under the Securities Act.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated November 6, 2014

PRELIMINARY PROSPECTUS

• Shares

JAMES RIVER GROUP HOLDINGS, LTD.

Common Shares

This is an initial public offering of common shares of James River Group Holdings, Ltd. The selling shareholders identified in this prospectus are offering • common shares to be sold in the offering. All shares are being offered by the selling shareholders. We will not receive any of the proceeds from the sale of our common shares by the selling shareholders in this offering. No public market currently exists for our common shares. The estimated initial public offering price is between $• and $• per share.

The underwriters have the option to purchase up to • additional common shares from the selling shareholders at the initial public offering price, less the underwriting discounts and commissions. The underwriters can exercise this option within 30 days from the date of this prospectus.

We intend to apply to list our common shares on the NASDAQ Stock Market under the symbol “JRVR.” The listing will be subject to approval of our application.

We are an “emerging growth company” as that term is defined in the Jumpstart Our Business Startup Act of 2012 and, as such, have elected to comply with certain reduced public company disclosure requirements.

Investing in our common shares involves significant risks. See “Risk Factors” beginning on page 15.

Neither the Securities and Exchange Commission nor any state or other securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to selling shareholders	$	$

We intend to apply for, and expect to receive, consent under the Bermuda Exchange Control Act 1972 (and its related regulations) from the Bermuda Monetary Authority (the “BMA”) for the issue and transfer of our common shares to and between residents and non-residents of Bermuda for exchange control purposes provided our common shares remain listed on an appointed stock exchange, which includes the NASDAQ Stock Market. In granting such consent the BMA accepts no responsibility for our financial soundness or the correctness of any of the statements made or opinions expressed in this prospectus.

The underwriters expect to deliver our common shares to purchasers on or about , 2014.

Joint Book-Running Managers

Keefe Bruyette & Woods
A Stifel Company

UBS Investment Bank

FBR

BMO Capital Markets

Co-managers

KeyBanc Capital Markets

SunTrust Robinson Humphrey

Scotiabank

The date of this prospectus is , 2014.

Table of Contents

	Page
CERTAIN DEFINED TERMS	ii
REGISTERED TRADEMARKS AND TRADEMARK APPLICATIONS	ii
MARKET AND INDUSTRY DATA	ii
PROSPECTUS SUMMARY	1
RISK FACTORS	15
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	43
USE OF PROCEEDS	45
DIVIDEND POLICY	45
CAPITALIZATION	46
SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA	47
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	50
INSURANCE AND REINSURANCE INDUSTRY OVERVIEW	107
BUSINESS	112
CERTAIN REGULATORY CONSIDERATIONS	139
MANAGEMENT	151
EXECUTIVE COMPENSATION	157
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS	162
PRINCIPAL AND SELLING SHAREHOLDERS	167
DESCRIPTION OF SHARE CAPITAL	171
COMPARISON OF SHAREHOLDER RIGHTS	176
SHARES ELIGIBLE FOR FUTURE SALE	183
TAX CONSIDERATIONS	185
UNDERWRITING	194
LEGAL MATTERS	199
EXPERTS	199
ENFORCEMENT OF CIVIL LIABILITIES UNDER U.S. FEDERAL SECURITIES LAWS	199
GLOSSARY OF INDUSTRY AND OTHER TERMS	200
WHERE YOU CAN FIND MORE INFORMATION	207
INDEX TO FINANCIAL STATEMENTS	F-1

We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

No action is being taken in any jurisdiction outside the United States to permit the public offering of our common shares or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States must inform themselves about and observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

CERTAIN DEFINED TERMS

Unless the context indicates or suggests otherwise, references in this prospectus to "the Company," "we," "us" and "our" refer to James River Group Holdings, Ltd. and its consolidated subsidiaries. Other entities are referred to as follows:

"D. E. Shaw Affiliates" means D. E. Shaw CF-SP Franklin, L.L.C., a Delaware limited liability company; D. E. Shaw CH-SP Franklin, L.L.C., a Delaware limited liability company; and D. E. Shaw Oculus Portfolios, L.L.C., a Delaware limited liability company.

"Falls Lake General" means Falls Lake General Insurance Company (formerly Stonewood General Insurance Company), an Ohio domiciled stock insurance company and wholly-owned subsidiary of Falls Lake National.

"Falls Lake Group" means Falls Lake General, Falls Lake National and Stonewood Insurance.

"Falls Lake National" means Falls Lake National Insurance Company (formerly Stonewood National Insurance Company), an Ohio domiciled stock insurance company and a wholly-owned subsidiary of James River Group.

"Goldman Sachs" means The Goldman Sachs Group, Inc., a Delaware corporation and Goldman Sachs JRVR Investors Offshore, L.P., a Cayman Islands exempted limited partnership.

"James River Casualty" means James River Casualty Company, a Virginia domiciled stock insurance company and a wholly-owned subsidiary of James River Insurance.

"James River Group" means James River Group, Inc., a Delaware insurance holding company and a wholly-owned subsidiary of the Company.

"James River Insurance" means James River Insurance Company, an Ohio domiciled stock insurance company and a wholly-owned subsidiary of James River Group.

"JRG Re" means JRG Reinsurance Company, Ltd., a Bermuda domiciled reinsurance company and a wholly-owned subsidiary of the Company.

"Stonewood Insurance" means Stonewood Insurance Company, a North Carolina domiciled stock insurance company and wholly-owned subsidiary of Falls Lake National.

Certain abbreviations and definitions of certain insurance, reinsurance, financial and other terms used in this prospectus are defined in the "Glossary of Industry and Other Terms" section of this prospectus.

REGISTERED TRADEMARKS AND TRADEMARK APPLICATIONS

"James River," "James River Group," "Falls Lake Insurance Companies" and our Blue/Grey Logo are the subject of either a trademark registration or an application for registration in the United States. Other brands, names and trademarks contained in this prospectus are the property of their respective owners. Solely for convenience, the trademarks, service marks and trade names are referred to in this prospectus without the ^{SM} and $^{®}$ symbols, but such references are not intended to indicate, in any way, that the owner thereof will not assert, to the fullest extent under applicable law, such owner's rights to these trademarks, service marks and trade names.

MARKET AND INDUSTRY DATA

We use market and industry data, forecasts and projections throughout this prospectus. We have obtained certain market and industry data from publicly available industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on historical market data, and there is no assurance that any of the forecasts or projected amounts will be achieved.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It does not contain all the information that you should consider before investing. You should read the entire prospectus carefully, including the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes contained elsewhere in this prospectus before making an investment decision. Some of the statements in this summary constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements." For the definitions of certain terms used in this prospectus, see "Glossary of Industry and Other Terms." All dollar amounts referred to in this prospectus are in U.S. dollars unless otherwise indicated.

Our Company

James River Group Holdings, Ltd. is a Bermuda-based insurance holding company. We own and operate a group of specialty insurance and reinsurance companies founded by members of our management team. For the year ended December 31, 2013, 70% of our group-wide gross written premiums originated from the U.S. excess and surplus ("E&S") lines market. Substantially all of our business is casualty insurance and reinsurance, and for the year ended December 31, 2013, we derived over 95% of our group-wide gross written premiums from casualty insurance and reinsurance. Our objective is to generate compelling returns on tangible equity, while limiting underwriting and investment volatility. We seek to accomplish this by earning profits from insurance and reinsurance underwriting on a consistent basis while managing our capital opportunistically to grow tangible equity per share for our shareholders. Our group includes three specialty property-casualty insurance and reinsurance segments: Excess and Surplus Lines, Specialty Admitted Insurance and Casualty Reinsurance. In all of our segments, we tend to focus on accounts associated with small or medium-sized businesses.

For the year ended December 31, 2013, we wrote $368.5 million in gross written premiums, earned net income of $67.3 million and had a combined ratio of 91.2%. For the six months ended June 30, 2014, our combined ratio was 98.0%. Our combined ratio from January 1, 2008 to June 30, 2014 was 99.4%. A combined ratio that is less than 100% indicates profitable underwriting. Earning an underwriting profit means the premiums earned in the period are greater than the sum of all losses, loss adjustment expenses and other costs associated with operations in that same period. Making consistent underwriting profits is important to us because if we earn positive results from underwriting, we can then count all of our investment income as profits. If we have underwriting losses, we must use investment income or capital to cover those losses. This is why we believe underwriting results are an important criterion for evaluating our performance. According to a report issued in September 2014 by A.M. Best Company, the U.S. E&S lines market (from which we earn 70% of our gross written premiums) has had meaningfully better underwriting results than the broader U.S. property-casualty industry over the five and ten year periods ending in 2013.

We also measure financial performance by our percentage growth in tangible equity per share and return on tangible equity. Since our formation in December of 2007 through June 30, 2014, we have increased tangible equity per share at a compounded rate of 9.3% per year, after giving effect to dividends paid and share repurchases. Tangible equity is defined as our shareholders' equity less goodwill and intangible assets. Until recently, we held substantial amounts of undeployed capital as we had to fully capitalize our reinsurance company prior to its writing any business. We are now growing into our capital base, and in the twelve month period ended June 30, 2014, our after-tax operating return on tangible equity was 12.7%. In August 2014, we declared a $70.0 million dividend to our shareholders.

We write very little property or catastrophe insurance and no property catastrophe reinsurance. For the year ended December 31, 2013, property insurance and reinsurance represented less than 5% of our gross written premiums. When we do write property insurance, we buy reinsurance to significantly mitigate our risk. We have structured our reinsurance arrangements so that our estimated net pre-tax loss from a 1/1000 year probable maximum loss event is no more than $10.0 million on a group-wide basis.

When attractive opportunities arise, we seek to grow our business while maintaining a conservative balance sheet and having lower volatility in our underwriting results. For example, for the year ended December 31, 2013, our Excess and Surplus Lines segment's gross written premiums increased by 21.3% over 2012 and rate per unit of exposure grew by 2.6% over 2012. The growth in premiums and increase in rates has continued in 2014, with premiums up 27.3% through the six months ended June 30, 2014 compared to the corresponding period in 2013, while rates per unit of exposure have increased by 4.7% through the six months ended June 30, 2014 over the corresponding period in 2013. Unit of exposure is a measure that is used to associate the premiums charged on a policy with a factor that relates directly to the exposures covered by the policy.

We report our business in four segments: Excess and Surplus Lines, Specialty Admitted Insurance, Casualty Reinsurance and Corporate and Other.

The Excess and Surplus Lines segment offers E&S commercial lines liability and property insurance in every U.S. state and the District of Columbia through James River Insurance and its wholly-owned subsidiary, James River Casualty. James River Insurance and James River Casualty are both non-admitted carriers. Non-admitted carriers writing in the E&S market are not bound by most of the rate and form regulations imposed on standard market companies, allowing them flexibility to change the coverage terms offered and the rate charged without the time constraints and financial costs associated with the filing process. In 2013, the average account in this segment generated annual gross written premiums of approximately $16,000. The Excess and Surplus Lines segment distributes primarily through wholesale insurance brokers. Members of our management team have participated in this market for over three decades and have long-standing relationships with the wholesale agents who place E&S lines accounts. The Excess and Surplus Lines segment produced 52.2% of our gross written premiums for the year ended December 31, 2013.

The Specialty Admitted Insurance segment focuses on niche classes within the standard insurance markets, such as workers' compensation coverage for residential contractors, light manufacturing operations, transportation workers and healthcare workers in North Carolina, Virginia, South Carolina and Tennessee. This segment has admitted licenses in 47 states and the District of Columbia. While this segment has historically focused on workers' compensation business, going forward, we anticipate growing our fronting business and our other commercial lines through our program business. We believe we can earn substantial fees in our program and fronting business by writing policies and then transferring all or a substantial portion of the underwriting risk position to other capital providers that pay us a fee for "fronting" or ceding the business to them. The Specialty Admitted Insurance segment distributes through a variety of sources, including independent retail agents, program administrators and managing general agents ("MGAs"). The Specialty Admitted Insurance segment produced 5.6% of our gross written premiums for the year ended December 31, 2013.

The Casualty Reinsurance segment consists of JRG Re, our Bermuda domiciled reinsurance subsidiary, which provides proportional and working layer casualty reinsurance to third parties and to our U.S.-based insurance subsidiaries. The Casualty Reinsurance segment's underwriting results only include the results of reinsurance written with unaffiliated companies and do not include the premiums and losses ceded under our internal quota share arrangement described below, which are captured in our Excess and Surplus Lines and Specialty Admitted Insurance segments, respectively. Typically, we structure our reinsurance contracts (also known as treaties) as quota share arrangements, with loss mitigating features, such as commissions that adjust based on underwriting results. We frequently include risk mitigating features in our excess working layer treaties, which allows the ceding company to capture a greater percentage of the profits should the business prove more profitable than expected, or alternatively provides us with additional premiums should the business incur higher than expected losses. We believe these structures allow us to participate in the risk side-by-side with the ceding company and best align our interests with the interests of our cedents. Treaties with loss mitigation features including sliding scale ceding commissions represented 85% of the gross premiums written by our Casualty Reinsurance segment during the first six months of 2014. We typically do not assume large individual risks in our Casualty Reinsurance segment, nor do we write property catastrophe reinsurance. Two of the three largest unaffiliated accounts written by JRG Re in 2013 and during the first six months of 2014 were ceded from E&S carriers. The Casualty Reinsurance segment distributes through traditional reinsurance brokers. The Casualty Reinsurance segment produced 42.2% of our gross written premiums for the year ended December 31, 2013.

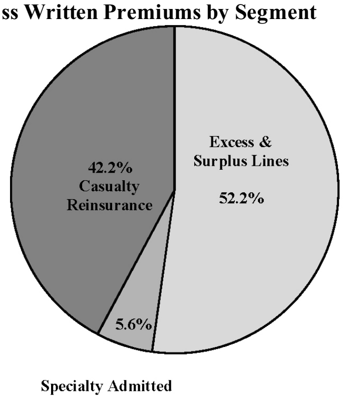
We have direct intercompany reinsurance agreements under which we cede 70% of the pooled net written premiums of our U.S. subsidiaries (after taking into account third-party reinsurance) to JRG Re.

This business is ceded to JRG Re under a proportional, or quota-share, reinsurance treaty that provides for an arm's length ceding commission. Notwithstanding the intercompany agreement, from an accounting perspective, the economic results (underwriting profits or losses) of this business are reflected in our Excess and Surplus Lines and Specialty Admitted Insurance reporting segments. At June 30, 2014, approximately 64% of our cash and invested assets were held by JRG Re, which we believe benefits from a favorable operating environment, including an absence of corporate income or investment taxes. For the year ended December 31, 2013, our total effective tax rate was 12.6%. We also pay a 1% excise tax on premiums ceded to JRG Re.

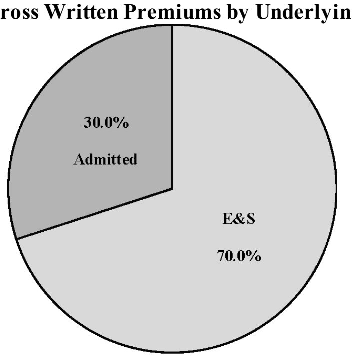
The Corporate and Other segment consists of the management and treasury activities of our holding companies and interest expense associated with our debt.

In 2013, our underwriting subsidiaries wrote a total of $368.5 million in gross written premiums, allocated by segment and underlying market as follows:

Gross Written Premiums by Segment



Gross Written Premiums by Underlying Market



2013 Gross Written Premiums:	$368.5 million

The A.M. Best financial strength rating for our group's regulated insurance subsidiaries is "A-" (Excellent), with a "positive outlook." 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 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), with a "positive outlook" 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.

Our Competitive Strengths

We believe we have the following competitive strengths:

Proven and Strong Management Team Whose Financial Interests are Aligned with Shareholders. Our Chairman and Chief Executive Officer, J. Adam Abram, has a history of forming and managing profitable specialty insurance companies. Mr. Abram was the founder of Front Royal Group in 1992, which was sold to Argo Group International Holdings Limited (Nasdaq: AGII) in August 2001. In 2002, Mr. Abram formed James River Group, our predecessor company, which enjoyed strong underwriting profits until it was sold to James River Group Holdings, Ltd. (formerly Franklin Holdings (Bermuda), Ltd.) in December 2007. Mr. Abram has also founded and run successful businesses in the banking and commercial real estate sectors. Mr. Abram intends to invest $• million in this offering.

Our President and Chief Operating Officer, Robert P. Myron, who has served in various capacities with our group since 2010, has a history of working in a senior management capacity in the insurance and reinsurance industries in both the United States and Bermuda. Mr. Myron has significant experience working in finance, underwriting and operations of several different insurance and reinsurance companies over the course of his career. Mr. Myron intends to invest $• million in this offering.

Our Chief Financial Officer, Gregg Davis, has been with our group and its predecessors since 1992 and was the Chief Financial Officer of Front Royal Group, working alongside Mr. Abram for almost two decades. Mr. Davis intends to invest $• in this offering.

Broad Underwriting Expertise. We have a broad appetite to underwrite a diverse set of risks and strive to be innovative in tailoring our products to provide solutions for our distribution partners and insureds. As a result, we believe we are a "go to" market for a wide variety of risks. We are able to structure solutions for our insureds and the wholesale brokers with whom we work because of our deep technical expertise and experience in the niches and specialties we underwrite.

Conservative Risk Management with an Emphasis on Lowering Volatility. We earn our profits by taking underwriting and investment risk. We have experience underwriting in many classes of insurance. We also have experience investing in many types of assets. At the same time, we actively seek to avoid underwriting business or making investments that involve an unacceptably high risk of causing large losses.

We seek to limit our catastrophic underwriting exposure in all areas, but in particular to property risks and catastrophic events. Our U.S. primary companies purchase reinsurance from unaffiliated reinsurers to manage our net exposure to any one risk or occurrence. In addition, our policy forms and pricing are subject to regular formal analysis to ensure we are insuring the types of risks we intend and that we are being appropriately compensated for taking on those risks. When we write reinsurance, we seek to avoid catastrophic risks and contractually limit the amount of exposure we have to any one risk or occurrence. We prefer to structure our assumed reinsurance treaties as proportional or quota share reinsurance, which is generally less volatile than excess of loss or catastrophe reinsurance. We believe this structure aligns our interests with those of the ceding company.

We attempt to improve risk-adjusted returns in our investment portfolio by allocating a portion of our portfolio to investments where we take measured risks based upon detailed knowledge of certain niche asset classes. We do not operate like a hedge fund, but we are comfortable allocating a portion of our assets to non-traditional investments. We consider non-traditional investments to include investments that are (1) unrated bond or fixed income securities (2) non-listed equities or (3) investments that generally have less liquidity than rated bond or fixed income securities or listed equities. We characterize these investments as non-traditional because we do not believe that these types of investments are commonly held by property-casualty insurance companies. Examples of non-traditional investments held at June 30, 2014 and their respective percentage of our total invested assets at such date include syndicated bank loans (18.4%), interests in limited liability companies that invest in renewable energy opportunities (1.9%), limited partnerships that invest in debt or equity securities (0.4%), and a private debt security (0.4%). While we are willing to make investments in non-traditional types of investments, we seek to avoid asset classes and investments that we do not understand or that could expose us to inappropriate levels of risk. The weighted average credit rating of our portfolio of fixed maturity securities, bank loans and redeemable preferred stocks as of June 30, 2014 was "A." We also maintain a disciplined interest rate position by maintaining a weighted average duration of approximately three years for this portfolio as of June 30, 2014.

Talented Underwriters and Operating Leadership. The managers of our 15 underwriting divisions have an average of over 25 years of industry experience, substantial subject matter expertise and deep technical knowledge and have been successful and profitable underwriters for us in the specialty casualty insurance and reinsurance sectors. Our segment presidents have an average of 31 years of experience and all have extensive backgrounds and histories working in management capacities in specialty casualty insurance and reinsurance.

Robust Technology and Data Capture. We seek to ground our underwriting decisions in reliable historical data and technical evaluation of risks. Our underwriters utilize intuitive systems and differentiated technologies, many of which are proprietary. We have implemented processes to capture extensive data on our book of business, before, during and after the underwriting analysis and decision. We use the data we collect to inform and, we believe, improve our judgment about similar risks as we refine our underwriting criteria. We use the data we collect in regular formal review processes for each of our lines of business and significant reinsurance treaties.

Focus on Small and Medium-Sized Casualty Niche and Specialty Business. We believe that small and medium-sized casualty accounts, in niche areas where we focus, are consistently among the most attractive subsets of the property-casualty insurance and reinsurance market. We think the unique characteristics of the risks within these markets require each account to be individually underwritten in an efficient manner. Many carriers have chosen either to reject business that requires individual underwriting or have attempted to automate the underwriting of this highly variable business. While we use technology to greatly reduce the cost of individually underwriting these accounts in our Excess and Surplus Lines and Specialty Admitted Insurance segments, we continue to have our underwriters make individual judgments regarding the underwriting and pricing of each account. We believe this approach is more likely to produce consistent results over time and across markets. In addition, while we believe that the insurance and reinsurance industry is generally overcapitalized at this time and that rates in certain property and casualty sectors are “soft” or “softening,” we are currently achieving rate increases and experiencing benign loss trends in our Excess and Surplus Lines and Specialty Admitted Insurance segments, which represented 57.8% of our gross written premiums for the twelve months ended December 31, 2013. We believe that there are compelling opportunities for measured but profitable growth in many sectors of the insurance and reinsurance market we target.

Active Claims Management. Our U.S.-based primary insurance companies actively manage claims as part of keeping losses and loss adjustment expenses low. We attempt to investigate and settle all covered claims promptly and thoroughly, which we generally accomplish through direct contact with the insured and other affected parties. We have been able to close 90% of claims within three to five years, and as of June 30, 2014, our reserves for claims incurred but not reported (“IBNR”) were approximately 70% of our total net loss reserves. When our investigation leads us to conclude that a claim or claims are not validly covered under the policy form, we vigorously contest payment and are willing to pursue prosecution for claims fraud when warranted.

Efficient Operating Platform. Our Bermuda domicile and operations provide for capital flexibility and an efficient tax structure. At June 30, 2014, approximately 64% of our cash and invested assets were held by our Bermuda-based subsidiary which benefits from a favorable operating environment, including an absence of corporate income or investment taxes. We also have a competitive and decreasing expense ratio, as we carefully manage personnel and all other costs throughout our group while growing our business. In addition, Bermuda has many advantages as a place of domicile, including a large population of experienced insurance executives, a deep market of reinsurance business and a well-established regulatory regime that has fostered the acceptance of Bermuda-based reinsurers by rating agencies and insurance buyers.

Our Strategy

We believe our approach to our business will help us achieve our goal of generating compelling returns on tangible equity while limiting volatility in our financial results. This approach involves the following:

Generate Consistent Underwriting Profits. We seek to make underwriting profits each and every year. We attempt to find ways to grow in markets that we believe to be profitable, but are less concerned about growth than maintaining profitability in our underwriting activities (without regard to investment income). Accordingly, we are willing to reduce the premiums we write when we cannot achieve the pricing and contract terms we believe are necessary to meet our financial goals.

Maintain a Strong Balance Sheet. Balance sheet integrity is key to our long-term success. In order to maintain balance sheet integrity, we seek to estimate the amount of future obligations, especially reserves for losses, in a consistent and appropriate fashion. Excluding 2012, we have had favorable loss reserve development for each prior year period since 2008 and for the six months ended June 30, 2014. From December 31, 2007 through June 30, 2014, we have experienced $81.5 million of cumulative net favorable reserve development.

Focus on Specialty Insurance Markets. By focusing on specialty markets in which our underwriters have particular expertise and in which we have fewer competitors than in standard markets, we have greater flexibility to price and structure our products in accordance with our underwriting strategy. We believe underwriting profitability can best be achieved through restricting our risk taking on insurance and reinsurance to niches where, because of our expertise, we can distinguish ourselves in the underwriting and pricing process.

Use Timely and Accurate Data. We design our internal processing and data collection systems to provide our management team with accurate and relevant information in real-time. Our data warehouse collects premium, commission and claims data, including detailed information regarding policy price, terms, conditions and the nature of the insured's business. This data allows us to analyze trends in our business, including results by individual agent or broker, underwriter and class of business and expand or contract our operations quickly in response to market conditions. We rely on our information technology systems in this process. Additionally, the claims staff also contributes to our underwriting operations through its communication of claims information to our underwriters.

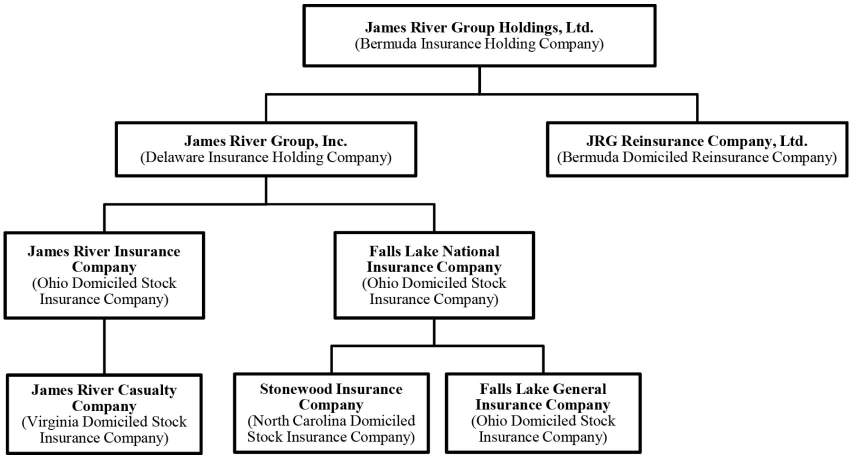
Respond Rapidly to Market Opportunities and Challenges. We plan to grow our business to take advantage of opportunities in markets in which we believe we can use our expertise to generate consistent underwriting profits. We seek to measure rates monthly and react quickly to changes in the rates or terms the market will accept. For the year ended December 31, 2013, our Excess and Surplus Lines segment gross written premiums increased by 21.3% and our rate per unit of exposure grew by 2.6%, both over the same period in 2012. The growth in premiums and increase in rates has continued during the first six months of 2014, with gross written premiums up 27.3% and rate per unit of exposure growing 4.7% over the corresponding period of 2013. In this favorable pricing environment, we have taken steps to grow and are increasing gross written premiums across most underwriting divisions in this segment. Recently, we have enjoyed success writing insurance for companies engaged in energy-related businesses and offering insurance products in the growing "shared economy" technology sector. At the same time, as rates have decreased for medical professional liability we have significantly reduced our writings in this class.

When market conditions have been challenging, or when actual experience has not been as favorable as we anticipated, we have tried to act quickly to evaluate our situation and to make course corrections in order to protect our profits and preserve tangible equity. Our actions have included reducing our writings when margins tightened, exiting lines or classes of business when we believed the risk of continuing to write a line outweighed the potential rewards from underwriting the line and increasing loss estimates when we determined that it was appropriate. For example, when commercial casualty rates (which we believe are a proxy for E&S casualty pricing) declined from 2008 to 2011, we reduced our gross written premiums in our Excess and Surplus Lines segment from $184.2 million in 2008 to $116.1 million in 2010 while maintaining combined ratios of 87.6%, 91.7% and 88.9% for the years 2008, 2009 and 2010, respectively, for this segment. In our Casualty Reinsurance segment, we had underwriting profits from writing crop reinsurance in 2008, 2009 and 2010. However, we had pre-tax underwriting losses of $9.4 million and $5.7 million in 2011 and 2012. We responded by discontinuing this line of business and now have no further exposure to crop reinsurance. Similarly, when the workers' compensation business in our Specialty Admitted Insurance segment was negatively impacted by the severe recession from 2008 to 2012, we significantly reduced our premium writings and increased our best estimate of loss reserves for this line of business. As a result of subsequent favorable loss experience, those reserve increases have since proven redundant.

Manage Capital Actively. We seek to make "both sides" of our balance sheet generate better than average risk-adjusted returns than our peers. We invest and manage our capital with a goal of consistently increasing tangible equity for our shareholders and generating attractive returns on tangible equity. We intend to expand our premium volume and capital base to take advantage of opportunities to earn an underwriting profit or to reduce our premium volume and capital base if attractive underwriting opportunities are not available. We expect to finance our future operations with a combination of debt and equity and do not intend to raise or retain more capital than we believe we can profitably deploy in a reasonable time frame. We may not, however, always be able to raise capital when needed. Although we anticipate being able to pay a regular dividend, our ratings from A.M. Best are very important to us and maintaining them will be a principal consideration in our decisions regarding capital management.

Our Structure

The chart below displays our corporate structure as it pertains to our holding and operating subsidiaries.


James River Group Holdings, Ltd.
(Bermuda Insurance Holding Company)
James River Group, Inc.
(Delaware Insurance Holding Company)
JRG Reinsurance Company, Ltd.
(Bermuda Domiciled Reinsurance Company)
James River Insurance Company
(Ohio Domiciled Stock Insurance Company)
Falls Lake National Insurance Company
(Ohio Domiciled Stock Insurance Company)
James River Casualty Company
(Virginia Domiciled Stock Insurance Company)
Stonewood Insurance Company
(North Carolina Domiciled Stock Insurance Company)
Falls Lake General Insurance Company
(Ohio Domiciled Stock Insurance Company)

Implications of Being an Emerging Growth Company

We qualify as an “emerging growth company” as defined in Section 2(a)(19) of the Securities Act of 1933, as amended (the “Securities Act”), including as modified by the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). As a result, we are eligible to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies. These exemptions include:

- reduced disclosure about our executive compensation arrangements and no requirement to include a compensation discussion and analysis;
- no requirement to hold nonbinding advisory shareholder votes on executive compensation or golden parachute arrangements;
- the ability to present only two years of audited financial statements and only two years of related disclosure in our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this registration statement of which this prospectus forms a part;
- an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002, as amended (“Sarbanes-Oxley”); and
- the ability to use an extended transition period for complying with new or revised accounting standards.

We intend to take advantage of some, but not all, of the exemptions available to emerging growth companies until such time that we are no longer an emerging growth company. Accordingly, the information contained herein may be different from the information you receive from other public companies in which you invest.

We are irrevocably electing not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards and, as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies.

Following this offering, we will continue to be an emerging growth company until the earliest to occur of (1) the last day of the fiscal year during which we had total annual gross revenues of at least $1 billion (as indexed for inflation), (2) the last day of the fiscal year following the fifth anniversary of the date of our initial public offering under this prospectus, (3) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt and (4) the date on which we are deemed to be a "large accelerated filer," as defined under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Recapitalization

Immediately prior to the completion of this offering, all outstanding Class A common shares will convert into common shares, on a 1 for • basis. We refer to the conversion of Class A common shares to common shares as the "Recapitalization." Upon completion of the Recapitalization, our authorized share capital will consist of • common shares, par value $• per share (• issued and outstanding), and • undesignated preferred shares, par value $• per share (none issued and outstanding). See "Capitalization" and "Description of Share Capital."

Information in this prospectus assumes the conversion of all outstanding Class A common shares into common shares at a 1 for • ratio, unless otherwise indicated.

Summary Financial Data

The following tables present summary financial data of James River Group Holdings, Ltd. derived from (i) our consolidated financial statements, which have been audited by Ernst & Young, LLP, for the years ended December 31, 2013, 2012 and 2011 and as of December 31, 2013 and 2012 included in this prospectus and (ii) our unaudited condensed consolidated financial statements for the six months ended June 30, 2014 and 2013 and as of June 30, 2014 and 2013. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. In the opinion of our management, the unaudited condensed consolidated financial statements presented in the tables below reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of our consolidated financial position and results of operations as of the dates and for the periods indicated.

These historical results are not necessarily indicative of results to be expected from any future period. The following information is only a summary and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," "Selected Consolidated Financial and Other Data" and our audited consolidated financial statements and the related notes included elsewhere in this prospectus.

	Six Months Ended June 30,		Year Ended December 31,		
	2014	2013	2013	2012	2011
	($ in thousands, except for per share data)				
Operating Results:					
Gross written premiums[1]	$ 244,201	$ 165,021	$ 368,518	$ 491,931	$ 490,821
Ceded written premiums[2]	(30,419)	(17,966)	(43,352)	(139,622)	(57,752)
Net written premiums	$ 213,782	$ 147,055	$ 325,166	$ 352,309	$ 433,069
Net earned premiums	$ 186,068	$ 162,853	$ 328,078	$ 364,568	$ 337,105
Net investment income	23,193	25,534	45,373	44,297	48,367
Net realized investment (losses) gains	(3,711)	12,514	12,619	8,915	20,899
Other income	941	103	222	130	226
Total revenues	206,491	201,004	386,292	417,910	406,597
Losses and loss adjustment expenses	117,450	105,859	184,486	264,496	233,479
Other operating expenses	64,857	57,528	114,804	126,884	115,378
Other expenses	389	534	677	3,350	592
Interest expense	3,104	3,626	6,777	8,266	8,132
Amortization of intangible assets	298	1,278	2,470	2,848	2,848
Impairment of intangible assets	—	—	—	4,299	—
Total expenses	186,098	168,825	309,214	410,143	360,429
Income before income tax expense	20,393	32,179	77,078	7,767	46,168
Income tax expense (benefit)	1,742	4,043	9,741	(897)	7,695
Net income[3]	$ 18,651	$ 28,136	$ 67,337	$ 8,664	$ 38,473
Net operating income[4]	$ 21,351	$ 19,676	$ 58,918	$ 7,935	$ 22,352
Earnings per Share:					
Basic	$ 32.67	$ 43.44	$ 110.60	$ 12.12	$ 53.74
Diluted	$ 32.40	$ 43.44	$ 110.39	$ 11.95	$ 53.16
Weighted – average shares outstanding – diluted	575,686	647,672	610,016	714,667	714,360

	At or for the Six Months Ended June 30,		At or for the Year Ended December 31,		
	2014	2013	2013	2012	2011
	($ in thousands, except for ratios)				
Balance Sheet Data:					
Cash and invested assets	$ 1,276,146	$ 1,150,678	$ 1,217,078	$ 1,235,537	
Reinsurance recoverables	124,691	147,970	120,477	176,863	
Goodwill and intangible assets	222,255	223,745	222,553	225,023	
Total assets	1,897,972	1,854,220	1,806,793	2,025,381	
Reserve for losses and loss adjustment expenses	683,573	719,368	646,452	709,721	
Unearned premiums	249,632	207,664	218,532	239,055	
Senior debt	58,000	58,000	58,000	35,000	
Junior subordinated debt	104,055	104,055	104,055	104,055	
Total liabilities	1,166,114	1,185,195	1,105,303	1,241,341	
Total shareholders' equity	731,858	669,025	701,490	784,040	
GAAP Underwriting Ratios:					
Loss ratio[5]	63.1%	65.0%	56.2%	72.6%	69.3%
Expense ratio[6]	34.9%	35.3%	35.0%	34.8%	34.2%
Combined ratio[7]	98.0%	100.3%	91.2%	107.4%	103.5%
Other Data:					
Tangible shareholders' equity[8]	$ 509,603	$ 445,280	$ 478,937	$ 559,017	
Tangible shareholders' equity per common share outstanding	$ 892.78	$ 780.37	$ 839.05	$ 775.77	
Debt to total capitalization ratio[9]	18.1%	19.5%	18.8%	15.1%	
Regulatory capital and surplus[10]	$ 610,912	$ 538,023	$ 580,267	$ 596,272	
Net written premiums to surplus ratio[11]	0.7	0.5	0.6	0.6	

(1) The amount received or to be received for insurance policies written or assumed by us during a specific period of time without reduction for acquisition costs, reinsurance costs or other deductions.

(2) The amount of written premiums ceded to (reinsured by) other insurers.

(3) Net income represents income from continuing operations for all periods presented.

(4) Net operating income is a non-GAAP measure. We define net operating income as net income excluding net realized investment gains and losses, expenses related to due diligence costs for various merger and acquisition activities, severance costs associated with terminated employees, impairment charges on goodwill and intangible assets, gains on extinguishment of debt and interest expense on a leased building that we are deemed to own for accounting purposes. We use net operating income as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Net operating income should not be viewed as a substitute for net income in accordance with GAAP. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reconciliation of Non-GAAP Measures" for a reconciliation of net operating income to net income in accordance with GAAP.

(5) The loss ratio is the ratio, expressed as a percentage, of losses and loss adjustment expenses to net earned premiums, net of the effects of reinsurance.

(6) The expense ratio is the ratio, expressed as a percentage, of other operating expenses to net earned premiums.

(7) The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio under 100% generally indicates an underwriting profit. A combined ratio over 100% generally indicates an underwriting loss.

(8) Tangible shareholders' equity is shareholders' equity less goodwill and intangible assets.

(9) The ratio, expressed as a percentage, of total indebtedness for borrowed money to the sum of total indebtedness for borrowed money and shareholders' equity.

(10) For our U.S. insurance subsidiaries, the excess of assets over liabilities as determined in accordance with statutory accounting principles as determined by the NAIC. For our Bermuda reinsurer, shareholders' equity in accordance with U.S. generally accepted accounting principles ("GAAP").

(11) We believe this measure is useful in evaluating our insurance subsidiaries' operating leverage. It may not be comparable to the definition of net written premiums to surplus ratio for other companies. The calculations for the six months ended June 30, 2014 and 2013 use annualized net written premiums as the numerator in the calculation. Annualized results are not necessarily indicative of our actual results for the full year.

Principal Executive Office

Our principal executive office is located at 32 Victoria Street, Hamilton, Bermuda HM 12, and our phone number is (441) 278-4580. Our website can be found at http://www.JRGH.net, the contents of which are not a part of, and shall not be deemed to be a part of, this prospectus.

Summary Risk Factors

Our business is subject to numerous risks described in the section entitled "Risk Factors" and elsewhere in this prospectus. You should carefully consider these risks before making an investment in our common shares. Some of these risks include:

- 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, including recession, inflation, periods of high unemployment or lower economic activity, could adversely affect our growth and profitability;
- 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;
- existing or new regulations that may inhibit our ability to achieve our business objectives or subject us to penalties or suspensions for non-compliance or cause us to incur substantial compliance costs;
- a failure of any of the loss limitations or exclusions we employ;
- 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;
- reliance on brokers and agents;
- losses in our investment portfolio;

- the cyclical nature of the insurance and reinsurance industry, resulting in periods during which we may experience excess underwriting capacity and unfavorable premium rates;
- additional government or market regulation;
- our reinsurance business being subject to loss settlements made by ceding companies and fronting carriers;
- a forced sale of investments to meet our liquidity needs;
- our ability to obtain reinsurance coverage at reasonable prices or on terms that adequately protect us;
- our underwriters and other associates could take excessive risks;
- losses resulting from reinsurance counterparties failing to pay us on reinsurance claims or insurance companies with whom we have a fronting arrangement failing to pay us for claims;
- the potential impact of internal or external fraud, operational errors, systems malfunctions or cybersecurity incidents;
- our ability to manage our growth effectively;
- competition within the casualty insurance and reinsurance industry;
- an adverse outcome in a legal action that we are or may become subject to in the course of our insurance and reinsurance operations;
- 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, including a higher tax rate on dividends received from us and any gain realized on a sale or other disposition of our common shares, as well as an interest charge;
- the Company or JRG Re becoming subject to U.S. federal income taxation;
- failure to maintain effective internal controls in accordance with Sarbanes-Oxley;
- the D. E. Shaw Affiliates’ continued ownership of a significant portion of our outstanding shares and their resulting ability to exert significant influence over matters requiring shareholder approval in a manner that could conflict with the interests of other shareholders; additionally, the D. E. Shaw Affiliates will have certain rights with respect to board representation and approval rights with respect to certain transactions; and
- changes in our financial condition, regulations or other factors that may restrict our ability to pay dividends.

The Offering

Issuer

James River Group Holdings, Ltd., an exempted company registered under the laws of Bermuda.

Common Shares Offered

•common shares. All shares are being offered by the selling shareholders.

Overallotment Option

The selling shareholders have granted the underwriters an option, for a period of 30 days, to purchase up to • additional common shares on the same terms and conditions as set forth on the front cover of this prospectus to cover sales of common shares by the underwriters that exceed the number of shares being offered, if any.

Common Shares Presently Outstanding

As of the date hereof, there are 570,807 Class A common shares outstanding and no common shares outstanding. All outstanding Class A common shares will be converted into common shares at a 1 for • ratio.

Common Shares Outstanding Following the Offering

After the effectiveness of the Recapitalization, which will occur immediately prior to the completion of the offering, there will be no Class A common shares outstanding and • common shares outstanding.

Use of Proceeds

The proceeds from this offering, before deducting underwriting discounts, will be approximately $• million (or $• million if the underwriters exercise the overallotment option to purchase additional common shares in full), assuming the shares are sold for $• per share, the midpoint price range set forth on the cover of this prospectus.

The selling shareholders will receive all of the proceeds from this offering, and we will not receive any proceeds from this offering. See "Use of Proceeds."

Dividend Policy

We intend to pay dividends on our common shares in an amount and on such dates as may be determined by our board of directors from time to time in their discretion. Our board of directors may take into account a variety of factors when determining whether to declare any future dividends, including, our financial condition, general business condition, legal, tax and regulatory limitations, contractual prohibitions and any other factor that our board of directors deems relevant. See "Dividend Policy" for more information.

Risk Factors

You should read the section entitled "Risk Factors" beginning on page 15 for a discussion of some of the risks and uncertainties you should carefully consider before deciding to invest in our common shares.

Proposed NASDAQ Stock Market Symbol

"JRVR"

Except as otherwise indicated, all information in this prospectus:

- gives effect to the conversion of all of our outstanding Class A common shares into common shares, at a 1 to • ratio;
- assumes the effectiveness of our amended and restated bye-laws;
- assumes an initial public offering price of $• per share, the midpoint of the price range set forth on the cover of this prospectus;
- excludes • common shares reserved for future issuance under our 2014 Long-Term Incentive Plan (defined below), which will become effective upon the consummation of the offering contemplated by this prospectus; and
- assumes no exercise by the underwriters of their option to purchase an additional • common shares to cover common shares by the underwriters that exceed the number of shares being offered, if any.

RISK FACTORS

This offering and investing in our common shares involve a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this prospectus, before deciding to invest in our common shares. The occurrence of any of the following risks could materially and adversely affect our business, financial condition, liquidity, results of operations or prospects. In that event, the market price of our common shares could decline and you could lose all or part of your investment. We have organized the discussion of risks using topic headings for convenience of reference only. Many of the risks discussed under one topic heading are integrally related to risks discussed under another topic heading. You should read all of the risk sections, as well as the entire prospectus, especially our Business section and the Management Discussion and Analysis for a full understanding of the risks associated with the purchase of shares in our Company.

Risks Related to Our Business and Industry

Our actual incurred losses may be greater than our loss and loss adjustment expense reserves, which could have a material adverse effect on our financial condition and results of operations.

Our financial condition and results of operations depend upon our ability to assess accurately the potential losses and loss adjustment expenses under the terms of the insurance policies or reinsurance contracts we underwrite. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what we expect the ultimate settlement and administration of claims will cost us, and our ultimate liability may be greater or less than current reserves. These estimates are based on our assessment of facts and circumstances then known, as well as estimates of future trends in claim severity, claim frequency, judicial theories of liability and other factors. These variables are affected by both internal and external events that could increase our exposure to losses, including changes in actuarial projections, claims handling procedures, inflation, climate change, economic and judicial trends, and legislative changes. We continually monitor reserves using new information on reported claims and a variety of statistical techniques.

In the insurance and reinsurance industry, there is always the risk that reserves may prove inadequate. It is possible for insurance and reinsurance companies to underestimate the cost of claims. Our estimates could prove to be low, and this underestimation could have a material adverse effect on our financial strength.

Among the uncertainties we encounter in establishing our reserves for losses and related expenses in connection with our insurance businesses are:

- When we write “occurrence” policies, we are obligated to pay covered claims, up to the contractually agreed amount, for any covered loss that occurs while the policy is in force. Accordingly, claims may arise many years after a policy has lapsed. Approximately 87.8% of our casualty loss reserves are associated with “occurrence form” policies at June 30, 2014.

- Even when a claim is received (irrespective of whether the policy is a “claims made” or “occurrence” basis form), it may take considerable time to fully appreciate the extent of the covered loss suffered by the insured and, consequently, estimates of loss associated with specific claims can increase over time.

- New theories of liability are enforced retroactively from time to time by courts. See also “— The effect of emerging claim and coverage issues on our business is uncertain.”

- Volatility in the financial markets, economic events and other external factors may result in an increase in the number of claims and the severity of the claims reported. In addition, elevated inflationary conditions would, among other things, cause loss costs to increase.

- If claims became more frequent, even if we had no liability for those claims, the cost of evaluating these potential claims could escalate beyond the amount of the reserves we have established. As we enter new lines of business, or as a result of new theories of claims, we may encounter an increase in claims frequency and greater claims handling costs than we had anticipated.

In addition, reinsurance reserve estimates are typically subject to greater uncertainty than insurance reserve estimates, primarily due to reliance on the original underwriting decisions made by the ceding company. As a result, we are subject to the risk that our ceding companies may not have adequately evaluated the risks reinsured by us and the premiums ceded may not adequately compensate us for the risks we assume. Other factors resulting in additional uncertainty in establishing reinsurance reserves include:

- The increased lapse of time from the occurrence of an event to the reporting of the claim and the ultimate resolution or settlement of the claim.
- The diversity of development patterns among different types of reinsurance treaties.
- The necessary reliance on the ceding company for information regarding claims.

If any of our insurance or reinsurance reserves should prove to be inadequate for the reasons discussed above, or for any other reason, we will be required to increase reserves, resulting in a reduction in our net income and shareholders' equity in the period in which the deficiency is identified. Future loss experience substantially in excess of established reserves could also have a material adverse effect on future earnings and liquidity and financial rating, which would affect our ability to attract business and could affect our ability to retain or hire qualified personnel.

Our risk management is based on estimates and judgments that are subject to significant uncertainties.

Our approach to risk management relies on subjective variables that entail significant uncertainties. For example, we rely heavily on estimates of probable maximum losses for certain events that are generated by computer-run models. In addition, we rely on historical data and scenarios in managing credit and interest rate risks in our investment portfolio. These estimates, models, data and scenarios may not produce accurate predictions and consequently, we could incur losses both in the risks we underwrite and to the value of our investment portfolio.

Small changes in assumptions, which depend heavily on our judgment and foresight, can have a significant impact on the modeled outputs. Although we believe that these probabilistic measures provide a meaningful indicator of the relative risk of certain events and changes to our business over time, these measures do not predict our actual exposure to, nor guarantee our successful management of, future losses that could have a material adverse effect on our financial condition and results of operations.

If we are unable to retain key management and employees or recruit other qualified personnel, we may be adversely affected.

We believe that our future success depends, in large part, on our ability to retain our experienced management team and key employees. For instance, our specialty insurance operations require the services of a number of highly experienced employees, including underwriters, to source quality business and analyze and manage our risk exposure. There can be no assurance that we can attract and retain the necessary employees to conduct our business activities on a timely basis or at all. Our competitors may offer more favorable compensation arrangements to our key management or employees to incentivize them to leave our Company. Furthermore, our competitors may make it more difficult for us to hire their personnel by offering excessive compensation arrangements to certain employees to induce them not to leave their current employment and bringing litigation against employees who do leave (and possibly us as well) to join us. Although we have employment agreements with all of our executive officers, we do not have employment agreements with our senior underwriters or claims personnel. We do not have key person insurance on the lives of any of our key management personnel. Our inability to attract and retain qualified personnel when available and the loss of services of key personnel could have a material adverse effect on our financial condition and results of operations.

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 of claims and premium defaults or both, which, in turn, could affect our growth and profitability.

Factors, such as business revenue, economic conditions, the volatility and strength of the capital markets and inflation can all affect the business and economic environment. These same factors affect our ability to generate revenue and profits. In an economic downturn that is characterized by higher unemployment, declining spending and reduced corporate revenues, the demand for insurance products is adversely affected, which directly affects our premium levels and profitability. Negative economic factors may also affect our ability to receive the appropriate rate for the risk we insure with our policyholders and may adversely affect the number of policies we can write, including with respect to our opportunities to underwrite profitable business. In an economic downturn, our customers may have less need for insurance coverage, cancel existing insurance policies, modify their coverage or not renew with us. Existing policyholders may exaggerate or even falsify claims to obtain higher claims payments. These outcomes would reduce our underwriting profit to the extent these factors are not reflected in the rates we charge.

We underwrite a significant portion of our insurance in the Excess and Surplus Lines segment in California, Texas, Florida and New York and in the workers' compensation business of the Specialty Admitted Insurance segment in North Carolina and Virginia. Any economic downturn in any such state could have an adverse effect on our financial condition and results of operations.

A decline in our financial strength rating may result in a reduction of new or renewal business.

Companies, insurers and reinsurance brokers use ratings from independent ratings agencies as an important means of assessing the financial strength and quality of reinsurers. A.M. Best has assigned a financial strength rating of "A-" (Excellent) with a "positive outlook," which is the fourth highest of 15 ratings that A.M. Best issues, to each of James River Insurance, James River Casualty, Falls Lake National, Falls Lake General, Falls Lake Insurance and JRG Re. A.M. Best assigns ratings that are intended to provide an independent opinion of an insurance or reinsurance company's ability to meet its obligations to policyholders and such ratings are not an evaluation directed to investors. A.M. Best periodically reviews our rating and may revise it downward or revoke it at its sole discretion based primarily on its analysis of our balance sheet strength (including capital adequacy and loss and loss adjustment expense reserve adequacy), operating performance and business profile. Factors that could affect such an analysis include but are not limited to:

- if we change our business practices from our organizational business plan in a manner that no longer supports A.M. Best's rating;
- if unfavorable financial, regulatory or market trends affect us, including excess market capacity;
- if our losses exceed our loss reserves;
- if we have unresolved issues with government regulators;
- if we are unable to retain our senior management or other key personnel;
- if our investment portfolio incurs significant losses; or
- if A.M. Best alters its capital adequacy assessment methodology in a manner that would adversely affect our rating.

These and other factors could result in a downgrade of our rating. A downgrade of our rating could cause our current and future brokers and agents, retail brokers and insureds to choose other, more highly-rated competitors. A downgrade of this rating could also increase the cost or reduce the availability of reinsurance to us.

In addition, in view of the earnings and capital pressures recently experienced by many financial institutions, including insurance companies, it is possible that rating organizations will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of their credit reviews, will request additional information from the companies that they rate and may increase the capital and other requirements employed in the rating organizations' models for maintenance of certain ratings levels. It is possible that such reviews of us may result in adverse ratings consequences, which could have a material adverse effect on our financial condition and results of operations. A downgrade below A- or withdrawal of any rating could severely limit or prevent us from writing new and renewal insurance or reinsurance contracts. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Ratings."

We distribute products through a select group of brokers and agents, several of which account for a significant portion of our business, and there can be no assurance that such relationships will continue, or if they do continue, that the relationship will be on favorable terms to us. In addition, reliance on brokers and agents subjects us to their credit risk.

We distribute our products through a select group of brokers and agents. In 2013:

- the Excess and Surplus Lines segment conducted business with four brokers that produced an aggregate of $99.9 million in gross written premiums, or 51.9% of that segment's gross written premiums for the year;
- the Specialty Admitted Insurance segment conducted business with one agent that produced $3 million in gross written premiums, representing 14.7% of that segment's gross written premiums for the year; and
- the Casualty Reinsurance segment conducted business with four brokers that generated $140.2 million of gross written premiums, or 90.2% of that segment's gross written premiums for the year.

We cannot assure you that the relationship with any of these brokers will continue. Even if the relationships do continue, they may not be on terms that are profitable for us. The termination of a relationship with one or more significant brokers or agents could result in lower direct written premiums and could have a material adverse effect on our results of operations or business prospects.

Certain premiums from policyholders, where the business is produced by brokers or agents, are collected directly by the brokers or agents and forwarded to our insurance subsidiaries. In certain jurisdictions, when the insured pays its policy premium to brokers or agents for payment on behalf of our insurance subsidiaries, the premiums might be considered to have been paid under applicable insurance laws and regulations. Accordingly, the insured would no longer be liable to us for those amounts, whether or not we have actually received the premiums from that broker or agent. Consequently, we assume a degree of credit risk associated with brokers and agents. Where necessary, we review the financial condition of potential new brokers and agents before we agree to transact business with them. Although failures by brokers and agents to remit premiums have not been material to date, there may be instances where brokers and agents collect premiums but do not remit them to us and we may be required under applicable law to provide the coverage set forth in the policy despite the absence of premiums.

Because the possibility of these events depends in large part upon the financial condition and internal operations of our brokers and agents (which in most cases is not public information), we are not able to quantify the exposure presented by this risk. If we are unable to collect premiums from brokers and agents in the future, underwriting profits may decline and our financial condition and results of operations could be materially and adversely affected.

We are subject to extensive regulation, which may adversely affect our ability to achieve our business objectives. In addition, if we fail to comply with these regulations, we may be subject to penalties, including fines and suspensions, which may adversely affect our financial condition and results of operations.

Our admitted insurance and reinsurance subsidiaries are subject to extensive regulation, primarily by Ohio (the domiciliary state for James River Insurance, Falls Lake National and Falls Lake General), North Carolina (the domiciliary state for Stonewood Insurance), Virginia (the domiciliary state for James River Casualty), Bermuda (the domicile of JRG Re), and to a lesser degree, the other jurisdictions in the United States in which we operate. Most insurance regulations are designed to protect the interests of insurance policyholders, as opposed to the interests of shareholders. These regulations generally are administered by a department of insurance in each state and relate to, among other things, authorizations to write certain lines of business, capital and surplus requirements, reserve requirements, rate and form approvals, investment and underwriting limitations, affiliate transactions, dividend limitations, cancellation and non-renewal of policies, changes in control, solvency and a variety of other financial and non-financial aspects of our business. These laws and regulations are regularly re-examined and any changes in these laws and regulations or new laws may be more restrictive, could make it more expensive to conduct business or otherwise adversely affect our operations. State insurance departments and the Bermuda Monetary Authority, (the "BMA") also conduct periodic examinations of the affairs of insurance companies and reinsurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements may impose timing and expense or other constraints that could adversely affect our ability to achieve some or all of our business objectives.

In addition, regulatory authorities have broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. For example, an insurer's registration may be cancelled by the BMA on certain grounds specified in the Insurance Act 1978 of Bermuda (the "Insurance Act"), including failure by the insurer to comply with its obligations under the Insurance Act, or if the BMA believes that the insurer has not been carrying on business in accordance with sound insurance principles. In some instances, where there is uncertainty as to applicability, we follow practices based on our interpretations of regulations or practices that we believe are generally followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us. This could adversely affect our ability to operate our business.

The admitted market is subject to more state regulation than the E&S market, particularly with regard to rate and form filing requirements, restrictions on the ability to exit lines of business, premium tax payments and membership in various state associations, such as guaranty funds. Some states have deregulated their commercial insurance markets. We cannot predict the effect that further deregulation would have on our business, financial condition or results of operations.

The National Association of Insurance Commissioners (the "NAIC") has developed a system to test the adequacy of statutory capital of U.S.-based insurers, known as risk-based capital or "RBC," that many states have adopted. This system establishes the minimum amount of risk-based capital necessary for a company to support its overall business operations. It identifies property-casualty insurers that may be inadequately capitalized by looking at certain inherent risks of each insurer's assets and liabilities and its mix of net written premiums. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action, including supervision, rehabilitation or liquidation. Failure to maintain adequate risk-based capital at the required levels could adversely affect the ability of our insurance subsidiaries to maintain regulatory authority to conduct their business. See "Certain Regulatory Considerations — U.S. Insurance Regulation — State Regulation."

In addition, the various state insurance regulators have increased their focus on risks within an insurer's holding company system that may pose enterprise risk to the insurer. In 2012, the NAIC adopted significant changes to the insurance holding company act and regulations (the "NAIC Amendments"). The NAIC Amendments, when adopted by the various states, are designed to respond to perceived gaps in the regulation of insurance holding company systems in the United States. One of the major changes is a requirement that an insurance holding company system's ultimate controlling person submit annually to its lead state insurance regulator an "enterprise risk report" that identifies activities, circumstances or events involving one or more affiliates of an insurer that, if not remedied properly, are likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. Other changes include requiring a controlling person to submit prior notice to its domiciliary insurance regulator of a divestiture of control, having detailed minimum requirements for cost sharing and management agreements between an insurer and its affiliates and expanding of the agreements between an insurer and its affiliates to be filed with its domiciliary insurance regulator. The NAIC Amendments must be adopted by the individual state legislatures and insurance regulators in order to be effective. Each of Ohio and Virginia, *i.e.*, two states in which certain of our U.S. insurance subsidiaries are domiciled, include this enterprise risk report requirement, while North Carolina has yet to incorporate this requirement into its insurance laws.

In 2012, the NAIC also adopted the Risk Management and Own Risk and Solvency Assessment Model Act (the "ORSA Model Act"). The ORSA Model Act, when adopted by the various states, will require an insurance holding company system's Chief Risk Officer to submit annually to its lead state insurance regulator an Own Risk and Solvency Assessment Summary Report ("ORSA"). The ORSA is a confidential internal assessment appropriate to the nature, scale and complexity of an insurer, conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer's current business plan and the sufficiency of capital resources to support those risks. The ORSA Model Act must be adopted by the individual state legislature and insurance regulators in order to be effective. Ohio and Virginia have adopted the ORSA Model Act in whole or substantial part, which will be effective beginning in January 2015.

We cannot predict the impact, if any, that the NAIC Amendments, compliance with the ORSA Model Act or any other regulatory requirements may have on our business, financial condition or results of operations.

The failure of any of the loss limitations or exclusions we employ, or changes in other claims or coverage issues, could have a material adverse effect on our financial condition or results of operations.

Although we seek to mitigate our loss exposure through a variety of methods, the future is inherently unpredictable. It is difficult to predict the timing, frequency and severity of losses with statistical certainty. It is not possible to completely eliminate our exposure to unforecasted or unpredictable events and, to the extent that losses from such risks occur, our financial condition and results of operations could be materially adversely affected.

For instance, various provisions of our policies, such as limitations or exclusions from coverage or choice of forum, which have been negotiated to limit our risks, may not be enforceable in the manner we intend. At the present time, we employ a variety of endorsements to our policies that limit exposure to known risks. As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond the underwriting intent or by increasing the size or number of claims.

In addition, we design our E&S lines' policy terms to manage our exposure to expanding theories of legal liability like those which have given rise to claims for lead paint, asbestos, mold, construction defects and environmental matters. Many of the policies we issue also include conditions requiring the prompt reporting of claims to us and entitle us to decline coverage in the event of a violation of that condition. Also, many of our policies limit the period during which a policyholder may bring a claim under the policy, which in many cases is shorter than the statutory period under which such claims can be brought against our policyholders. While these exclusions and limitations help us assess and reduce our loss exposure and help eliminate known exposures to certain risks, it is possible that a court or regulatory authority could nullify or void an exclusion or legislation could be enacted modifying or barring the use of such endorsements and limitations. These types of governmental actions could result in higher than anticipated losses and loss adjustment expenses, which could have a material adverse effect on our financial condition or results of operations. In some instances, these changes may not become apparent until some time after we have issued insurance policies that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued.

The effect of emerging claim and coverage issues on our business is uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either broadening coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance or reinsurance contracts may not be known for many years after a contract is issued.

Three examples of unanticipated risks that affected the insurance industry are:

- Asbestos liability applied to manufacturers of products and contractors who installed those products.

- Apportionment of liability for ground settlement assigned to subcontractors who may have been involved in mundane tasks (such as installing sheetrock in a home).

- Court decisions, such as the 1995 Montrose decision in California, that read policy exclusions narrowly so as to expand coverage, thereby requiring insurers to create and write new exclusions.

Our investment portfolio is subject to significant market and credit risks, which could result in an adverse impact on our financial condition or results of operations.

Our results of operations depend, in part, on the performance of our investment portfolio. We seek to hold a diversified portfolio of investments that is managed by professional investment advisory management firms in accordance with our investment policy and periodically reviewed by our Investment Committee. However, our investments are subject to general economic conditions and market risks as well as risks inherent to particular securities.

Our primary market risk exposures are to changes in interest rates and equity prices. See "Quantitative and Qualitative Disclosures About Market Risk." In recent years, interest rates have been at or near historic lows. A protracted low interest rate environment would continue to place pressure on net investment income, particularly related to fixed income securities and short-term investments, which, in turn, may adversely affect our operating results. Future increases in interest rates could cause the values of our fixed income securities portfolios to decline, with the magnitude of the decline depending on the duration of our portfolio and the amount by which interest rates increase. Some fixed income securities have call or prepayment options, which represent possible reinvestment risk in declining rate environments. Other fixed income securities such as mortgage-backed and asset-backed securities carry prepayment risk or, in a rising interest rate environment, may not pre-pay as quickly as expected. In addition, individual securities in our fixed income securities portfolio are subject to credit risk and default. Downgrades in the credit ratings of fixed maturities can have a significant negative effect on the market valuation of such securities.

The severe downturn in the public debt and equity markets beginning in 2008 resulted in significant realized and unrealized losses in our investment portfolio. In the event of another financial crisis, we could incur substantial realized and unrealized investment losses in future periods, which would have an adverse impact on our financial condition, results of operations, debt and financial strength ratings, insurance subsidiaries' capital liquidity and ability to access capital markets.

The value of our investment portfolio is subject to the risk that certain investments may default or become impaired due to deterioration in the financial condition of one or more issuers of the securities held, or due to deterioration in the financial condition of an insurer that guarantees an issuer's payments of such investments. Such defaults and impairments could reduce our net investment income and result in realized investment losses.

We hold investments in publicly-traded syndicated bank loans (18.4% of the carrying value of our invested assets as of June 30, 2014). Most of these loans are issued to sub-investment grade borrowers. While this class of investment has been profitable for us, a severe downturn in the markets could affect the value of these investments, including the possibility that we would suffer substantial losses on this portfolio. As of June 30, 2014, the fair value of our investments in publicly traded syndicated bank loans was $226.4 million.

As of June 30, 2014, we held equity and debt investments of $23.4 million and $17.4 million, respectively, in non-public limited liability companies that have invested in renewable energy investments. These investments were sponsored and are managed by an affiliate of one of our principal shareholders. See "Certain Relationships and Related Party Transactions — Related Party Transactions — Investments with Affiliates of the D. E. Shaw Affiliates." We invested in the equity and debt of these projects because we anticipate earning attractive risk-adjusted returns from these investments. However, our investments in these projects are illiquid and the ultimate results from these investments may be unknown for some time.

We also invest in marketable equity securities. These securities are carried on the balance sheet at fair market value and are subject to potential losses and declines in market value. Our invested assets also include interests in limited partnerships and privately held equity and debt investments totaling $17.6 million at June 30, 2014. These investments were designed to provide diversification of risk and enhance the return on the overall portfolio. However, these investments entail substantial risks and are generally illiquid. Our investment portfolio is subject to increased valuation uncertainties when investment markets are illiquid. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (*i.e.*, the carrying amount) does not reflect prices at which actual transactions would occur.

Risks for all types of securities are managed through application of our investment policy, which establishes investment parameters that include (but are not limited to) maximum percentages of investment in certain types of securities and minimum levels of credit quality, which we believe are within guidelines established by the NAIC, BMA and various state insurance departments, as applicable.

Although we seek to preserve our capital, we cannot be certain that our investment objectives will be achieved, and results may vary substantially over time. In addition, although we seek to employ investment strategies that are not correlated with our insurance and reinsurance exposures, losses in our investment portfolio may occur at the same time as underwriting losses and, therefore, exacerbate the adverse effect of the losses on us.

The insurance and reinsurance business is historically cyclical, and we may experience periods with excess underwriting capacity and unfavorable premium rates, which could adversely affect our business.

Historically, insurers and reinsurers have experienced significant fluctuations in operating results due to competition, frequency and severity of catastrophic events, levels of capacity, adverse trends in litigation, regulatory constraints, general economic conditions and other factors. We have experienced these types of fluctuations during our Company’s short history. The supply of insurance and reinsurance is related to prevailing prices, the level of insured losses and the level of capital available to the industry that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance and reinsurance industry. As a result, the insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity increased premium levels. Demand for insurance and reinsurance depends on numerous factors, including the frequency and severity of catastrophic events, levels of capacity, the introduction of new capital providers, general economic conditions and underwriting results of primary insurers. All of these factors fluctuate and may contribute to price declines generally in the insurance and reinsurance industry.

We cannot predict with certainty whether market conditions will improve, remain constant or deteriorate. Negative market conditions may impair our ability to underwrite insurance and reinsurance at rates we consider appropriate and commensurate relative to the risk assumed. If we cannot underwrite insurance or reinsurance at appropriate rates, our ability to transact business will be materially and adversely affected. Any of these factors could lead to an adverse effect on our business, financial condition and results of operations.

We may become subject to additional government or market regulation which may have a material adverse impact on our business.

Market disruptions like those experienced during the credit-driven financial market collapse in 2008, as well as the dramatic increase in the capital allocated to alternative asset management during recent years, have led to increased governmental as well as self-regulatory scrutiny of the insurance industry in general. In addition, certain legislation proposing greater regulation of the industry is periodically considered by governing bodies of some jurisdictions, and the credit-driven equity market collapse may increase the likelihood that some increased regulation of the industry is mandated.

Because we are a Bermuda company, we are subject to changes in Bermuda law and regulation that may have an adverse impact on our operations, including through the imposition of tax liability or increased regulatory supervision. In addition, we will be exposed to any changes in the political environment in Bermuda.

Our business could be adversely affected by changes in state laws, including those relating to asset and reserve valuation requirements, surplus requirements, limitations on investments and dividends, enterprise risk and risk-based capital requirements and, at the federal level, by laws and regulations that may affect certain aspects of the insurance industry, including proposals for preemptive federal regulation. The U.S. federal government generally has not directly regulated the insurance industry except for certain areas of the market, such as insurance for flood, nuclear and terrorism risks. However, the federal government has undertaken initiatives or considered legislation in several areas that may affect the insurance industry, including tort reform, corporate governance and the taxation of reinsurance companies. The Dodd-Frank

Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) also established the Federal Insurance Office, which is authorized to study, monitor and report to Congress on the insurance industry and to recommend that the Financial Stability Oversight Council (the “FSOC”) designate an insurer as an entity posing risks to U.S. financial stability in the event of the insurer’s material financial distress or failure. In December 2013, the Federal Insurance Office issued a report on alternatives to modernize and improve the system of insurance regulation in the United States, including increasing national uniformity through either a federal charter or effective action by the states. Any additional regulations established as a result of the Dodd-Frank Act or actions in response to the Federal Insurance Office Report could increase our costs of compliance or lead to disciplinary action. In addition, legislation has been introduced from time to time that, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry, including federal licensing in addition to or in lieu of state licensing and reinsurance for natural catastrophes. We are unable to predict whether any legislation will be enacted or any regulations will be adopted, or the effect any such developments could have on our business, financial condition or results of operations.

The Bermuda insurance and reinsurance regulatory framework has become subject to increased scrutiny in many jurisdictions. As a result, the BMA has implemented and imposed additional requirements on the companies it regulates, as part of its efforts to achieve equivalence under Solvency II, the European Union regulatory regime that was enacted in November 2009 which imposes new solvency and governance requirements across all European Union Member States. Although Solvency II was originally supposed to have become effective by November 1, 2012, the Omnibus II directive has revised the date for transposition and implementation of Solvency II by the European Union Member States to January 2016. As a result of the delay in the implementation of Solvency II, it is unclear when the European Commission will make a final decision on whether or not it will recognize the solvency regime in Bermuda as equivalent to that proposed by Solvency II.

It is impossible to predict what, if any, changes in the regulations applicable to us, the markets in which we operate, trade and invest or the counterparties with which we do business may be instituted in the future. Any such regulation could have a material adverse impact on our business.

Our reinsurance business is subject to loss settlements made by ceding companies and fronting carriers, which could materially adversely affect our performance.

Where JRG Re enters into assumed reinsurance contracts with third parties, all loss settlements made by the ceding company will be unconditionally binding upon us, provided they are within the terms of the underlying policies and within the terms of the relevant contract. While we believe the ceding companies will settle such claims in good faith, we are bound to accept the claims settlements agreed to by the ceding companies. Under the underlying policies, each ceding company typically bears the burden of proving that a contractual exclusion applies to a loss, and there may be circumstances where the facts of a loss are insufficient to support the application of an exclusion. In such circumstances, we assume such losses under the reinsured policies, which could materially adversely affect our performance.

Our operating results have in the past varied from quarter to quarter and may not be indicative of our long-term prospects.

Our operating results are subject to fluctuation and have historically varied from quarter to quarter. We expect our quarterly results to continue to fluctuate in the future due to a number of factors, including the general economic conditions in the markets where we operate, the frequency of occurrence or severity of catastrophic or other insured events, fluctuating interest rates, claims exceeding our loss reserves, competition in our industry, deviations from expected renewal rates of our existing policies and contracts, adverse investment performance and the cost of reinsurance and retrocessional coverage.

In particular, we seek to underwrite products and make investments to achieve favorable returns on tangible equity over the long term. In addition, our opportunistic nature and focus on long-term growth in tangible equity may result in fluctuations in total premiums written from period to period as we concentrate on underwriting contracts that we believe will generate better long-term, rather than short-term, results. Accordingly, our short-term results of operations may not be indicative of our long-term prospects.

We could be forced to sell investments to meet our liquidity requirements.

We invest the premiums we receive from our insureds and ceding companies until they are needed to pay policyholder claims or until they are recognized as profits. Consequently, we seek to manage the duration of our investment portfolio based on the duration of our loss and loss adjustment expense reserves to ensure sufficient liquidity and avoid having to liquidate securities to fund claims. Risks such as inadequate loss and loss adjustment reserves or unfavorable trends in litigation could potentially result in the need to sell investments to fund these liabilities. Such sales could result in significant realized losses depending on the conditions of the general market, interest rates and credit issues with individual securities.

We may be unable to obtain reinsurance coverage at reasonable prices or on terms that provide us adequate protection.

We purchase reinsurance in many of our lines of business to help manage our exposure to insurance and reinsurance risks that we underwrite and to reduce volatility in our results. In addition, JRG Re manages its risk through retrocession arrangements with third-party reinsurers. A retrocession is a practice whereby a reinsurer cedes risk to one or more other reinsurers.

The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, each of which can affect our business volume and profitability. The availability of reasonably affordable reinsurance is a critical element of our business plan. One important way we utilize reinsurance is to reduce volatility in claims payments by limiting our exposure to losses from large risks. Another way we use reinsurance is to purchase substantial protection against concentrated losses when we enter new markets. As a result, our ability to manage volatility and avoid significant losses, expand into new markets or grow by offering insurance to new kinds of enterprises may be limited by the unavailability of reasonably priced reinsurance. We may not be able to obtain reinsurance on acceptable terms or from entities with satisfactory creditworthiness. In such event, if we are unwilling to accept the terms or credit risk of potential reinsurers, we would have to reduce the level of our underwriting commitments, which would reduce our revenues.

Many reinsurance companies have begun to exclude certain coverages from, or alter terms in, the reinsurance contracts we enter into with them. Some exclusions relate to risks that we cannot in turn exclude from the policies we write due to business or regulatory constraints. In addition, reinsurers are imposing terms, such as lower per occurrence and aggregate limits, on direct insurers that do not wholly cover the risks written by these direct insurers. As a result, we, like other direct insurance companies, write insurance policies which to some extent do not have the benefit of reinsurance protection. These gaps in reinsurance protection expose us to greater risk and greater potential losses. For example, certain reinsurers have excluded coverage for terrorist acts or priced such coverage at unreasonably high rates. Many direct insurers, including us, have written policies without terrorist act exclusions and in many cases we cannot exclude terrorist acts because of regulatory constraints. We may, therefore, be exposed to potential losses as a result of terrorist acts. See also “Business — Purchase of Reinsurance.”

We are subject to credit risk with regard to our reinsurance counterparties and insurance companies with whom we have a fronting arrangement.

Although reinsurance makes the assuming reinsurer liable to us to the extent of the risk ceded, we are not relieved of our primary liability to our insureds as the direct insurer. At December 31, 2013, reinsurance recoverable on unpaid losses from our three largest reinsurers was $67.4 million in the aggregate and represented 56.4% of the total balance. Additionally, prepaid reinsurance premiums ceded to two reinsurers at December 31, 2013 was $12.7 million in the aggregate, or 53.6% of the total balance. We cannot be sure that our reinsurers will pay all reinsurance claims on a timely basis or at all. For example, reinsurers may default in their financial obligations to us as the result of insolvency, lack of liquidity, operational failure, fraud, asserted defenses based on agreement wordings or the principle of utmost good faith, asserted deficiencies in the documentation of agreements or other reasons. The failure of a reinsurer to pay us does not lessen our contractual obligations to insureds. If a reinsurer fails to pay the expected portion of a claim or claims, our net losses might increase substantially and adversely affect our financial condition. Any disputes with reinsurers regarding coverage under reinsurance contracts could be time-consuming, costly and uncertain of success.

Downgrades to the credit ratings of our reinsurance counterparties may result in the reduction of rating agency capital credit provided by those reinsurance contracts and could, therefore, result in a downgrade of our own credit ratings. In addition, under the reinsurance regulations, in many states where our U.S. insurance subsidiaries are domiciled, certain reinsurers are required to collateralize their obligations to us and to the extent they do not do so, our ability for regulators to recognize this reinsurance will be impaired. We evaluate each reinsurance claim based on the facts of the case, historical experience with the reinsurer on similar claims and existing case law and include any amounts deemed uncollectible from the reinsurer in our reserve for uncollectible reinsurance. See also "Business — Purchase of Reinsurance."

Similarly, in our fronting business, which we conduct through our Specialty Admitted Insurance segment, we are primarily liable to the insureds because we have issued the policies. While we customarily require a collateral trust arrangement to secure the obligations of the insurance entity for whom we are fronting, we do not obtain collateral in every instance and in situations where we do obtain collateral for the obligations of the other insurance entity, it is possible that the collateral could be insufficient to cover all claims. In that event, we would be contractually entitled to recovery from the entity for which we are fronting, but it is possible that, for any of a variety of reasons, the other party could default in its obligations. See also "Business — Business Segments — Specialty Admitted Insurance Segment — Fronting Business."

We, or agents we have appointed, may act based on inaccurate or incomplete information regarding the accounts we underwrite, or such agents may exceed their authority or commit fraud when binding policies on our behalf.

We, and our MGAs and other agents who have the ability to bind our policies, rely on information provided by insureds or their representatives when underwriting insurance policies. While we may make inquiries to validate or supplement the information provided, we may make underwriting decisions based on incorrect or incomplete information. It is possible that we will misunderstand the nature or extent of the activities or facilities and the corresponding extent of the risks that we insure because of our reliance on inadequate or inaccurate information.

In addition, in the Specialty Admitted Insurance segment, MGAs and other agents have the authority to bind policies on our behalf. If any such agents exceed their authority or engage in fraudulent activities, our financial condition and results of operations could be adversely affected.

Our associates could take excessive risks, which could negatively affect our financial condition and business.

As an insurance enterprise, we are in the business of binding certain risks. The associates who conduct our business, including executive officers and other members of management, underwriters, sales managers, investment professionals, product managers, sales agents, and other associates, as well as managing general agents, do so in part by making decisions and choices that involve exposing us to risk. These include decisions such as setting underwriting guidelines and standards, product design and pricing, determining which business opportunities to pursue and other decisions. We endeavor, in the design and implementation of our compensation programs and practices, to avoid giving our associates incentives to take excessive risks. Associates may, however, take such risks regardless of the structure of our compensation programs and practices. Similarly, although we employ controls and procedures designed to monitor associates' business decisions and prevent us from taking excessive risks, these controls and procedures may not be effective. If our associates take excessive risks, the impact of those risks could have a material adverse effect on our financial condition and business operations.

We may require additional capital in the future, which may not be available or available only on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new and renewal business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Our ability to underwrite depends largely upon the expected quality of our claims paying process and our perceived financial strength as estimated by potential insureds, brokers, other intermediaries and independent rating agencies. To the extent that our existing capital is insufficient to fund our future operating requirements, cover claim losses, or satisfy ratings agencies in order to maintain a satisfactory rating, we may need to raise additional capital in the future through offerings of debt or equity securities or otherwise to:

- fund liquidity needs caused by underwriting or investment losses;
- replace capital lost in the event of significant reinsurance losses or adverse reserve developments;
- satisfy letters of credit or guarantee bond requirements that may be imposed by our clients or by regulators;
- meet rating agency or regulatory capital requirements; or
- respond to competitive pressures.

Any equity or debt financing, if available at all, may be on terms that are unfavorable to us. Further, any additional capital raised through the sale of equity could dilute your ownership interest in the Company and may cause the value of our shares to decline. Additional capital raised through the issuance of debt may result in creditors having rights, preferences and privileges senior or otherwise superior to those of the holders of our shares and may limit our flexibility in operating our business and make it more difficult to obtain capital in the future. Disruptions, uncertainty, or volatility in the capital and credit markets may also limit our access to capital required to operate our business. If we are not able to obtain adequate capital, our business, financial condition and results of operations could be materially adversely affected.

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 cyber-security incidents, could materially adversely affect our operations.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and recordkeeping errors and computer or telecommunications systems malfunctions. Our businesses depend on our ability to process a large number of increasingly complex transactions. If any of our operational, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. Similarly, we depend on our employees. We could be materially adversely affected if one or more of our employees causes a significant operational breakdown or failure, either as a result of human error or intentional sabotage or fraudulent manipulation of our operations or systems.

Third parties with whom we do business, including vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns, failures, or capacity constraints of their own systems or employees. Any of these occurrences could diminish our ability to operate one or more of our businesses, or cause financial loss, potential liability to insureds, inability to secure insurance, reputational damage or regulatory intervention, which could materially adversely affect us.

We rely on our multiple proprietary operating systems as well as operating systems of third-party providers to issue policies, pay claims, run modeling functions and complete various internal processes. We may be subject to disruptions of such operating systems arising from events that are wholly or partially beyond our control, which may include, for example, electrical or telecommunications outages, natural or man-made disasters, such as earthquakes, hurricanes, floods or tornados, or events arising from terrorist acts. Such disruptions may give rise to losses in service to insureds and loss or liability to us. In addition, there is the risk that our controls and procedures as well as our business continuity, disaster recovery and data security systems prove to be inadequate. The computer systems and network systems we and others use could be vulnerable to unforeseen problems. These problems may arise in both our internally developed systems and the systems of third-party service providers. In addition, our computer systems and network infrastructure present security risks and could be susceptible to hacking, computer viruses or data breaches. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems and those of third-party service providers that support our business.

Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our technologies, systems and networks may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our insureds' or reinsured's confidential, proprietary and other information, or otherwise disrupt our or our insureds', reinsured's or other third parties' business operations, which in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, the incurrence of costs to eliminate or mitigate further exposure and the loss of customers. Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats and the outsourcing of some of our business operations. As a result, cyber-security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. As cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our financial condition or results of operations.

We may not be able to manage our growth effectively.

We intend to grow our business in the future, which could require additional capital, systems development and skilled personnel. We cannot assure you that we will be able to meet our capital needs, expand our systems and our internal controls effectively, allocate our human resources optimally, identify and hire qualified employees or incorporate effectively the components of any businesses we may acquire in our effort to achieve growth. The failure to manage our growth effectively could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive environment and we may not continue to be able to compete effectively against larger or more well-established business rivals.

We face competition from other specialty insurance companies, standard insurance companies and underwriting agencies, as well as from diversified financial services companies that are larger than we are and that have greater financial, marketing and other resources than we do. Some of these competitors also have longer experience and more market recognition than we do in certain lines of business. In addition, it may be difficult or prohibitively expensive for us to implement technology systems and processes that are competitive with the systems and processes of these larger companies.

In particular, competition in the insurance and reinsurance industry is based on many factors, including price of coverage, the general reputation and perceived financial strength of the company, relationships with brokers, terms and conditions of products offered, ratings assigned by independent rating agencies, speed of claims payment and reputation, and the experience and reputation of the members of our underwriting team in the particular lines of insurance and reinsurance we seek to underwrite. See "Business — Competition."

A number of new, proposed or potential legislative or industry developments could further increase competition in our industry. These developments include:

- An increase in capital-raising by companies in our lines of business, which could result in new entrants to our markets and an excess of capital in the industry;
- The deregulation of commercial insurance lines in certain states and the possibility of federal regulatory reform of the insurance industry, which could increase competition from standard carriers for our E&S lines of insurance business; and
- Changing practices caused by the Internet may lead to greater competition in the insurance business. Among the possible changes are shifts in the way in which E&S insurance is purchased. We currently depend largely on the wholesale distribution model for our Excess and Surplus Lines segment's premiums. If the wholesale distribution model were to be significantly altered by changes in the way E&S risks were marketed, including, without limitation, through use of the Internet, it could have a material adverse effect on our premiums, underwriting results and profits.

There is no assurance that we will be able to continue to compete successfully in the insurance or reinsurance markets. Increased competition in these markets could result in a change in the supply and/or demand for insurance or reinsurance, affect our ability to price our products at risk-adequate rates and retain existing business, or underwrite new business on favorable terms. If this increased competition so limits our ability to transact business, our operating results could be adversely affected.

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 adversely affected.

In general, the premiums for our insurance policies are established at the time a policy is issued and, therefore, before all of our underlying costs are known. Like other insurance companies, we rely on estimates and assumptions in setting our premium rates. Establishing adequate premium rates is necessary, together with investment income, to generate sufficient revenue to offset losses, loss adjustment expenses ("LAE") and other underwriting costs and to earn a profit. If we do not accurately assess the risks that we assume, we may not charge adequate premiums to cover our losses and expenses, which would adversely affect our results of operations and our profitability. Alternatively, we could set our premiums too high, which could reduce our competitiveness and lead to lower revenues.

Pricing involves the acquisition and analysis of historical loss data and the projection of future trends, loss costs and expenses, and inflation trends, among other factors, for each of our products in multiple risk tiers and many different markets. In order to accurately price our policies, we:

- collect and properly analyze a substantial volume of data from our insureds;
- develop, test and apply appropriate actuarial projections and rating formulas;
- closely monitor and timely recognize changes in trends; and
- project both frequency and severity of our insureds' losses with reasonable accuracy.

We seek to implement our pricing accurately in accordance with our assumptions. Our ability to undertake these efforts successfully and, as a result, accurately price our policies, is subject to a number of risks and uncertainties, including:

- insufficient or unreliable data;
- incorrect or incomplete analysis of available data;
- uncertainties generally inherent in estimates and assumptions;
- our failure to implement appropriate actuarial projections and rating formulas or other pricing methodologies;
- regulatory constraints on rate increases;
- our failure to accurately estimate investment yields and the duration of our liability for loss and loss adjustment expenses; and
- unanticipated court decisions, legislation or regulatory action.

If actual renewals of our existing contracts do not meet expectations, our premiums written in future years and our future results of operations could be materially adversely affected.

Many of our contracts are written for a one-year term. In our financial forecasting process, we make assumptions about the renewal of our prior year's contracts. The insurance and reinsurance industries have historically been cyclical businesses with intense competition, often based on price. If actual renewals do not meet expectations or if we choose not to write a renewal because of pricing conditions, our premiums written in future years and our future operations would be materially adversely affected.

We may change our underwriting guidelines or our strategy without shareholder approval.

Our management has the authority to change our underwriting guidelines or our strategy without notice to our shareholders and without shareholder approval. As a result, we may make fundamental changes to our operations without shareholder approval, which could result in our pursuing a strategy or implementing underwriting guidelines that may be materially different from the strategy or underwriting guidelines described in the section titled "Business" or elsewhere in this prospectus.

Litigation and legal proceedings against our subsidiaries could have a material adverse effect on our business, financial condition and/or results of operations.

As an insurance and reinsurance holding company, our subsidiaries are named as defendants in various legal actions in the ordinary course of business. We believe that the outcome of presently pending matters, individually and in the aggregate, will not have a material adverse effect on our consolidated financial position. However, the outcomes of lawsuits cannot be predicted and, if determined adversely, could require us to pay significant damage amounts or to change aspects of our operations, which could have a material adverse effect on our financial results.

Changes in accounting practices and future pronouncements may materially affect our reported financial results.

Developments in accounting practices may require us to incur considerable additional expenses to comply, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted but may affect the calculation of net income, shareholders' equity and other relevant financial statement line items.

In particular, the U.S. Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB" and together with the FASB, the "Boards") continue to work jointly on an insurance contract project, although the Boards acknowledge that the resulting standards will not converge. The Boards both issued proposals during 2013 regarding accounting and reporting updates and guidance for insurance contracts which could result in a material change from the current insurance accounting models towards more fair value-based models. The FASB decided that the core accounting framework will remain essentially unchanged for property-casualty insurers, although the required financial statements disclosures will be enhanced.

Additionally, the Boards continue to develop a comprehensive model for accounting and reporting of financial instruments, which may lead to further recognition of fair value changes through net income and changes in the way impairments are measured. Changes resulting from these two projects could have a significant impact on the earnings of insurance industry participants. There remains uncertainty with respect to the final outcome of these two projects.

Further, our U.S. insurance subsidiaries are required to comply with statutory accounting principles ("SAP"). SAP and various components of SAP (such as actuarial reserving methodology) are subject to constant review by the NAIC and its task forces and committees, as well as state insurance departments, in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are pending before committees and task forces of the NAIC, some of which, if enacted, could have negative effects on insurance industry participants. The NAIC continuously examines existing laws and regulations in the United States. We cannot predict whether or in what form such reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect us.

In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled in their jurisdiction to depart from SAP by granting them permitted accounting practices. We cannot predict whether or when the insurance departments of the states of domicile of our competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which may not be permitted by the insurance departments of the states of domicile of our U.S. insurance subsidiaries. We can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to our competitors will not have a negative impact on us.

Our ability to implement our business strategy could be delayed or adversely affected by Bermuda employment restrictions relating to the ability to obtain and retain work permits for key employees in Bermuda.

Under Bermuda law, non-Bermudians (other than spouses of Bermudians) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Our success may depend in part on the continued services of key employees in Bermuda. A work permit may be granted or renewed upon showing that, after proper public advertisement, no Bermudian (or spouse of a Bermudian or a holder of a permanent resident's certificate or holder of a working resident's certificate) is available who meets the minimum standards reasonably required by the employer. A work permit is issued with an expiry date (up to ten years) and no assurances can be given that any work permit will be issued or, if issued, renewed upon the expiration of the relevant term. If work permits are not obtained or are not renewed for our principal employees, we would lose their services, which could materially affect our businesses.

If North Carolina, Ohio, or Virginia significantly increase the assessments our insurance companies are required to pay, our financial condition and results of operations will suffer.

Our insurance companies are subject to assessments in North Carolina (the domiciliary state for Stonewood Insurance), Ohio (the domiciliary state for James River Insurance, Falls Lake National and Falls Lake General) and Virginia (the domiciliary state for James River Casualty), for various purposes, including the provision of funds necessary to fund the operations of the various insurance departments and the state funds that pay covered claims under certain policies written by impaired, insolvent or failed insurance companies. These assessments are generally set based on an insurer's percentage of the total premiums written in the insurer's state within a particular line of business. As our U.S.-based insurance subsidiaries grow, our share of any assessments may increase. We cannot predict with certainty the amount of future assessments because they depend on factors outside our control, such as insolvencies of other insurance companies. Significant assessments could result in higher than expected operating expenses and have an adverse effect on our financial condition or results of operations.

Our use of third-party claims administrators in certain lines of business may result in higher losses and loss adjustment expenses.

Historically, our Excess and Surplus Lines and Specialty Admitted Insurance segments handled all claims using employed staff. As we have entered new lines of business, we now use third-party claims administrators and contract employees to administer claims subject to the supervision of our employed staff. It is possible that these contract employees and third-party claims administrators may achieve less desirable results on claims than has historically been the case for our internal staff, which could result in significantly higher losses and loss adjustment expenses in those lines of business.

Risks Related to Taxation

In addition to the risk factors discussed below, we advise you to read "Tax Considerations" and to consult your own tax advisor regarding the tax consequences to you of your investment in our shares.

The Company and JRG Re may be subject to U.S. federal income taxation.

The Company and JRG Re are each incorporated under the laws of Bermuda. We believe that our and JRG Re's activities, as contemplated, will not cause them to be treated as engaging in a U.S. trade or business and will not cause them to be subject to current U.S. federal income taxation on their net income. However, there are no definitive standards provided by the Internal Revenue Code of 1986, as amended (the

"Code"), regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and any such determination is essentially factual in nature and must be made annually. The U.S. Internal Revenue Service (the "IRS") could successfully assert that we or JRG Re (or both) are engaged in a trade or business in the United States or, if applicable under the income tax treaty between the United States and Bermuda (the "Bermuda Treaty"), engaged in a trade or business in the United States through a permanent establishment, and thus are subject to current U.S. federal income taxation. If we or JRG Re were deemed to be engaged in a trade or business in the United States (and, if applicable under the Bermuda Treaty, were deemed to be so engaged through a permanent establishment), we or JRG Re, as applicable, would become subject to U.S. federal income tax on income "effectively connected" (or treated as effectively connected) with the U.S. trade or business and would become subject to the "branch profits" tax on earnings and profits that are both effectively connected with the U.S. trade or business and deemed repatriated out of the United States. Any such federal tax liability could materially adversely affect our results of operations.

U.S. persons who own our shares may be subject to U.S. federal income taxation on our undistributed earnings and may recognize ordinary income upon disposition of shares.

If we are considered a PFIC for U.S. federal income tax purposes, a U.S. person who owns any of our shares could be subject to adverse tax consequences, including becoming subject to a greater tax liability than might otherwise apply and to tax on amounts in advance of when tax would otherwise be imposed, in which case your investment could be materially adversely affected. In addition, if we were considered a PFIC, upon the death of any U.S. individual owning shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the shares that might otherwise be available under U.S. federal income tax laws. We believe that we are not and have not been, and currently do not expect to become, a PFIC for U.S. federal income tax purposes. We cannot assure you, however, that we will not be deemed a PFIC by the IRS. If we were considered a PFIC, it could have material adverse tax consequences for an investor that is subject to U.S. federal income taxation. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation.

U.S. persons who, directly or indirectly or through attribution rules, own 10% or more of the voting power of our shares ("U.S. 10% shareholders"), may be subject to the controlled foreign corporation (the "CFC") rules. Under these rules, if a foreign corporation is a CFC for an uninterrupted period of 30 days or more, each U.S. 10% shareholder must annually include in its taxable income its pro rata share of the CFC's "subpart F income," even if no distributions are made. In general (subject to the special rules applicable to "related person insurance income" described below), a foreign insurance company will be treated as a CFC only if U.S. 10% shareholders collectively own more than 25% of the total combined voting power or total value of the company's shares at any point during any year. While our Company and JRG Re are and will continue to be CFCs immediately following the offering, we believe that the restrictions placed on the voting power of our shares should generally prevent shareholders who acquire shares in this offering or in the secondary market from being treated as U.S. 10% shareholders of a CFC. Our existing shareholders who beneficially own in excess of 10% of our common shares prior to and immediately following the offering are not subject to this limitation. We cannot assure you, however, that these rules will not apply to you. If you are a U.S. person we strongly urge you to consult your own tax advisor concerning the CFC rules.

Related Person Insurance Income. If (a) our gross income attributable to insurance or reinsurance policies pursuant to which the direct or indirect insureds are our direct or indirect U.S. shareholders or persons related to such U.S. shareholders equals or exceeds 20% of our gross insurance income in any taxable year; and (b) direct or indirect insureds and persons related to such insureds own directly or indirectly 20% or more of the voting power or value of our shares (together, the "RPII Test"), a U.S. person who owns any of our shares directly or indirectly on the last day of such taxable year would most likely be required to include its allocable share of our related person insurance income for such taxable year in its income, even if no distributions are made. We do not believe that the 20% gross insurance income threshold has been met or will be met. However, we cannot assure you that this will be the case. Consequently, we cannot assure you that a person who is a direct or indirect U.S. shareholder will not be required to include amounts in its income in respect of related person insurance income in any taxable year.

Dispositions of Our Shares. If a U.S. shareholder is treated as disposing of shares in a CFC of which it is a U.S. 10% shareholder, or of shares in a foreign insurance corporation that has related person insurance income and in which U.S. persons collectively own 25% or more of the voting power or value of the company's share capital, any gain from the disposition will generally be treated as a dividend to the extent of the U.S. shareholder's portion of the corporation's undistributed earnings and profits, as the case may be, that were accumulated during the period that the U.S. shareholder owned the shares. In addition, the shareholder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the direct or indirect U.S. shareholder.

U.S. tax-exempt organizations who own our shares may recognize unrelated business taxable income.

A U.S. tax-exempt organization may recognize unrelated business taxable income if a portion of our subpart F insurance income is allocated to it. In general, subpart F insurance income will be allocated to a tax-exempt organization owning (or treated as owning) our shares if we are a CFC as discussed above and it is a U.S. 10% shareholder or we earn related person insurance income and we satisfy the RPII Test. We cannot assure you that U.S. persons holding our shares (directly or indirectly) will not be allocated subpart F insurance income. U.S. tax-exempt organizations should consult their own tax advisors regarding the risk of recognizing unrelated business taxable income as a result of the ownership of our shares.

We may become subject to U.S. withholding and information reporting requirements under the Foreign Account Tax Compliance Act ("FATCA") provisions.

The FATCA provisions of the Code generally impose a 30% withholding tax regime with respect to (1) certain U.S. source income (including interest and dividends) and gross proceeds from any sale or other disposition (after December 31, 2016) of property that can produce U.S. source interest or dividends ("withholdable payments") and (2) "passthru payments" (generally, withholdable payments and payments that are attributable to withholdable payments) made by foreign financial institutions ("FFIs"). As a general matter, FATCA was designed to require U.S. persons' direct and indirect ownership of certain non-U.S. accounts and non-U.S. entities to be reported to the IRS. The application of the FATCA withholding rules were phased in beginning June 30, 2014, with withholding on foreign passthru payments made by FFIs taking effect no earlier than 2017.

The Bermuda government has signed a "Model 2" intergovernmental agreement ("IGA") with the United States to implement FATCA. If we or JRG Re (or both) is treated as an FFI for the purposes of FATCA, under IGA, we or JRG Re (or both) will be directed to 'register' with the IRS and enabled to comply with the requirements of FATCA, including due diligence, reporting and withholding. Among these requirements, we or JRG Re will be required to provide information regarding our or its U.S. direct or indirect owners and to comply with other reporting, verification, due diligence and other procedures. Assuming registration and compliance pursuant to IGA, an FFI would be treated as FATCA compliant and not subject to withholding. An FFI that satisfies the eligibility, information reporting and other requirements of an IGA generally is not subject to the regular FATCA reporting and withholding obligations discussed below.

Under the IGA between the United States and Bermuda, a foreign insurance company (or foreign holding company of an insurance company) that issues or is obligated to make payments with respect to a cash value or annuity contract is an FFI. Insurance companies, like ours, that issue only property-casualty insurance contracts, or that only issue life insurance contracts lacking cash value (or that provide for limited cash value) generally would not be considered FFIs under the IGA. However, a holding company may be treated as an FFI if it is formed in connection with or availed of by a collective investment vehicle, mutual fund, exchange traded fund, hedge fund, venture capital fund, leveraged buyout fund or any similar investment vehicle established with an investment strategy of investing, reinvesting or trading in financial assets. Moreover, a company may be treated as an FFI if its gross income is primarily attributable to investing, reinvesting or trading in financial assets and the entity is managed by an FFI, or the entity functions or holds itself out as an investment vehicle established with an investment strategy of investing, reinvesting or trading in financial assets. There can be no certainty as to whether we or JRG Re will be treated as a FFI under FATCA.

Even if we and JRG Re are not treated as FFIs, then depending on whether our shares are treated as "regularly traded on one or more established securities markets" under the FATCA rules and whether the income and assets of JRG Re meet the requirements for the treatment of JRG Re as an "active NFFE" (non-financial foreign entity), withholdable payments paid to the us or JRG Re may be subject to a 30% withholding tax unless we and/or JRG Re provide information regarding its U.S. direct or indirect owners. See "Tax Considerations — U.S. Federal Income Tax Considerations."

Potential additional application of the Federal Insurance Excise Tax.

The IRS, in Revenue Ruling 2008-15, has formally announced its position that the U.S. federal insurance excise tax (the "FET") is applicable (at a 1% rate on premiums) to all reinsurance cessions or retrocessions of risks by non-U.S. insurers or reinsurers to non-U.S. reinsurers where the underlying risks are either (1) risks of a U.S. entity or individual located wholly or partly within the United States or (2) risks of a non-U.S. entity or individual engaged in a trade or business in the United States which are located within the United States (the "U.S. Situs Risks"), even if the FET has been paid on prior cessions of the same risks. The legal and jurisdictional basis for, and the method of enforcement of, the IRS's position is unclear, and the District Court for the District of Columbia recently held that the FET does not apply to retrocession contracts. We have not determined if the FET should be applicable with respect to risks ceded to us by, or by us to, a non-U.S. insurance company. If the FET is applicable, it should apply at a 1% rate on premiums for all U.S. Situs Risks ceded to us by a non-U.S. insurance company, or by us to a non-U.S. insurance company, even though the FET also applies at a 1% rate on premiums ceded to us with respect to such risks.

Change in U.S. tax laws may be retroactive and could subject us and/or U.S. persons who own our shares to U.S. income taxation on our undistributed earnings.

The tax laws and interpretations thereof regarding whether a company is engaged in a U.S. trade or business, is a CFC, has related party insurance income or is a PFIC are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the passive foreign investment company rules to an insurance company and the regulations regarding related party insurance income are in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming from the IRS. We are not able to predict if, when or in what form such guidance will be provided and whether such guidance will have a retroactive effect.

If reinsurance premiums paid by our U.S. subsidiaries to JRG Re or the interest rates and terms of loans made by our U.S. subsidiaries to us do not reflect arm's-length terms, the IRS could seek to recharacterize the payments in a way that is unfavorable to us.

In light of the recent announcements by the U.S. Department of Treasury (the "Treasury Department") with regard to "inversion" transactions, it is possible that as a Bermuda domiciled company owning U.S. subsidiaries, we may face greater scrutiny from U.S. tax authorities. Items identified by the Treasury Department and various commentators as areas of possible scrutiny by the Treasury Department or the IRS include the terms of intercompany reinsurance agreements and loans between U.S. subsidiaries and foreign parents. We have in place both intercompany loans from our U.S. subsidiaries to our parent company and intercompany reinsurance agreements. We believe the terms of these transactions are appropriate and reflect arms-length terms and are consistent with all applicable rules and regulations. It is possible, however, that the Treasury Department or the IRS may review our intercompany agreements and successfully assert, under Section 482 of the Code, that they are not on an arm-length basis and that as a result, we owe taxes on account of past or future periods.

You may be required to report foreign bank accounts and "Specified Foreign Financial Assets."

U.S. persons holding our common shares should consider their possible obligation to file a FinCEN Form 114 Report of Foreign Bank and Financial Accounts with respect to their shares. Additionally, such

U.S. and non-U.S. persons should consider their possible obligations to report annually certain information with respect to us with their U.S. federal income tax returns. Shareholders should consult their tax advisors with respect to these or other reporting requirements that may apply with respect to their ownership of our common shares.

Reduced tax rates for qualified dividend income may not be available in the future.

We believe that the dividends paid on the common shares should qualify as "qualified dividend income" if, as is intended, the common shares are approved for a listing on a national securities exchange. Qualified dividend income received by non-corporate U.S. persons is generally eligible for long-term capital gain rates. There has been proposed legislation before the U.S. Senate and House of Representatives that would exclude shareholders of certain foreign corporations from this advantageous tax treatment. If such legislation were to become law, non-corporate U.S. persons would no longer qualify for the reduced tax rate on the dividends paid by us.

We may become subject to taxes in Bermuda after March 31, 2035, which may have a material adverse effect on our results of operations and your investment.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given us an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to us or any of our operations, shares, debentures or other obligations until March 31, 2035, except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. See "Tax Considerations — Bermuda Tax Considerations." We cannot assure you that we will not be subject to any Bermuda tax after March 31, 2035.

Risks Related to Our Common Shares and This Offering

There is no existing market for our common shares and we do not know if one will develop. This could impede your ability to sell your shares or depress the market price of our common shares.

Prior to this offering, there has not been a public market for our common shares. We cannot predict the extent to which investor interest in our common shares will lead to the development of an active trading market on the NASDAQ Stock Market or how liquid that market might become. If an active trading market does not develop, you may have difficulty selling any of our common shares that you buy. We will negotiate the initial public offering price for our common shares with the representatives of our underwriters and therefore, that price may not be indicative of the market price of our common shares that will prevail in the open market following this offering. Consequently, you may not be able to sell our common shares at prices equal to or greater than the price you paid in this offering or at all.

The price of our common shares may fluctuate significantly and you could lose all or part of your investment.

Volatility in the market price of our common shares may prevent you from being able to sell your common shares at or above the price you paid for your common shares in this offering. The market price for our shares could fluctuate significantly for various reasons, including, without limitation:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry;
- exposure to capital market risks related to changes in interest rates, realized investment losses, credit spreads, equity prices, foreign exchange rates and performance of insurance-linked investments;
- our creditworthiness, financial condition, performance and prospects;
- our dividend policy and whether dividends on our common shares have been, and are likely to be, declared and paid from time to time;
- actual or anticipated growth rates relative to our competitors;

- perceptions of the investment opportunity associated with our common shares relative to other investment alternatives;
- speculation by the investment community regarding our business;
- future announcements concerning our business or our competitors' businesses;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- market and industry perception of our success, or lack thereof, in pursuing our strategy;
- strategic actions by us or our competitors, such as acquisitions, restructurings, significant contracts or joint ventures;
- catastrophes that are perceived by investors as affecting the insurance and reinsurance market in general;
- catastrophes that are perceived by investors as impacting the insurance and reinsurance market in general;
- changes in government regulation;
- potential characterization of us as a PFIC;
- general market, economic and political conditions;
- changes in conditions or trends in our industry, geographies or customers;
- changes in accounting standards, policies, guidance, interpretations or principles;
- arrival and departure of key personnel;
- the number of shares to be publicly traded after this offering;
- sales of shares by us, our directors, executive officers or principal shareholders; and
- adverse resolution of litigation against us.

In addition, stock markets, including the NASDAQ Stock Market, have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities issued by many companies, including companies in our industry. In the past, some companies that have had volatile market prices for their securities have been subject to class action or derivative lawsuits. The filing of a lawsuit against us, regardless of the outcome, could have a negative effect on our business, as it could result in substantial legal costs and a diversion of management's attention and resources.

As a result of the factors described above, investors in our common shares may not be able to resell their shares at or above the initial public offering price or may not be able to resell them at all. These market and industry factors may materially reduce the market price of our common shares, regardless of our operating performance. In addition, price volatility may be greater if the public float and the trading volume of our common shares are low.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our share price and trading volume could decline.

The trading market for our common shares will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If there is no coverage of our Company by securities or industry analysts, the trading price for our shares would be negatively affected. In the event we obtain securities or industry analyst coverage or if one or more of these analysts downgrades our shares or publishes misleading or unfavorable research about our business, our share price would likely decline. If one or more of these analysts ceases coverage of our Company or fails to publish reports on us regularly, demand for our shares could decrease, which could cause our share price or trading volume to decline.

For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to other public companies.

We are an "emerging growth company" as that term is defined in the JOBS Act. In this prospectus, we have taken advantage of, and we plan in future filings with the SEC to continue to take advantage of, certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404(b) of Sarbanes-Oxley, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and of shareholder approval of any golden parachute payments not previously approved. We do not know if some investors will find our common shares less attractive as a result of our taking advantage of certain of these exemptions. The result may be a less active trading market for our common shares and our share price may be more volatile.

We may take advantage of these reporting exemptions until we are no longer an emerging growth company. We will continue to be an emerging growth company until the earliest to occur of (1) the last day of the fiscal year during which we had total annual gross revenues of at least $1 billion (as indexed for inflation), (2) the last day of the fiscal year following the fifth anniversary of the date of our initial public offering under this prospectus, (3) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt and (4) the date on which we are deemed to be a "large accelerated filer," as defined under the Exchange Act.

We will incur significant costs as a result of operating as a public company, and our management will be required to devote substantial time to complying with public company regulations.

As a public company with SEC reporting, regulatory and stock exchange listing requirements, we will incur additional legal, accounting, compliance and other expenses. After completion of this offering, we will be obligated to file with the SEC annual and quarterly information and other reports required by the Exchange Act, and therefore will need to have the ability to prepare financial statements that are compliant with all SEC reporting requirements on a timely basis. In addition, we will be subject to other reporting and corporate governance requirements, including certain requirements of the NASDAQ Stock Market and certain provisions of Sarbanes-Oxley and the regulations promulgated thereunder, which will impose significant compliance obligations upon us.

Sarbanes-Oxley and the Dodd-Frank Act, as well as new rules subsequently implemented by the SEC and the NASDAQ Stock Market, have increased regulation of, and imposed enhanced disclosure and corporate governance requirements on, public companies. Our efforts to comply with these evolving laws, regulations and standards will increase our operating costs and divert management's time and attention from revenue-generating activities.

These changes will also place significant additional demands on our finance and accounting staff and on our financial accounting and information systems. We may in the future hire additional accounting and financial staff with appropriate public company reporting experience and technical accounting knowledge. Other expenses associated with being a public company include increases in auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses. As a public company, we will be required, among other things, to:

- prepare and file periodic reports and distribute other shareholder communications, in compliance with the federal securities laws and requirements of the Nasdaq Stock Market;
- define and expand the roles and the duties of our board of directors and its committees;
- institute more comprehensive compliance, investor relations and internal audit functions; and
- evaluate and maintain our system of internal control over financial reporting, and report on management's assessment thereof, in compliance with rules and regulations of the SEC and the Public Company Accounting Oversight Board.

We may not be successful in implementing these requirements, and implementing them could materially adversely affect our business. In addition, if we fail to implement the required controls with respect to our internal accounting and audit functions, our ability to report our results of operations on a timely and accurate basis could be impaired. If we do not implement the required controls in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities, such as the SEC or the NASDAQ Stock Market. Any such action could harm our reputation and the confidence of investors in, and clients of, our company and could negatively affect our business and cause the price of our shares to decline.

Failure to maintain effective internal controls in accordance with Sarbanes-Oxley could have a material adverse effect on our business and share price.

As a public company with SEC reporting obligations, we will be required to document and test our internal control procedures to satisfy the requirements of Section 404(b) of Sarbanes-Oxley, which will require annual assessments by management of the effectiveness of our internal control over financial reporting. We are an emerging growth company, and thus we are exempt from the auditor attestation requirement of Section 404B of Sarbanes-Oxley until such time as we no longer qualify as an emerging growth company. Regardless of whether we qualify as an emerging growth company, we will still need to implement substantial control systems and procedures in order to satisfy the reporting requirements under the Exchange Act and applicable requirements, among other items.

During the course of our assessment, we may identify deficiencies that we are unable to remediate in a timely manner. Testing and maintaining our internal control over financial reporting may also divert management's attention from other matters that are important to the operation of our business. We may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404(b) of Sarbanes-Oxley. If we conclude that our internal control over financial reporting is not effective, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or its effect on our operations because there is presently no precedent available by which to measure compliance adequacy. Moreover, any material weaknesses or other deficiencies in our internal control over financial reporting may impede our ability to file timely and accurate reports with the SEC. Any of the above could cause investors to lose confidence in our reported financial information or our common share listing on the NASDAQ Stock Market to be suspended or terminated, which could have a negative effect on the trading price of our shares.

Following the completion of this offering, the D. E. Shaw Affiliates will own and have voting power over a large percentage of our common shares, which will allow them to have significant influence over matters requiring shareholder approval, and also will continue to have affiliated persons serving on our board of directors, a right to appoint up to two directors and the right to approve certain transactions.

Following completion of this offering, the D. E. Shaw Affiliates will beneficially own approximately •% of our outstanding common shares in the aggregate. The D. E. Shaw Affiliates have previously granted irrevocable voting proxies to bring the D. E. Shaw Affiliates' aggregate voting power over our outstanding common shares to approximately 42%. See "Principal and Selling Shareholders — Irrevocable Proxies Granted by the D. E. Shaw Affiliates." Although the D. E. Shaw Affiliates will not have voting power over the majority of outstanding common shares following the offering, they will have voting power over 42% of our outstanding shares. As a result, such shareholders will have significant influence over all matters requiring shareholder approval, including the election of directors, determination of significant corporate actions, amendments to our organizational documents, and the approval of any business transaction, such as a merger or other sale of us or our assets, in a manner that could conflict with the interests of other shareholders. In addition, D. E. Shaw & Co., L.P. acts as an investment advisor to the D. E. Shaw Affiliates and may earn investment and management fees from the investment of the D. E. Shaw Affiliates in the Company which may influence their decision with respect to any proposed change of control of the Company. The D. E. Shaw Affiliates may also delay or prevent a change of control, even if such a change of control would benefit our other shareholders.

Additionally, our bye-laws that will be effective immediately prior to the consummation of the offering contemplated by this prospectus will provide that for so long as the D. E. Shaw Affiliates collectively hold shares representing at least (1) 25% of the outstanding common shares, the D. E. Shaw Affiliates shall have the right to designate two directors to the board of directors and (2) 10% (but less than 25%) of the outstanding common shares, the D. E. Shaw Affiliates shall have the right to designate one director to the board of directors. Also, during the three year period following consummation of the offering, as long as the D. E. Shaw Affiliates collectively hold shares representing at least 20% of the outstanding common shares and subject to certain limited exceptions, the consent or affirmative vote of a director designated by the D. E. Shaw Affiliates will be required for us to take certain actions, including selling the Company or all or substantially all its assets, removing or appointing our chief executive officer, chief operating officer and chief financial officer and amending certain provisions of our organizational documents. Accordingly, the D. E. Shaw Affiliates will have substantial influence over us following completion of this offering.

Further, Messrs. Martin and Zwillinger, members of our board of directors, are affiliates of the D. E. Shaw Affiliates. Messrs. Martin and Zwillinger have indicated that they intend to continue to serve as directors, and in such capacity, will continue to have significant influence over our management, business plans and policies. The significant concentration of share ownership of our common shares and affiliation of two of our directors with the D. E. Shaw Affiliates, collectively, our largest affiliated shareholders, and the other rights that the D. E. Shaw Affiliates will maintain may adversely affect the trading price of our common shares due to investors' perception that conflicts of interest may exist or arise.

Our bye-laws permit D. E. Shaw & Co., L.P. and its affiliates (including the D. E. Shaw Affiliates) and non-employee members of our board of directors to compete with us, which may result in conflicts of interest.

Our restated bye-laws will provide that no shareholder, or any its affiliates or members of our board of directors (other than those who are our officers, managers or employees), shall have any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. D. E. Shaw & Co., L.P. and its affiliates (including the D. E. Shaw Affiliates) are in the business of making investments in companies and our bye-laws will not restrict them from acquiring and holding interests in businesses that compete directly or indirectly with us. For example, certain affiliates of D. E. Shaw & Co., L.P. are currently engaged in the reinsurance business. D. E. Shaw & Co., L.P., its affiliates and non-employee directors may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. These potential conflicts of interest could have a material adverse effect on our business, financial condition, results of operations or prospects if we are not able to pursue attractive corporate opportunities because they are allocated by one or more of the D. E. Shaw Affiliates to themselves or their other affiliates instead of being presented to us.

We depend upon dividends and distributions from our subsidiaries, and we may be unable to distribute dividends to our shareholders to the extent we do not receive dividends from our subsidiaries.

We are a holding company that has no substantial operations of our own and, accordingly, we rely primarily on cash dividends or distributions from our operating subsidiaries to pay our operating expenses and any dividends that we may pay to shareholders. The payment of dividends by our insurance and reinsurance subsidiaries is limited under the laws and regulations of its applicable domicile. These regulations stipulate the maximum amount of annual dividends or other distributions available to shareholders without prior approval of the relevant regulatory authorities. As a result of such regulations, we may not be able to pay our operating expenses as they become due and our payment of future dividends to shareholders may be limited.

The payment of dividends by our subsidiaries to us is limited by statute. In general, the laws and regulations applicable to our U.S. 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. In Ohio, the domiciliary state of James River Insurance, this limitation is the greater of statutory net income for the preceding calendar year or 10% of the statutory surplus at the end of the preceding calendar year, provided that such dividends may only be paid out of James River Insurance's earned surplus. In North Carolina, the domiciliary state of Stonewood Insurance, this limitation is the greater of statutory net income excluding realized capital gains for the preceding calendar year or 10% of the statutory surplus at the end of the preceding calendar year, provided that such dividends may only be paid out of unassigned surplus without obtaining regulatory approval. In Virginia, the domiciliary state of James River

Casualty, this limitation is the greater of statutory net income excluding realized capital gains for the preceding calendar year or 10% of the statutory surplus at the end of the preceding calendar year, provided that such dividends may only be paid out of unassigned surplus without obtaining regulatory approval. In addition, insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels and could refuse to permit the payment of dividends calculated under any applicable formula. See "Certain Regulatory Considerations — U.S. Insurance Regulation" for more information. In addition, dividends paid by our U.S. subsidiaries to us are subject to a 30% withholding tax in the United States.

JRG Re, which is domiciled in Bermuda, is registered as a Class 3B insurer under the Insurance Act. The Insurance Act, the conditions listed in the insurance license and the applicable approvals issued by the BMA provide that JRG Re is required to maintain a minimum statutory solvency margin of $57.4 million as of December 31, 2013. See "Certain Regulatory Considerations — Bermuda Insurance Regulation — Minimum Solvency Margin and Enhanced Capital Requirements" for more information. A Class 3B insurer is prohibited from declaring or paying a dividend if it fails to meet, before or after declaration or payment of such dividend, its: (1) requirements under the Companies Act, 1981 of Bermuda (the "Companies Act"), (2) minimum solvency margin, (3) enhanced capital requirement or (4) minimum liquidity ratio. If a Class 3B insurer fails to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA. In addition, JRG Re, as a Class 3B insurer is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the BMA an affidavit signed by at least 2 directors (one of whom must be a Bermuda resident director if any of the insurer's directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio. Where such an affidavit is filed, it shall be available for public inspection at the offices of the BMA. See "Certain Regulatory Considerations — Bermuda Insurance Regulation — Restrictions on Dividends and Distributions" for more information.

The inability of our subsidiaries to pay dividends or make distributions to us, including as a result of regulatory or other restrictions, may prevent us from paying our expenses or paying dividends to our shareholders.

We cannot assure you that we will declare or pay dividends on our common shares in the future.

We intend to declare and pay dividends on our common shares, which will be our only class of common shares outstanding immediately following the offering, in an amount and on such dates as may be determined by our board of directors from time to time in their discretion. Any determination to declare or pay future dividends to our shareholders will be at the discretion of our board of directors and will depend on a variety of factors, including (1) our financial condition, liquidity, results of operations (including our ability to generate cash flow in excess of expenses and our expected or actual net income), retained earnings and collateral and capital requirements, (2) general business conditions, (3) legal, tax and regulatory limitations, (4) contractual prohibitions and other restrictions, (5) the effect of a dividend or dividends upon our financial strength ratings and (6) any other factors that our board of directors deems relevant. See "Dividend Policy."

Future sales or the possibility of future sales of a substantial amount of our common shares by our existing shareholders may depress the price of such shares.

After giving effect to this offering, our existing shareholders will beneficially own approximately •% of our outstanding common shares, not including any common shares they or related parties may purchase in this offering. Of these shares, •% are subject to lock-up agreements that prohibit the owners from disposing of our shares for 180 days after the date of this prospectus. We cannot predict what effect, if any, future sales of shares by these persons, their affiliates or our other shareholders, or the availability of shares for future sale, may have on the prevailing market price of our common shares from time to time. Sales of substantial amounts of our common shares in the public market by these persons, their affiliates or our other shareholders, or the possibility or perception that such sales could occur, could adversely affect prevailing market prices for our common shares. See "Shares Eligible for Future Sale."

The D. E. Shaw Affiliates and Goldman Sachs have rights, subject to certain conditions, to require us to file one or more registration statements, and all of our shareholders prior to the offering contemplated by this prospectus may, subject to limitations, include their shares for registration in a future registration statement that we file. This may in the future facilitate the sale of large amounts of our common shares. See "Certain Relationships and Related Party Transactions — Related Party Transactions — Registration Rights Agreement."

If such sales reduce the market price of our common shares, our ability to raise additional capital in the equity markets may be adversely affected, and it may be difficult for you to sell your shares at a time and price that you deem appropriate.

Our bye-laws and provisions of Bermuda law may impede or discourage a change of control transaction, which could deprive our investors of the opportunity to receive a premium for their shares.

Our bye-laws and provisions of Bermuda law to which we are subject contain provisions that could discourage, delay or prevent "change of control" transactions or changes in our board of directors and management that certain shareholders may view as beneficial or advantageous. These provisions include, among others:

- the total voting power of any U.S. person owning more than 9.5% of our common shares will be reduced to 9.5% of the total voting power of our common shares, excluding the D. E. Shaw Affiliates and any other shareholder that owns more than 9.5% of the total voting power of our common shares as of the consummation of the offering contemplated by this prospectus. See "Description of Share Capital — Voting Rights";
- our board of directors has the authority to issue preferred shares without shareholder approval, which could be used to dilute the ownership of a potential hostile acquiror;
- our board of directors may decline to record the transfer of any common shares on our share register if they believe that (a) registration of the transfer is required under any federal or state securities law or under the laws of any other jurisdiction and the registration has not yet been effected or (b) such transfer is likely to expose us to adverse tax consequences or materially adverse legal or regulatory treatment in any jurisdiction;
- our shareholders may only remove directors for cause and so long as the D. E. Shaw Affiliates have the right to designate directors, the directors designated by the D. E. Shaw Affiliates may only be replaced by the D. E. Shaw Affiliates;
- there are advance notice requirements for shareholders with respect to director nominations and actions to be taken at annual meetings;
- the sale of the Company (subject to certain limited exceptions) will require the consent of a director designated by the D. E. Shaw Affiliates; and
- under Bermuda law, for so long as JRG Re is registered under the Insurance Act, the BMA may object to a person holding more than 10% of our common shares if it appears to the BMA that the person is not or is no longer fit and proper to be such a holder (See "— There are regulatory limitations on the ownership and transfer of our common shares.").

The foregoing factors, as well as the significant share ownership by principal shareholders following the offering, could impede a merger, takeover or other business combination, which could reduce the market value of our shares. See "Description of Share Capital."

We may repurchase your common shares without your consent.

Under our bye-laws and subject to Bermuda law, we have the option, but not the obligation, to require a shareholder, other than any shareholder that owns more than 9.5% of the total voting power of our common shares as of the consummation of the offering contemplated by this prospectus, to sell to us at fair market value the minimum number of common shares which is necessary to avoid or cure any adverse tax consequences or materially adverse legal or regulatory treatment to us, our subsidiaries or our shareholders if our board of directors reasonably determines, in good faith, that failure to exercise our option would result in such adverse consequences or treatment. The D. E. Shaw Affiliates will not be subject to these provisions.

Bermuda law differs from the laws in effect in the United States and may afford less protection to holders of our shares.

We are organized under the laws of Bermuda. As a result, our corporate affairs are governed by the Companies Act, which differs in some material respects from laws typically applicable to U.S. corporations and shareholders, including the provisions relating to interested directors, amalgamations, mergers and acquisitions, takeovers, shareholder lawsuits and indemnification of directors. Generally, the duties of directors and officers of a Bermuda company are owed to the company only. Shareholders of Bermuda companies typically do not have rights to take action against directors or officers of the company and may only do so in limited circumstances. Class actions are not available under Bermuda law. The circumstances in which derivative actions may be available under Bermuda law are substantially more proscribed and less clear than they would be to shareholders of U.S. corporations. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong to the company where the act complained of is alleged to be beyond the corporate power of the company or illegal, or would result in the violation of the company's memorandum of association or bye-laws. Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

When the affairs of a company are being conducted in a manner that is oppressive or prejudicial to the interests of some shareholders, one or more shareholders may apply to the Supreme Court of Bermuda, which may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders by other shareholders or by the company. Additionally, under our bye-laws and as permitted by Bermuda law, each shareholder has waived any claim or right of action against our directors or officers for any action taken by directors or officers in the performance of their duties, except for actions involving fraud or dishonesty. In addition, the rights of holders of our common shares and the fiduciary responsibilities of our directors under Bermuda law are not as clearly established as under statutes or judicial precedent in existence in jurisdictions in the United States, particularly the State of Delaware. Therefore, holders of our common shares may have more difficulty protecting their interests than would shareholders of a corporation incorporated in a jurisdiction within the United States.

There are regulatory limitations on the ownership and transfer of our common shares.

Common shares may be offered or sold in Bermuda only in compliance with the provisions of the Companies Act and the Bermuda Investment Business Act 2003, which regulates the sale of securities in Bermuda. In addition, the BMA must approve all issues and transfers of shares of a Bermuda exempted company. However, the BMA has, pursuant to its statement of June 1, 2005 (the "Public Notice"), given its general permission under the Exchange Control Act 1972 (and related regulations) for the issue and free transfer of Equity Securities (as such term is defined in the Public Notice) of Bermuda companies to and among persons who are non-residents of Bermuda for exchange control purposes as long as Equity Securities of such company are listed on an appointed stock exchange, which includes the NASDAQ Stock Market. This general permission will apply to our common shares, but would cease to apply if we were to cease to be listed on the NASDAQ Stock Market.

Notwithstanding the above general permission, we intend to apply for and expect to receive consent from the BMA, subject to our shares being listed on an appointed stock exchange (which includes the NASDAQ Stock Market), to issue, and transfer freely any of our shares, options, warrants, depository receipts, rights loan notes, debt instruments or other securities to and among persons who are either residents or non-residents of Bermuda for exchange control purposes.

The Insurance Act requires that, in respect of a company whose shares are listed on a stock exchange recognized by the BMA, any person who becomes a holder of at least 10%, 20%, 33% or 50% of the shares of an insurance or reinsurance company or its parent company must notify the BMA in writing within 45 days of becoming such a holder or 30 days from the date such person has knowledge of having such a holding, whichever is later. This requirement will apply to us as long as our shares are listed on the NASDAQ Stock Market or another stock exchange recognized by the BMA. The BMA may, by written notice, object to a person holding 10%, 20%, 33% or 50% of our common shares if it appears to the BMA that the person is not fit and proper to be such a holder. The BMA may require the holder to reduce its shareholding in us and may direct, among other things, that the voting rights attaching to its shares shall not be exercisable. A person that does not comply with such a notice or direction from the BMA will be guilty of an offense.

JRG Re is also required to notify the BMA in writing in the event any person has become or has ceased to be a controller or an officer of it (an officer includes a director, chief executive or senior executive performing duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters).

Except in connection with the settlement of trades or transactions entered into through the facilities of the NASDAQ Stock Market, our board of directors may generally require any shareholder or any person proposing to acquire our shares to provide the information required under our bye-laws. If any such shareholder or proposed acquiror does not provide such information, or if our board of directors has reason to believe that any certification or other information provided pursuant to any such request is inaccurate or incomplete, our board of directors may decline to register any transfer or to effect any issuance or purchase of shares to which such request is related.

In addition, the insurance holding company laws and regulations of the states in which our insurance companies are domiciled generally require that, before a person can acquire direct or indirect control, and in some cases prior to divesting its control, of an insurer domiciled in the state, prior written approval must be obtained from the insurer’s domiciliary state insurance regulator. These laws may discourage potential acquisition proposals and may delay, deter or prevent an investment in or a change of control involving us, or one or more of our regulated subsidiaries, including transactions that our management and some or all of shareholders might consider desirable. Pursuant to applicable laws and regulations, “control” over an insurer is generally presumed to exist if any person, directly or indirectly, owns, controls, holds the power to vote or holds proxies representing, 10% or more of the voting securities of that reinsurer or insurer. Indirect ownership includes ownership of the Company’s common shares.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. You can identify forward-looking statements in this prospectus by the use of words such as “anticipates,” “estimates,” “expects,” “intends,” “plans” 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, 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 prospectus as a result of various factors, 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, including recession, inflation, periods of high unemployment or lower economic activity could adversely affect our growth and profitability;
- 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;
- existing or new regulations that may inhibit our ability to achieve our business objectives or subject us to penalties or suspensions for non-compliance or cause us to incur substantial compliance costs;
- a failure of any of the loss limitations or exclusions we employ;
- 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;
- reliance on brokers and agents;
- losses in our investment portfolio;
- the cyclical nature of the insurance and reinsurance industry, resulting in periods during which we may experience excess underwriting capacity and unfavorable premium rates;
- additional government or market regulation;
- our reinsurance business being subject to loss settlements made by ceding companies and fronting carriers;
- a forced sale of investments to meet our liquidity needs;
- our ability to obtain reinsurance coverage at reasonable prices or on terms that adequately protect us;
- our underwriters and other associates could take excessive risks;
- losses resulting from reinsurance counterparties failing to pay us on reinsurance claims or insurance companies with whom we have a fronting arrangement failing to pay us for claims;
- the potential impact of internal or external fraud, operational errors, systems malfunctions or cybersecurity incidents;

- our ability to manage our growth effectively;
- competition within the casualty insurance and reinsurance industry;
- an adverse outcome in a legal action that we are or may become subject to in the course of our insurance and reinsurance operations;
- in the event we do not qualify for the insurance company exception to the 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, including a higher tax rate on dividends received from us and any gain realized on a sale or other disposition of our common shares, as well as an interest charge;
- the Company or JRG Re becoming subject to U.S. federal income taxation;
- failure to maintain effective internal controls in accordance with Sarbanes-Oxley;
- the D. E. Shaw Affiliates' continued ownership of a significant portion of our outstanding shares and their resulting ability to exert significant influence over matters requiring shareholder approval in a manner that could conflict with the interests of other shareholders; additionally, the D. E. Shaw Affiliates will have certain rights with respect to board representation and approval rights with respect to certain transactions;
- changes in our financial condition, regulations or other factors that may restrict our ability to pay dividends; and
- other risks and uncertainties discussed in "Risk Factors" and elsewhere in this prospectus.

Accordingly, you should read this prospectus completely and with the understanding that our actual future results may be materially different from what we expect.

Forward-looking statements speak only as of the date of this prospectus. 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 prospectus, 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 prospectus 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.

USE OF PROCEEDS

The proceeds from this offering, before deducting underwriting discounts, will be approximately $• million (or $• million if the underwriters exercise their option to purchase additional shares in full), assuming an initial offering price of $• per share, the midpoint of the price range set forth on the cover of this prospectus. The selling shareholders will receive all of the proceeds from this offering, and we will not receive any proceeds from this offering.

DIVIDEND POLICY

In August 2014, we declared a dividend payable to our shareholders of record as of June 30, 2014, in the aggregate amount of $70.0 million, which we financed with a $50.0 million dividend paid to the Company by JRG Re and approximately $20.0 million in additional borrowings under our senior revolving credit facility.

We intend to declare and pay dividends on our common shares, which will be our only class of common shares outstanding immediately following the offering, in an amount and on such dates as may be determined by our board of directors from time to time in their discretion. Our board of directors will give consideration to various risks and uncertainties, including those discussed under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this prospectus when determining whether to declare and pay dividends, as well as the amount thereof. Our board of directors may take into account a variety of factors when determining whether to declare any future dividends, including (1) our financial condition, liquidity, results of operations (including our ability to generate cash flow in excess of expenses and our expected or actual net income), retained earnings and collateral and capital requirements, (2) general business conditions, (3) legal, tax and regulatory limitations, (4) contractual prohibitions and other restrictions, (5) the effect of a dividend or dividends upon our financial strength ratings and (6) any other factors that our board of directors deems relevant.

We are a holding company that has no substantial operations of our own, and we rely primarily on cash dividends or distributions from our subsidiaries to pay our operating expenses and dividends to shareholders. The payment of dividends by our insurance and reinsurance subsidiaries is limited under the laws and regulations of their respective domicile. These regulations stipulate the maximum amount of annual dividends or other distributions available to shareholders without prior approval of the relevant regulatory authorities. Additionally, dividends from our U.S. subsidiaries to the Bermuda holding company are subject to a 30% withholding tax by the IRS. As a result of such regulations, we may not be able to pay our operating expenses as they become due and our payment of future dividends to shareholders may be limited. See “Risk Factors — Risks Related to our Business and Industry — We depend upon dividends and distributions from our subsidiaries, and we may be unable to distribute dividends to our shareholders to the extent we do not receive dividends from our subsidiaries.”

CAPITALIZATION

The following sets forth our debt, shareholders' equity and capitalization as of June 30, 2014 (1) on an actual basis, (2) after giving effect to the distribution of $70.0 million in dividends to our shareholders of record as of June 30, 2014, which we financed with a $50.0 million dividend paid to the Company by JRG Re and approximately $20.0 million in additional borrowings under our senior revolving credit facility and (3) after completion of the Recapitalization, payment of offering expenses and consummation of this offering, in the case of (2) and (3), on a pro-forma basis.

You should read this table in conjunction with "Selected Consolidated Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial data and related notes and other financial information included elsewhere in this prospectus.

	June 30, 2014	Pro Forma to give effect to Additional Borrowing and Shareholder Dividends	Pro Forma to give effect to Additional Borrowing, Shareholder Dividends, Recapitalization and Offering June 30, 2014
		($ in thousands)	
Debt	$ 162,055	$ 182,455	$ 182,455
Shareholders' equity:			
Class A common shares, $0.01 par value, 1,200,000 shares authorized (0 authorized pro-forma), 570,807 shares issued and outstanding (0 issued and outstanding pro-forma)	6	6	—
Class B common shares, $0.01 par value, 2,800,000 shares authorized (0 authorized pro-forma), no shares issued and outstanding (no shares issued and outstanding pro-forma)	—	—	—
Common Shares, $• par value, 0 shares authorized (• authorized pro-forma), no shares issued and outstanding (• issued and outstanding pro-forma)	—	—	6
Preferred Shares $• par value, 2,500,000 shares authorized, no shares issued and outstanding	—	—	—
Additional paid in capital	627,860	627,860	627,860
Retained earnings	85,287	15,287	15,287[1]
Accumulated other comprehensive income	18,705	18,705	18,705
Total shareholders' equity	$ 731,858	$ 661,858	$ 661,858
Total capitalization	$ 893,913	$ 844,313	$ 844,313
Ratio of debt to total capitalization	18.1%	21.6%	21.6%

[1] To be adjusted for offering expenses and expenses to be incurred in connection with termination of existing equity plan.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present selected historical financial information of James River Group Holdings, Ltd. derived from (i) our consolidated financial statements, which have been audited by Ernst & Young, LLP, for the years ended December 31, 2013, 2012 and 2011 and as of December 31, 2013 and 2012 included in this prospectus and (ii) our unaudited condensed consolidated financial statements for the six months ended June 30, 2014 and 2013 and as of June 30, 2014 and 2013. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. In the opinion of our management, the unaudited condensed consolidated financial statements presented in the tables below reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of our consolidated financial position and results of operations as of the dates and for the periods indicated.

These historical results are not necessarily indicative of results to be expected from any future period. The following information is only a summary and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and our audited consolidated financial statements and the related notes included elsewhere in this prospectus.

	Six Months Ended June 30,		Year Ended December 31,		
	2014	2013	2013	2012	2011
	($ in thousands, except for per share data)				
Operating Results:					
Gross written premiums[1]	$ 244,201	$ 165,021	$ 368,518	$ 491,931	$ 490,821
Ceded written premiums[2]	(30,419)	(17,966)	(43,352)	(139,622)	(57,752)
Net written premiums	$ 213,782	$ 147,055	$ 325,166	$ 352,309	$ 433,069
Net earned premiums	$ 186,068	$ 162,853	$ 328,078	$ 364,568	$ 337,105
Net investment income	23,193	25,534	45,373	44,297	48,367
Net realized investment (losses) gains	(3,711)	12,514	12,619	8,915	20,899
Other income	941	103	222	130	226
Total revenues	206,491	201,004	386,292	417,910	406,597
Losses and loss adjustment expenses	117,450	105,859	184,486	264,496	233,479
Other operating expenses	64,857	57,528	114,804	126,884	115,378
Other expenses	389	534	677	3,350	592
Interest expense	3,104	3,626	6,777	8,266	8,132
Amortization of intangible assets	298	1,278	2,470	2,848	2,848
Impairment of intangible assets	—	—	—	4,299	—
Total expenses	186,098	168,825	309,214	410,143	360,429
Income before income tax expense	20,393	32,179	77,078	7,767	46,168
Income tax expense (benefit)	1,742	4,043	9,741	(897)	7,695
Net income[3]	$ 18,651	$ 28,136	$ 67,337	$ 8,664	$ 38,473
Net operating income[4]	$ 21,351	$ 19,676	$ 58,918	$ 7,935	$ 22,352
Earnings per Share:					
Basic	$ 32.67	$ 43.44	$ 110.60	$ 12.12	$ 53.74
Diluted	$ 32.40	$ 43.44	$ 110.39	$ 11.95	$ 53.16
Weighted — average shares outstanding — diluted	575,686	647,672	610,016	714,667	714,360

	At or for the Six Months Ended June 30,		At or for the Year Ended December 31,		
	2014	2013	2013	2012	2011
			($ in thousands, except for ratios)		
Balance Sheet Data:					
Cash and invested assets	$ 1,276,146	$ 1,150,678	$ 1,217,078	$ 1,235,537	
Reinsurance recoverables	124,691	147,970	120,477	176,863	
Goodwill and intangible assets	222,255	223,745	222,553	225,023	
Total assets	1,897,972	1,854,220	1,806,793	2,025,381	
Reserve for losses and loss adjustment expenses	683,573	719,368	646,452	709,721	
Unearned premiums	249,632	207,664	218,532	239,055	
Senior debt	58,000	58,000	58,000	35,000	
Junior subordinated debt	104,055	104,055	104,055	104,055	
Total liabilities	1,166,114	1,185,195	1,105,303	1,241,341	
Total shareholders' equity	731,858	669,025	701,490	784,040	
GAAP Underwriting Ratios:					
Loss ratio[5]	63.1%	65.0%	56.2%	72.6%	69.3%
Expense ratio[6]	34.9%	35.3%	35.0%	34.8%	34.2%
Combined ratio[7]	98.0%	100.3%	91.2%	107.4%	103.5%
Other Data:					
Tangible shareholders' equity[8]	$ 509,603	$ 445,280	$ 478,937	$ 559,017	
Tangible shareholders' equity per common share outstanding	$ 892.78	$ 780.37	$ 839.05	$ 775.77	
Debt to total capitalization ratio[9]	18.1%	19.5%	18.8%	15.1%	
Regulatory capital and surplus[10]	$ 610,912	$ 538,023	$ 580,267	$ 596,272	
Net written premiums to surplus ratio[11]	0.7	0.5	0.6	0.6	

[1] The amount received or to be received for insurance policies written or assumed by us during a specific period of time without reduction for acquisition costs, reinsurance costs or other deductions.

[2] The amount of written premiums ceded to (reinsured by) other insurers.

[3] Net income represents income from continuing operations for all periods presented.

[4] Net operating income is a non-GAAP measure. We define net operating income as net income excluding net realized investment gains and losses, expenses related to due diligence costs for various merger and acquisition activities, severance costs associated with terminated employees, impairment charges on goodwill and intangible assets, gains on extinguishment of debt and interest expense on a leased building that we are deemed to own for accounting purposes. We use net operating income as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Net operating income should not be viewed as a substitute for net income in accordance with GAAP. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reconciliation of Non-GAAP Measures" for a reconciliation of net operating income to net income in accordance with GAAP.

[5] The loss ratio is the ratio, expressed as a percentage, of losses and loss adjustment expenses to net earned premiums, net of the effects of reinsurance.

[6] The expense ratio is the ratio, expressed as a percentage, of other operating expenses to net earned premiums.

(7) The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio under 100% generally indicates an underwriting profit. A combined ratio over 100% generally indicates an underwriting loss.

(8) Tangible shareholders' equity is shareholders' equity less goodwill and intangible assets.

(9) The ratio, expressed as a percentage, of total indebtedness for borrowed money to the sum of total indebtedness for borrowed money and shareholders' equity.

(10) For our U.S. insurance subsidiaries, the excess of assets over liabilities as determined in accordance with statutory accounting principles as determined by the NAIC. For our Bermuda reinsurer, shareholders' equity in accordance with U.S. generally accepted accounting principles ("GAAP").

(11) We believe this measure is useful in evaluating our insurance subsidiaries' operating leverage. It may not be comparable to the definition of net written premiums to surplus ratio for other companies. The calculations for the six months ended June 30, 2014 and 2013 use annualized net written premiums as the numerator in the calculation. Annualized results are not necessarily indicative of our actual results for the full year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements and involves numerous risks and uncertainties, including those described under the heading "Risk Factors." Actual results may differ materially from those contained in any forward-looking statements. You should read this discussion and analysis together with our audited consolidated balance sheet and related notes included elsewhere in this prospectus.

Overview

James River Group Holdings, Ltd. is a Bermuda-based insurance 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 volatility. We seek to do this by earning profits from insurance underwriting while opportunistically investing our capital to grow tangible equity for our shareholders. Until December 11, 2007, our U.S.-based operations were managed by James River Group, Inc., which was a publicly-held company traded on the NASDAQ stock market. On December 11, 2007, we acquired James River Group, Inc. (the "Acquisition"). We do not believe that the Acquisition changed the tax status of the Company for U. S. federal income tax purposes. On September 18, 2014, we changed our name from Franklin Holdings (Bermuda), Ltd. to our current name.

For the year ended December 31, 2013, 70% of our group-wide gross written premiums originated from the U.S. E&S lines market. We also have a specialty admitted insurance business in the United States that we believe is well positioned for growth. We intend to concentrate substantially all of our underwriting in casualty insurance and reinsurance, and for the year ended December 31, 2013, over 95% of our group-wide gross written premiums were from casualty insurance and reinsurance. We focus on specialty markets in which our underwriters have particular expertise and where we have long-standing distribution relationships; maintaining a strong balance sheet by maintaining appropriate reserves; monitoring reinsurance recoverables carefully; managing our investment portfolio actively without taking undue risk; using technology to monitor trends in our business; responding rapidly to market opportunities and challenges; and actively managing our capital.

We report our business in four segments: Excess and Surplus Lines, Specialty Admitted Insurance, Casualty Reinsurance and Corporate and Other.

The Excess and Surplus Lines segment offers E&S commercial lines liability and property insurance in every U.S. state and the District of Columbia through James River Insurance and its wholly-owned subsidiary, James River Casualty. James River Insurance and James River Casualty are both non-admitted carriers. Non-admitted carriers writing in the E&S market are not bound by most of the rate and form regulations imposed on standard market companies, allowing them flexibility to change the coverage terms offered and the rate charged without the time constraints and financial costs associated with the filing process. In 2013, the average account in this segment generated annual gross written premiums of approximately $16,000. The Excess and Surplus Lines segment distributes primarily through wholesale insurance brokers. Members of our management team have participated in this market for over three decades and have long-standing relationships with the wholesale agents who place E&S lines accounts. The Excess and Surplus Lines segment produced 52.2% of our gross written premiums for the year ended December 31, 2013.

The Specialty Admitted Insurance segment focuses on niche classes within the standard insurance markets, such as workers' compensation coverage for residential contractors, light manufacturing operations, transportation workers and healthcare workers in North Carolina, Virginia, South Carolina and Tennessee. This segment has admitted licenses in 47 states and the District of Columbia. While this segment has historically focused on workers' compensation business, going forward, we anticipate growing our fronting business and our other commercial lines through our program business. We believe we can earn substantial fees in our program and fronting business by writing policies and then transferring all or a substantial portion of the underwriting risk position to other capital providers that pay us a fee for "fronting" or ceding the business to them. The Specialty Admitted Insurance segment distributes through a variety of sources, including independent retail agents, program administrators and MGAs. The Specialty Admitted Insurance segment produced 5.6% of our gross written premiums for the year ended December 31, 2013.

The Casualty Reinsurance segment consists of JRG Re, our Bermuda domiciled reinsurance subsidiary, which provides proportional and working layer casualty reinsurance to third parties and to our U.S.-based insurance subsidiaries. The Casualty Reinsurance segment's underwriting results only include the results of reinsurance written with unaffiliated companies and do not include the premiums and losses ceded under our internal quota share arrangement described below, which are captured in our Excess and Surplus Lines and Specialty Admitted Insurance segments, respectively. Typically, we structure our reinsurance contracts (also known as treaties) as quota share arrangements, with loss mitigating features, such as commissions that adjust based on underwriting results. We frequently include risk mitigating features in our excess working layer treaties, which allows the ceding company to capture a greater percentage of the profits should the business prove more profitable than expected, or alternatively provides us with additional premiums should the business incur higher than expected losses. We believe these structures allow us to participate in the risk side-by-side with the ceding company and best align our interests with the interests of our cedents. Treaties with loss mitigation features including sliding scale ceding commissions represented 85% of the gross premiums written by our Casualty Reinsurance segment during the first six months of 2014. We typically do not assume large individual risks in our Casualty Reinsurance segment, nor do we write property catastrophe reinsurance. Two of the three largest unaffiliated accounts written by JRG Re in 2013 and during the first six months of 2014 were ceded from E&S carriers. The Casualty Reinsurance segment distributes through traditional reinsurance brokers. The Casualty Reinsurance segment produced 42.2% of our gross written premiums for the year ended December 31, 2013.

We have direct intercompany reinsurance agreements under which we cede 70% of the pooled net written premiums of our U.S. subsidiaries (after taking into account third-party reinsurance) to JRG Re. This business is ceded to JRG Re under a proportional, or quota-share, reinsurance treaty that provides for an arm's length ceding commission. Notwithstanding the intercompany agreement, we exclude the effects of this agreement for the presentation of the Excess and Surplus Lines and Specialty Admitted Insurance reporting segments included herein. At June 30, 2014, approximately 64% of our cash and invested assets were held by JRG Re, which benefits from a favorable operating environment, including an absence of corporate income or investment taxes. We do pay a 1% excise tax on premiums ceded to JRG Re. For the year ended December 31, 2013, our total effective tax rate was 12.6%.

The Corporate and Other segment consists of the management and treasury activities of our holding companies and interest expense associated with our debt.

The A.M. Best financial strength rating for our group's regulated insurance subsidiaries is "A-" (Excellent), with a "positive outlook." 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.

Critical Accounting Policies and Estimates

We identified the accounting estimates below as critical to the understanding of our financial position and results of operations. Critical accounting estimates are defined as those estimates that are both important to the portrayal of our financial condition and results of operations and which require us to exercise significant judgment. We use significant judgment concerning future results and developments in applying these critical accounting estimates and in preparing our consolidated financial statements. These judgments and estimates affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of material contingent assets and liabilities. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements. We evaluate our estimates regularly using information that we believe to be relevant. For a detailed discussion of our accounting policies, see the Notes to Consolidated Financial Statements included in this Form S-1.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents our estimated ultimate cost of all reported and unreported losses and loss adjustment expenses incurred and unpaid at the balance sheet date. We do not discount this reserve. We estimate the reserve using individual case-basis valuations of reported claims and statistical analyses. We believe that the use of judgment is necessary to arrive at a best estimate for the reserve for losses and loss adjustment expenses given the long-tailed nature of the business we write and the limited operating experience of the Casualty Reinsurance segment and of the program and fronting business in the Specialty Admitted Insurance segment. In applying this judgement, we generally establish reserves that are above our actuaries' estimate. As such, we seek to establish reserves that will ultimately prove to be adequate. If we have indications that claims frequency or severity exceeds our initial expectations, we increase our reserves for losses and loss adjustment expenses. Conversely, when claims frequency and severity trends are more favorable than initially anticipated, we reduce our reserves for losses and loss adjustment expenses once we have sufficient data to confirm the validity of the favorable trends.

Our Excess and Surplus Lines and Specialty Admitted Insurance segments generally are notified of losses by our insureds or their brokers. Based on the information provided, we establish case reserves by estimating the ultimate losses from the claim, including administrative costs associated with the ultimate settlement of the claim. Our claims department personnel use their knowledge of the specific claim along with internal and external experts, including underwriters and legal counsel, to estimate the expected ultimate losses.

Our Casualty Reinsurance segment generally establishes case reserves based on reports received from ceding companies or their brokers. For excess of loss contracts, we are typically notified of insurance losses on specific contracts, and we record case reserves based on the estimated ultimate losses on each claim. For proportional contracts, we typically receive aggregated claims information and record case reserves based on that information.

We also use statistical analyses to estimate the cost of losses and loss adjustment expenses that have been incurred but not reported to us ("IBNR"). Those estimates are based on our historical information, industry information and estimates of future trends that may affect the frequency of claims and changes in the average cost of claims (severity) that may arise in the future.

The Company's gross reserve for losses and loss adjustment expenses at December 31, 2013 was $646.5 million. Of this amount, 70.9% relates to IBNR (72.2% at June 30, 2014). The Company's gross reserve for losses and loss adjustment expenses by segment are summarized as follows:

	Gross Reserves at December 31, 2013			
	Case	IBNR	Total	IBNR % of Total
	($ in thousands)			
Excess and Surplus Lines	$ 70,230	$ 308,737	$ 378,967	81.5%
Specialty Admitted Insurance	31,470	27,436	58,906	46.6%
Casualty Reinsurance	86,566	122,013	208,579	58.5%
Total	$ 188,266	$ 458,186	$ 646,452	70.9%

The Company's net reserve for losses and loss adjustment expenses at December 31, 2013 was $527.0 million. Of this amount, 68.2% relates to IBNR (69.9% at June 30, 2014). The Company's net reserve for losses and loss adjustment expenses by segment are summarized as follows:

	Net Reserves at December 31, 2013			
	Case	IBNR	Total	IBNR % of Total
	($ in thousands)			
Excess and Surplus Lines	$ 63,348	$ 233,220	$ 296,568	78.6%
Specialty Admitted Insurance	28,996	22,485	51,481	43.7%
Casualty Reinsurance	75,498	103,438	178,936	57.8%
Total	$ 167,842	$ 359,143	$ 526,985	68.2%

Our Reserve Committee consists of our Chief Actuary, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Accounting Officer and the presidents and chief actuaries of each of our three operating segments. The Reserve Committee meets quarterly to review the actuarial recommendations made by each chief actuary and uses its best judgment to determine the best estimate to be recorded for the reserve for losses and loss adjustment expenses on our balance sheet. The Reserve Committee believes that using judgment to supplement the actuarial recommendations is necessary to arrive at a best estimate given the nature of the business that we write and the limited operating experience of the Casualty Reinsurance segment and the program and fronting business in the Specialty Admitted Insurance segment.

The process of estimating the reserve for losses and loss adjustment expenses requires a high degree of judgment and is subject to a number of variables. In establishing the quarterly actuarial recommendation for the reserve for losses and loss adjustment expenses, our actuaries estimate an initial expected ultimate loss ratio for each of our product lines by accident year (or for our Casualty Reinsurance segment, on a contract by contract basis). Input from our underwriting and claims departments, including premium pricing assumptions and historical experience, are considered by our actuaries in estimating the initial expected loss ratios. Our actuaries generally utilize five actuarial methods in their estimation process for the reserve for losses and loss adjustment expenses. These five methods utilize, to varying degrees, the initial expected loss ratio, detailed statistical analysis of past claims reporting and payment patterns, claims frequency and severity, paid loss experience, industry loss experience, and changes in market conditions, policy forms, exclusions, and exposures. The five actuarial methods that we use in our reserve estimation process are:

Expected Loss Method

The Expected Loss Method multiplies earned premiums by an initial expected loss ratio.

Incurred Loss Development Method

The Incurred Loss Development method uses historical loss reporting patterns to estimate future loss reporting patterns. In this method, our actuaries apply historical loss reporting patterns to develop incurred loss development factors that are applied to current reported losses to calculate expected ultimate losses.

Paid Loss Development Method

The Paid Loss Development method is similar to the incurred loss development method, but it uses historical loss payment patterns to estimate future loss payment patterns. In this method, our actuaries apply historical loss payment patterns to develop paid loss development factors that are applied to current paid losses to calculate expected ultimate losses.

Bornhuetter-Ferguson Incurred Loss Development Method

The Bornhuetter-Ferguson Incurred Loss Development method divides the projection of ultimate losses into the portion that has already been reported and the portion that has yet to be reported. The portion that has yet to be reported is estimated as the product of premiums earned for the accident year, the initial expected ultimate loss ratio and an estimate of the percentage of ultimate losses that are unreported at the valuation date.

Bornhuetter-Ferguson Paid Loss Development Method

The Bornhuetter-Ferguson Paid Loss Development method is similar to the Bornhuetter-Ferguson Incurred Loss Development Method, except this method divides the projection of ultimate losses into the portion that has already been paid and the portion that has yet to be paid. The portion that has yet to be paid is estimated as the product of premiums earned for the accident year, the initial expected ultimate loss ratio and an estimate of the percentage of ultimate losses that are unpaid at the valuation date.

Different reserving methods are appropriate in different situations, and our actuaries use their judgment and experience to determine the weighting of the methods detailed above to use for each accident year and each line of business and, for each contract in the Casualty Reinsurance segment. For example, the current accident year has very little incurred and paid loss development data on which to base reserve projections. As a result, we rely heavily on the Expected Loss Method in estimating reserves for the current accident year. We generally set our initial expected loss ratio for the current accident year consistent with our pricing assumptions. Since our pricing assumptions are actuarially driven, and we expect to make an acceptable return on the new business that we write, we believe that this is a reasonable and appropriate reserving assumption for the current accident year. If actual loss emergence is better than our initial expected loss ratio assumptions, we will experience favorable development and if it is worse than our initial expected loss ratio assumptions, we will experience adverse development. Conversely, sufficient incurred and paid loss development is available for our oldest accident years, so more weight is given to the Incurred Loss Development Method and the Paid Loss Development Method than the Expected Loss Method. The Bornhuetter-Ferguson Incurred Loss Development and Paid Loss Development Methods blend features of the Expected Loss Method and the Incurred and Paid Loss Development Methods. The Bornhuetter-Ferguson Methods are typically used for the more recent prior accident years.

In applying these methods to develop an estimate of the reserve for losses and loss adjustment expenses, the actuaries use judgment to determine three key parameters for each accident year and line of business: the initial expected loss ratios, the incurred and paid loss development factors and the weighting of the five actuarial methods to be used for each accident year and line of business. For the Excess and Surplus Lines and Specialty Admitted Insurance segments, the actuary performs a study on each of these parameters annually in the third quarter and makes recommendations for the initial expected loss ratios, the incurred and paid loss development factors and the weighting of the five actuarial methods by accident year and line of business. Members of the Reserve Committee review and approve the parameter review actuarial recommendations, and these approved parameters are used in the reserve estimation process for the next four quarters at which time a new parameter study is performed. For the Reinsurance segment, periodic assessments are made on a contract by contract basis with the goal of keeping the initial expected loss ratios and the incurred and paid loss development factors as constant as possible until sufficient evidence presents itself to support adjustments. Method weights are generally less rigid for the Casualty Reinsurance segment given the heterogeneous nature of the various contracts, and the potential for significant changes in mix of business within individual treaties.

We engage an independent internationally recognized actuarial consulting firm to review our reserves for losses and loss adjustment expenses twice each year, once prior to closing the third quarter and once for the closing of the fourth quarter. The independent actuarial consulting firm prepares its own estimate of our reserve for loss and loss adjustment expenses, and we compare their estimate to the reserve for losses and loss adjustment expenses reviewed and approved by the Reserve Committee in order to gain additional comfort on the adequacy of those reserves.

The table below quantifies the impact of extreme reserve deviations from our expected value at December 31, 2013. The total carried net reserve for losses and loss adjustment expenses is displayed alongside 5th, 50th and 95th percentiles of likely ultimate net reserve outcomes. The estimates of these percentiles are a result of a reserve variability analysis using a simulation approach.

Sensitivity	**5th Pct.**	**50th Pct.**	**Carried**	**95th Pct.**
		(in thousands)		
Reserve for losses and loss adjustment expenses	$ 418,653	$ 497,851	$ 526,985	$ 577,050
Changes in reserves	(108,332)	(29,134)	—	50,065

The impact of recording the net reserve for losses and loss adjustment expenses at the highest value from the sensitivity analysis above would be to increase losses and loss adjustment expenses incurred by $50.1 million, reduce net income by $47.8 million, reduce shareholders' equity by $47.8 million and reduce shareholders' tangible equity by $47.8 million, in each case at or for the period ended December 31, 2013. The impact of recording the net reserve for losses and loss adjustment expenses at the lowest value from the sensitivity analysis above would be to reduce losses and loss adjustment expenses incurred by $108.3 million, increase net income by $100.0 million and increase shareholders' equity at December 31, 2013 by $100.0 million. Such changes in the net reserve for losses and loss adjustment expenses would not have an immediate impact on our liquidity, but would affect cash flow and investment income in future periods as the incremental or reduced amount of losses are paid and investment assets adjusted to reflect the level of paid claims.

Loss reserve estimates are subject to a high degree of variability due to the inherent uncertainty of ultimate claims settlement values. In recording our best estimate of our reserve for losses and loss adjustment expenses, our Reserve Committee typically selects an amount above the actuarial recommendation due to the inherent variation associated with our reserve estimates and the likelihood that there are unforeseen or under-valued liabilities in the actuarial recommendations. We believe that the insurance that we write is subject to above-average variation in reserve estimates. The Excess and Surplus Lines market is subject to high policyholder turnover and changes in underlying mix of exposures. This turnover and change in underlying mix of exposures can cause actuarial estimates based on prior experience to be less reliable than estimates for more stable, admitted books of business. As a casualty insurer, losses on our policies often take a number of years to develop, making it difficult to estimate the ultimate losses associated with this business. Judicial and regulatory bodies have frequently interpreted insurance contracts in a manner that expands coverage beyond that which was contemplated at the time that the policy was issued. In addition, many of our policies are issued on an occurrence basis, and plaintiff's attorneys frequently seek coverage beyond the policies' original intent. The difficulty in pinpointing actual ultimate losses and LAE is illustrated by the fact that at December 31, 2013, 78.6% of our net reserve for losses and loss adjustment expenses in the Excess and Surplus Lines segment is for claims that have not been reported.

Our reserves are driven by a number of important assumptions, including litigation and regulatory trends, legislative activity, climate change, social and economic patterns and claims inflation assumptions. Our reserve estimates reflect current inflation in legal claims' settlements and assume we will not be subject to losses from significant new legal liability theories. Our reserve estimates also assume that we will not experience significant losses from mass torts and that we will not incur losses from future mass torts not known to us today. While it is not possible to predict the impact of changes in the litigation environment, if new mass torts or expanded legal theories of liability emerge, our cost of claims may differ substantially from our reserves. Our reserve estimates assume that there will not be significant changes in the regulatory and legislative environment. The impact of potential changes in the regulatory or legislative environment is difficult to quantify in the absence of specific, significant new regulation or legislation. In the event of significant new regulation or legislation, we will attempt to quantify its impact on our business but no assurance can be given that our attempt to quantify such inputs will be accurate or successful.

Historically, our reserve selections for the Excess and Surplus Lines segment gave more weight to industry indications due to our limited operating history. When we reviewed the Excess and Surplus Lines segment's reserve parameters in 2013, we had ten years of accumulated historical data of the Company to analyze, and we felt that we had enough Company history to give more weight to our own experience. Our initial expected loss ratios and our paid loss development factors and incurred loss development factors were adjusted to more closely resemble our own internal indications. Method weights were also changed as management, in consultation with our actuaries, deemed appropriate. These changes had the cumulative effect of reducing our then best estimate for the reserve for losses and loss adjustment expenses.

IBNR reserve estimates are inherently less precise than case reserve estimates. A 5% change in net IBNR reserves at December 31, 2013 would equate to an $18.0 million change in the reserve for losses and loss adjustment expenses at such date, a $13.5 million change in net income, a 1.9% change in shareholders' equity and a 2.8% change in tangible equity, in each case at or for the year ended December 31, 2013.

Although we believe that our reserve estimates are reasonable, it is possible that our actual loss experience may not conform to our assumptions. Specifically, our actual ultimate loss ratio could differ from our initial expected loss ratio or our actual reporting and payment patterns could differ from our expected reporting and payment patterns, which are based on our own data and industry data. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimates included in our financial statements. We regularly review our estimates and adjust them as necessary as experience develops or as new information becomes known to us. Such adjustments are included in current operations.

A $37.5 million net redundancy developed during the year ended December 31, 2013 on the reserve for losses and loss adjustment expenses held at December 31, 2012. This favorable reserve development included $40.7 million of favorable development in the Excess and Surplus Lines segment, including $11.7 million of favorable development on casualty lines from the 2009 accident year, $7.5 million of favorable development from the 2007 accident year and $5.7 million of favorable development from the 2008 accident year. This favorable development occurred because our actuarial studies at December 31, 2013 for the

Excess and Surplus Lines segment indicated that our loss experience on our mature casualty business continued to be below our initial expected ultimate loss ratios. The $40.7 million of favorable reserve development for the Excess and Surplus Lines segment was driven by favorable 2013 calendar year emergence (42.0% calendar year loss ratio compared to our expected calendar year loss ratio of 50.0%), significant favorable indications within the 2009 accident year (which had $11.8 million of favorable net reserve development in 2012), and the impact of adjustments to our actuarial assumptions that gave more weight to our own patterns and experience. In addition, we saw a significant reduction in defense and cost containment costs per closed claim in 2013, as a result of a concerted effort by our claims staff to manage costs and consolidate service providers. Favorable reserve development on direct business written in the Specialty Admitted Insurance segment was $1.4 million, including favorable development of $1.3 million from the 2012 accident year. The reserve strengthening in the Specialty Admitted Insurance segment at December 31, 2012 was in recognition of inadequate premium rate levels in 2012, 2011, and 2010 which ultimately proved to be redundant in 2013. In addition, $4.7 million of adverse development occurred in the Casualty Reinsurance segment, with $1.0 million of adverse development on assumed crop business from the 2012 and 2011 accident years and $3.7 million of adverse development on other assumed business, primarily from the 2011 accident year. Of the $3.7 million of adverse development on non-crop-related assumed business, $3.5 million related to the 2011 and 2012 contracts with one cedent.

Net adverse development of $1.4 million occurred during the year ended December 31, 2012 on the reserve for losses and loss adjustment expenses held at December 31, 2011. This development included $20.1 million of favorable development in the Excess and Surplus Lines segment, including $7.7 million of favorable development on casualty lines from the 2009 accident year, $4.0 million of favorable development from the 2008 accident year and $3.8 million of favorable development from the 2007 accident year. This favorable development occurred because our actuarial studies for the Excess and Surplus Lines segment at December 31, 2012 indicated that our loss experience on our mature casualty business continued to be below our initial expected ultimate loss ratios, driven by favorable 2012 calendar year emergence (38.0% calendar year loss ratio compared to our expected calendar year loss ratio of 55.0%). Adverse reserve development on direct business written in the Specialty Admitted Insurance segment was $4.9 million, including adverse development of $3.6 million from the 2011 accident year and $1.7 million for the 2010 accident year. The adverse development in the Specialty Admitted Insurance segment reflected both the recognition of our inadequate premium rate levels in this segment in 2011 (and to a lesser extent in 2010) and continued high frequency and severity of losses in this segment. Adverse development of $16.6 million occurred in the Casualty Reinsurance segment, including $9.0 million of adverse development on assumed crop business almost entirely from the 2011 accident year. Adverse development on other assumed business of $7.6 million including adverse development of $8.9 million was recognized on the 2009 and 2010 contracts with one cedent covering workers' compensation business. This contract was not renewed in 2011.

A $19.9 million redundancy developed in 2011 on the reserve for losses and loss adjustment expenses held at December 31, 2010. This favorable reserve development included $21.0 million of favorable development in the Excess and Surplus Lines segment. The Excess and Surplus Lines segment favorable development included $6.6 million of favorable development on casualty lines from the 2007 accident year, $4.1 million of favorable development from the 2008 accident year, and $3.6 million of favorable development from the 2009 accident year. This favorable development occurred because our actuarial studies at December 31, 2011 for the Excess and Surplus Lines segment indicated that our loss experience on our mature casualty business continued to be below our initial expected ultimate loss ratios driven by favorable 2011 calendar year emergence (40.0% calendar year loss ratio compared to our expected calendar year loss ratio of 69.0%). Favorable reserve development on direct busines written in the Specialty Admitted Insurance segment was $1.5 million, including favorable development of $1.1 million from the 2007 accident year, $991,000 for the 2009 accident year, and $872,000 for the 2006 accident year, partially offset by $1.5 million of adverse development on the 2010 accident year. The Specialty Admitted Insurance segment also had $181,000 of favorable development on assumed business. In addition, $2.8 million of adverse development occured in the Casualty Reinsurance segment, with $500,000 of favorable development on assumed crop business from the 2010 accident year and $3.3 million of adverse development on other assumed business, primarily from the 2010 accident year, in the Casualty Reinsurance segment.

Investment Valuation and Impairment

We carry fixed maturity and equity securities classified as “available-for-sale” at fair value, and unrealized gains and losses on such securities, net of any deferred taxes, are reported as a separate component of accumulated other comprehensive income. Fixed maturity securities purchased for short-term resale are classified as “trading” and are carried at fair value with unrealized gains and losses included in earnings as a component of investment income. We do not have any securities classified as “held-to-maturity.”

We evaluate our available-for-sale investments regularly to determine whether there have been declines in value that are other-than-temporary. Our outside investment managers assist us in this evaluation. When we determine that a security has experienced an other-than-temporary impairment, the impairment loss is recognized as a realized investment loss.

We consider a number of factors in assessing whether an impairment is other-than-temporary, including (1) the amount and percentage that current fair value is below cost or amortized cost, (2) the length of time that the fair value has been below cost or amortized cost and (3) recent corporate developments or other factors that may impact an issuer’s near term prospects. In addition, for fixed maturity securities, we also consider the credit quality ratings for the securities, with a special emphasis on securities downgraded to below investment grade. We also consider our intent to sell available-for-sale fixed maturity securities in an unrealized loss position, and if it is “more likely than not” that we will be required to sell these securities before a recovery in fair value to their amortized cost or cost basis. For equity securities, we evaluate the near-term prospects of these investments in relation to the severity and duration of the impairment, and we consider our ability and intent to hold these investments until they recover their fair value. As a starting point for our evaluation, we compare the fair value of each available-for-sale security to its amortized cost or cost to identify any securities with a fair value less than cost or amortized cost. At December 31, 2013, all but two of our fixed maturity securities (with an aggregate unpaid principal balance of $4.5 million) had a fair value greater than 81.0% of their cost or amortized cost. We concluded that these two fixed maturity securities were not other-than-temporarily impaired at December 31, 2013 based in part on the fact that they had never missed a scheduled principal or interest payment, and that they were rated investment grade by a nationally recognized statistical rating organization. At December 31, 2012, each of our fixed maturity securities had a fair value greater than 89.0% of its cost or amortized cost. We did not recognize any impairment losses on fixed maturity securities in 2013 or 2012. Management concluded that two securities, a commercial mortgage-backed security and a corporate security, in its fixed maturity portfolio with unrealized losses at December 31, 2011 had experienced other-than-temporary impairments. These impairments were credit related, and accordingly, the Company recorded $195,000 of realized investment losses in the fourth quarter of 2011 to reduce the carrying value of the securities to the net present values of the discounted loss adjusted cash flows. Management concluded that none of the other fixed maturity securities with an unrealized loss at December 31, 2011 had experienced an other-than-temporary impairment.

We recognized an impairment loss of $804,000 for the year ended December 31, 2013 on an equity security in our portfolio, as we had the intent to sell this security at December 31, 2013 and it was in an $804,000 unrealized loss position on that date. We concluded that none of the equity securities in our portfolio at December 31, 2012 had experienced an other-than-temporary impairment. We concluded that one of the equity securities with an unrealized loss at December 31, 2011 had experienced an other-than-temporary impairment at that date, and accordingly we recorded an impairment loss of $185,000 in 2011.

Bank loan participations are managed by a specialized outside investment manager and are generally stated at their outstanding unpaid principal balances net of unamortized premiums or discounts and net of any allowance for credit losses.

We maintain the allowance for credit losses at a level we believe is adequate to absorb estimated probable credit losses. Our periodic evaluation of the adequacy of the allowance is based on consultations and the advice of our specialized investment manager, known and inherent risks in the portfolio, adverse situations that may affect the borrowers’ ability to repay, the estimated value of any underlying collateral, current economic conditions and other relevant factors. The Company has recorded an allowance equal to the difference between the fair value and the amortized cost of bank loans that it has determined to be impaired as a practical expedient for an estimate of probable future cash flows to be collected on those bank loans. As a starting point for our evaluation, we compare the carrying value of each loan to its fair value to identify any loans that had a fair value less than its carrying value. We determined that a credit allowance was needed for one loan which had an unpaid principal balance of $488,000 and accordingly, we established credit allowances of $242,000 at December 31, 2013 and $121,000 at December 31, 2012.

Fair values are measured in accordance with ASC 820, *Fair Value Measurements*. The guidance establishes a framework for measuring fair value and a three-level hierarchy based upon the quality of inputs used to measure fair value. The three levels of the fair value hierarchy are: (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.

The fair values of fixed maturity securities and equity securities have been determined using fair value prices provided by our investment manager, who utilizes internationally recognized independent pricing services. The prices provided by the independent pricing services are generally based on observable market data in active markets (*e.g.* broker quotes and prices observed for comparable securities). Values for U.S. Treasury and publicly-traded equity securities are generally based on Level 1 inputs which use the market approach valuation technique. The values for all other fixed maturity securities (including state and municipal securities and obligations of U.S. government corporations and agencies) generally incorporate significant Level 2 inputs, and in some cases, Level 3 inputs, using the market approach and income approach valuation techniques.

The fair values of cash and cash equivalents and short-term investments approximate their carrying values due to their short-term maturity.

In the determination of the fair value for bank loan participations and certain high yield bonds, the Company's investment manager endeavors to obtain data from multiple external pricing sources. External pricing sources may include brokers, dealers and price data vendors that provide a composite price based on prices from multiple dealers. Such external pricing sources typically provide valuations for normal institutional size trading units of such securities using methods based on market transactions for comparable securities, and various relationships between securities, as generally recognized by institutional dealers. For investments in which the investment manager determines that only one external pricing source is appropriate or if only one external price is available, the investment is generally recorded 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 investment manager. In determining the fair value of such investments, the investment manager 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 December 31, 2013 and 2012, there were no investments for which external sources were unavailable to determine fair value.

We review fair value prices provided by our outside investment managers for reasonableness by comparing the fair values provided by the managers to those provided by our investment custodian. We also review and monitor changes in unrealized gains and losses. We obtain an understanding of the methods, models and inputs used by our investment managers and independent pricing services, and controls are in place to validate that prices provided represent fair values. Our control process includes, but is not limited to, initial and ongoing evaluation of the methodologies used, a review of specific securities and an assessment for proper classification within the fair value hierarchy, and obtaining and reviewing internal control reports for our investment manager that obtains fair values from independent pricing services.

Goodwill and Intangible Assets

At December 31, 2013, we have $181.8 million of goodwill and $40.7 million of net intangible assets on our consolidated balance sheet, primarily resulting from the acquisition of James River Group in December 2007.

The goodwill reported on the December 31, 2013 balance sheet is an asset of the Excess and Surplus Lines segment only. Goodwill is tested annually for impairment in the fourth quarter of each calendar year, or more frequently if events or changes in circumstances indicate that the carrying amount of the Company's reporting units, including goodwill, may exceed their fair values. The fair value of the reporting units is determined using a combination of a market approach and an income approach which projects the future cash flows produced by the reporting units and discounts those cash flows to their present value. The projection of future cash flows is necessarily dependent upon assumptions about the future levels of income as well as business trends, prospects, market and economic conditions. The results of the two approaches are weighted to determine the fair value of each reporting unit. When the fair value is less than the carrying value of the net assets of the reporting unit, including goodwill, an impairment loss is charged to earnings. To determine the amount of any goodwill impairment, the implied fair value of reporting unit goodwill is compared to the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, the fair value of a reporting unit is assigned to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The Company's annual testing performed in the fourth quarters of 2013, 2012 and 2011 indicated that no impairment of goodwill had occurred.

Intangible assets are initially recognized and measured at fair value. Specifically identified intangible assets with indefinite lives include trademarks and state insurance licenses and authorities. Intangible assets with indefinite useful lives are reviewed for impairment at least annually. In evaluating whether there has been impairment to the intangible asset, management determines the fair value of the intangible asset and compares the resulting fair value to the carrying value of the intangible asset. If the carrying value exceeds the fair value, the intangible asset is written down to fair value, and the impairment is reported through earnings. During the fourth quarters of 2013, 2012 and 2011, the indefinite-lived intangible assets for trademarks and insurance licenses and authorities were tested for impairment. There were no impairments recognized in 2013 or 2011. The results of the 2012 analysis indicated that impairments of trademarks for the Specialty Admitted Insurance segment occurred as a result of recognition of lower projected gross written premiums for this reporting unit, and accordingly, the Company recognized impairment losses of $300,000 as of December 31, 2012 based on a fair value determined using the relief from royalty method. The relief from royalty method requires a number of assumptions including the projected gross written premium base against which the royalty savings rate is applied, the size of the royalty rate to be applied, the discount rate and the terminal value (if any) of the trademarks at the end of the projection period.

Other specifically identified intangible assets with lives ranging from 6.0 to 27.5 years include relationships with customers and brokers. These intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company evaluates intangible assets with definite lives for impairment when impairment indicators are noted that indicate that the carrying value of these assets may not be recoverable. If indicators of impairment are present, fair value is calculated using estimated future cash flows expected to be generated from the use of those assets. An impairment loss is recognized only if the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. That assessment is based on the carrying amount of the asset or asset group at the date it is tested for recoverability. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset or asset group exceeds its fair value. Intangible assets for customer and broker relationships that have specific lives and are subject to amortization were reviewed for impairment during the fourth quarters of 2013, 2012 and 2011. There were no impairments recognized in 2013 or 2011. The results of the analysis for 2012 indicated that there were impairments for the Specialty Admitted Insurance segment as a result of recognition of lower projections of operating income, the segment's lack of profitability during 2012 and 2011, and a lower agency retention rate. Accordingly, the Company recognized impairment losses of $3.8 million and $169,000, respectively, on the intangible assets for customer and broker relationships for the year ended December 31, 2012 for this segment.

Assumed Reinsurance Premiums

Assumed reinsurance written premiums include amounts reported by brokers and ceding companies, supplemented by the Company’s own estimates of premiums when reports have not been received. Premiums on the Company’s excess of loss and pro rata reinsurance contracts are estimated when the business is underwritten. For excess of loss contracts, the deposit premium, as defined in the contract, is generally recorded as an estimate of premiums written at the inception date of the treaty. Estimates of premiums written under pro rata contracts are recorded in the period in which the underlying risks are expected to begin and are based on information provided by the brokers and the ceding companies.

Reinsurance premium estimates are reviewed by management periodically. Any adjustment to these estimates is recorded in the period in which it becomes known. The impact of any premium adjustments on net income is offset by corresponding changes to related policy acquisition costs and losses and loss adjustment expenses. For the years ended December 31, 2013, 2012 and 2011, these adjustments were immaterial.

Reinsurance premiums assumed are earned over the terms of the underlying policies or reinsurance contracts. Contracts and policies written on a “losses occurring” basis cover claims that may occur during the term of the contract or policy, which is typically 12 months. Accordingly, the premiums are earned evenly over the term. Contracts which are written on a “risks attaching” basis cover claims which attach to the underlying insurance policies written during the terms of such contracts. Premiums earned on such contracts usually extend beyond the original term of the reinsurance contract, typically resulting in recognition of premiums earned over a 24-month period in proportion to the level of underlying exposure.

Certain of the Company’s reinsurance contracts include provisions that adjust premiums or acquisition expenses based upon the experience under the contracts. Premiums written and earned, as well as related acquisition expenses, are recorded based upon the projected experience under the contracts.

Results of Operations

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

The following table summarizes our results for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30,		%
	2014	2013	Change
	($ in thousands)		
Gross written premiums	$ 244,201	$ 165,021	*48.0%*
Net retention[1]	87.5%	89.1%	—
Net written premiums	$ 213,782	$ 147,055	*45.4%*
Net earned premiums	$ 186,068	$ 162,853	*14.3%*
Losses and loss adjustment expenses	(117,450)	(105,859)	*10.9%*
Other operating expenses	(64,857)	(57,528)	*12.7%*
Underwriting gain (loss)[2]	3,761	(534)	—
Net investment income	23,193	25,534	*(9.2)%*
Net realized investment (losses) gains	(3,711)	12,514	—
Other income	941	103	*813.6%*
Interest expense	(3,104)	(3,626)	*(14.4)%*
Amortization of intangible assets	(298)	(1,278)	*(76.7)%*
Other expenses	(389)	(534)	*(27.2)%*
Income before taxes	20,393	32,179	*(36.6)%*
U.S. federal income tax expense	(1,742)	(4,043)	*(56.9)%*
Net income	$ 18,651	$ 28,136	*(33.7)%*
Net operating income[2]	$ 21,351	$ 19,676	*8.5%*
Ratios:			
Loss ratio	63.1%	65.0%	—
Expense ratio	34.9%	35.3%	—
Combined ratio	98.0%	100.3%	—

[1] Net retention is defined as the ratio of net written premiums to gross written premiums.

[2] See "— Reconciliation of Non-GAAP Measures" for further detail.

The Company had an underwriting gain of $3.8 million for the six months ended June 30, 2014. This compares to an underwriting loss of $534,000 for the same period in the prior year. The significant increase in underwriting profits reflects better underwriting results in each of our three operating segments. Further, results for the six months ended June 30, 2014 included $3.7 million of favorable reserve development, an increase from the $3.0 million of favorable development in the first six months of 2013.

The results of operations for the six months ended June 30, 2014 include $3.7 million of net realized investment losses, including $2.4 million of impairment losses related to our investment exposure to fixed maturity securities and bank loans participations issued by entities in the Commonwealth of Puerto Rico.

The results of operations for the six months ended June 30, 2013 include $12.5 million of net realized investment gains primarily from the sale of fixed maturity securities and bank loan participations.

Other expenses of $389,000 and $534,000 for the six months ended June 30, 2014 and 2013, respectively, include $253,000 and $392,000, respectively, of due diligence costs for various merger and acquisition activities which were not consummated.

Interest expense for the six months ended June 30, 2014 and 2013 includes $332,000 for both periods relating to finance expenses in connection with a minority interest in real estate pursuant to which we are deemed the accounting owner. The debt is nonrecourse to us and was not arranged by us. See Note 1 to the Notes to the Audited Consolidated Financial Statements for additional information with respect to our minority interest.

We define net operating income as net income excluding net realized investment gains and losses, expenses related to due diligence costs for various merger and acquisition activities, severance costs associated with terminated employees, impairment charges on goodwill and intangible assets, gains on extinguishment of debt and interest expense on a leased building that we are deemed to own for accounting purposes. We use net operating income as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Net operating income should not be viewed as a substitute for net income calculated in accordance with GAAP, and our definition of net operating income may not be comparable to that of other companies.

Our income before taxes and net income for the six months ended June 30, 2014 and 2013, respectively, reconciles to our net operating income as follows:

	Six Months Ended June 30,			
	2014		2013	
	Income Before Taxes	Net Income	Income Before Taxes	Net Income
	(in thousands)			
Income as reported	$ 20,393	$ 18,651	$ 32,179	$ 28,136
Net realized investment losses (gains)	3,711	2,143	(12,514)	(9,160)
Other expenses	389	341	534	484
Interest expense on leased building the Company is deemed to own for accounting purposes	332	216	332	216
Net operating income	$ 24,825	$ 21,351	$ 20,531	$ 19,676

For the six months ended June 30, 2014, our combined ratio was 98.0%. 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. A combined ratio of less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss. This ratio included $3.7 million, or 2.0 percentage points, of net favorable reserve development on prior accident years, including $6.3 million of favorable development from the Excess and Surplus Lines segment and $1.1 million of net favorable development from the Specialty Admitted Insurance segment, offset by $3.6 million of net adverse development from the Casualty Reinsurance segment.

Our expense ratio decreased from 35.3% for the six months ended June 30, 2013 to 34.9% for the six months ended June 30, 2014. The decrease in the expense ratio from the prior year is primarily attributable to the 14.3% increase in net earned premiums without a proportional increase in expenses.

In the prior year, the combined ratio for the six months ended June 30, 2013 was 100.3%. This ratio included $3.0 million, or 1.9 percentage points, of net favorable reserve development on prior accident years, comprised of $5.6 million of net favorable development from the Excess and Surplus Lines segment, $3.1 million of net adverse development on business assumed by our Casualty Reinsurance segment and $530,000 of net favorable development from the Specialty Admitted Insurance 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 level of 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 cedes 70% of their premiums and losses to JRG 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.

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. Contracts and policies written on a "losses occurring" basis cover claims that may occur during the term of the contract or policy, which is typically twelve months. 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 premium volume by component and business segment:

	Six Months Ended June 30,		%
	2014	2013	Change
	($ in thousands)		
Gross written premiums:			
Excess and Surplus Lines	$ 120,687	$ 94,773	*27.3%*
Specialty Admitted Insurance	24,236	12,259	*97.7%*
Casualty Reinsurance	99,278	57,989	*71.2%*
	$ 244,201	$ 165,021	*48.0%*
Net written premiums:			
Excess and Surplus Lines	$ 99,539	$ 77,940	*27.7%*
Specialty Admitted Insurance	15,643	10,868	*43.9%*
Casualty Reinsurance	98,600	58,247	*69.3%*
	$ 213,782	$ 147,055	*45.4%*
Net earned premiums:			
Excess and Surplus Lines	$ 87,083	$ 66,489	*31.0%*
Specialty Admitted Insurance	11,662	9,281	*25.7%*
Casualty Reinsurance	87,323	87,083	*0.3%*
	$ 186,068	$ 162,853	*14.3%*

Each of our insurance and reinsurance segments experienced significant written premium growth in the first six months of 2014 compared to the same period in the prior year.

Gross written premiums for the Excess and Surplus Lines segment (which represented 49.4% of our total gross written premiums for the six months ended June 30, 2014) for the six months ended June 30, 2014 increased 27.3% over the corresponding period in the prior year. This increase is attributable to a 4.7% increase in casualty rates and an 11.6% increase in the average premium in the six months ended June 30, 2014. Additionally, policy submissions were 3.6% higher in the six months ended June 30, 2014 than in the six months ended June 30, 2013. For the six months ended June 30, 2014, the increase in gross written premiums was most notable in our:

- Manufacturers and Contractors division (representing 30.1% of this segment's gross written premiums for the six months ended June 30, 2014) which increased $7.4 million (or 25.4%) for the six months ended June 30, 2014 over the comparable period in 2013);
- General Casualty division (representing 17.8% of this segment's gross written premiums for the six months ended June 30, 2014) which increased $12.4 million (or 136.1%) for the six months ended June 30, 2014 over the comparable period in 2013, primarily as a result of gross written premiums from our transportation network companies ("TNC") business, which were $8.2 million and $392,000 for the six months ended June 30, 2014 and 2013, respectively;
- Excess Casualty division (representing 12.6% of this segment's gross written premiums for the six months ended June 30, 2014) which increased $2.2 million (or 17.1%) for the six months ended June 30, 2014 over the comparable period in 2013; and

- Energy division (representing 12.2% of this segment's gross written premiums for the six months ended June 30, 2014) which increased $3.0 million (or 25.1%) for the six months ended June 30, 2014 over the comparable period in 2013.

Gross written premiums for the Specialty Admitted Insurance segment (which represented 9.9% of our total gross written premiums for the six months ended June 30, 2014) increased 97.7% for the six months ended June 30, 2014 over the comparable period in 2013. Gross written premiums for the six months ended June 30, 2014 included $9.9 million ($2.7 million on a net basis) from program and fronting business where there had been none in the first six months of 2013 as we did not begin writing program and fronting business until the fourth quarter of 2013. We cede a significant portion of the specialty admitted program and fronting business to third-party reinsurers. As a result, neither our net written premiums nor level of assumed risk for this segment has increased at a rate which corresponds to the increase in our gross written premiums. Workers' compensation gross written premiums also increased 16.5% for the six months ended June 30, 2014 over the comparable period in 2013.

It is our policy to audit the payroll for each expired workers' compensation policy for the difference between the insured's estimated payroll at the time the policy is written and the final actual payroll after the policy is completed. Audit premiums increased both written and earned premiums during the six months ended June 30, 2014 by $596,000 ($123,000 for the six months ended June 30, 2013). Additionally, gross written premiums for the six months ended June 30, 2014 and 2013 included $618,000 and $520,000, respectively, of assumed premiums from our allocation of the North Carolina involuntary workers' compensation pool.

The components of the increase in gross written premiums for the Specialty Admitted Insurance segment are as follows:

	Six Months Ended June 30,		%
	2014	2013	Change
	($ in thousands)		
Workers' compensation premiums	$ 13,063	$ 11,616	*12.5%*
Audit premiums on workers' compensation policies	596	123	*384.6%*
Allocation of involuntary workers' compensation pool	618	520	*18.8%*
Total workers' compensation premium	14,277	12,259	*16.5%*
Specialty admitted program and fronting business	9,959	—	
Total Specialty Admitted Insurance segment premium	$ 24,236	$ 12,259	*97.7%*

Gross written premiums for the Casualty Reinsurance segment (which represents 40.7% of our total gross written premiums for the six months ended June 30, 2014) increased by 71.2% to $99.3 million for the six months ended June 30, 2014. The Casualty Reinsurance segment generally writes large casualty-focused treaties that we expect to have lower volatility than business written as catastrophe or excess of loss coverage. When we write property insurance, it is written with low catastrophe sub-limits. As with most of the reinsurance industry, a significant portion of our reinsurance is written on an annual basis in the first quarter of each year. The increase in written premiums in the six months ended June 30, 2014 over the corresponding period in the prior year is primarily attributable to $20.1 million of written premium increases on two existing treaties that have produced favorable historical underwriting results. In addition, we received $18.3 million of written premiums from new treaties written during the first six months of 2014. Gross written premiums in the first six months of 2013 of $58.0 million were adversely affected by the cancellation or non-renewal of three significant contracts. Despite the significant increase in gross written and net written premiums for the six months ended June 30, 2014, our net earned premiums (which tend to smooth out quarter-to-quarter variances) were effectively flat, with a 0.3% increase over the prior year.

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:

	Six Months Ended June 30,	
	2014	2013
Excess and Surplus Lines	82.5%	82.2%
Specialty Admitted Insurance	64.5%	88.7%
Casualty Reinsurance	99.3%	100.4%
Total	87.5%	89.1%

The net premium retention for the Company decreased from 89.1% for the six months ended June 30, 2013 to 87.5% for the six months ended June 30, 2014. The decrease in retention is due primarily to the Specialty Admitted Insurance segment, which saw a decline in its net premium retention from 88.7% for the six months ended June 30, 2013 to 64.5% for the six months ended June 30, 2014. The decrease is driven by the segment's program and fronting business, which we began writing in the fourth quarter of 2013. Program and fronting business generally has a much lower net premium retention than our workers' compensation business which we write on an admitted basis. For the six months ended June 30, 2014, the net retention on the segment's program and fronting business was 27.4%, while the net retention on the workers' compensation business was 90.5%. This compares to net retention on the workers' compensation business of 88.7% for the six months ended June 30, 2013.

Underwriting Results

The following table compares our combined ratios by segment:

	Six Months Ended June 30,	
	2014	2013
Excess and Surplus Lines	90.7%	88.5%
Specialty Admitted Insurance	108.9%	117.3%
Casualty Reinsurance	99.5%	103.1%
Total	98.0%	100.3%

Excess and Surplus Lines Segment

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

	Six Months Ended June 30,		%
	2014	2013	Change
	($ in thousands)		
Gross written premiums	$ 120,687	$ 94,773	27.3%
Net written premiums	$ 99,539	$ 77,940	27.7%
Net earned premiums	$ 87,083	$ 66,489	31.0%
Losses and loss adjustment expenses	(53,480)	(39,723)	34.6%
Underwriting expenses	(25,488)	(19,106)	33.4%
Underwriting profit[1]	$ 8,115	$ 7,660	5.9%
Ratios:			
Loss ratio	61.4%	59.7%	—
Expense ratio	29.3%	28.7%	—
Combined ratio	90.7%	88.5%	—

[1] See "— Reconciliation of Non-GAAP Measures."

Combined Ratio. The combined ratio for the Excess and Surplus Lines segment for the six months ended June 30, 2014 was 90.7%, comprised of a loss ratio of 61.4% and an expense ratio of 29.3%.

Loss Ratio. The loss ratio included $6.3 million, or 7.2 percentage points, of net favorable development in our loss estimates for prior accident years. This compares to the first six months in the prior year where the combined ratio was 88.5%, comprised of a loss ratio of 59.7% and an expense ratio of 28.7%. The prior year's results included $5.6 million, or 8.4 percentage points, of net favorable reserve development in our loss estimates for prior accident years.

Expense Ratio. The expense ratio for the six months ended June 30, 2014 and 2013 was 29.3% and 28.7%, respectively.

Underwriting Profit. As a result of the items discussed previously, underwriting profit of the Excess and Surplus Lines segment increased from $7.7 million for the six months ended June 30, 2013 to $8.1 million for the six months ended June 30, 2014.

Specialty Admitted Insurance Segment

Results for the Specialty Admitted Insurance segment are as follows:

	Six Months Ended June 30,		%
	2014	2013	Change
	($ in thousands)		
Gross written premiums	$ 24,236	$ 12,259	*97.7%*
Net written premiums	$ 15,643	$ 10,868	*43.9%*
Net earned premiums	$ 11,662	$ 9,281	*25.7%*
Losses and loss adjustment expenses	(6,587)	(6,143)	*7.2%*
Underwriting expenses	(6,115)	(4,744)	*28.9%*
Underwriting loss[1]	$ (1,040)	$ (1,606)	*(35.2)%*
Ratios:			
Loss ratio	56.5%	66.2%	—
Expense ratio	52.4%	51.1%	—
Combined ratio	108.9%	117.3%	—

[1] See "— Reconciliation of Non-GAAP Measures."

Combined Ratio. The combined ratio for the Specialty Admitted Insurance segment for the six months ended June 30, 2014 was 108.9%, comprised of a loss ratio of 56.5% and an expense ratio of 52.4%. This compares to the combined ratio for the same period in the prior year of 117.3%, comprised of a loss ratio of 66.2% and an expense ratio of 51.1%.

Loss Ratio. The loss ratio for the six months ended June 30, 2014 includes $1.1 million, or 9.2 percentage points, of net favorable reserve development for prior accident years. The loss ratio for the six months ended June 30, 2013 included $530,000, or 5.7 percentage points, of net favorable reserve development for prior accident years.

Expense Ratio. The expense ratio of 52.4% for the six months ended June 30, 2014 increased from 51.1% for the same period in the prior year. The high expense ratio in this segment relates to infrastructure and personnel costs associated with the ramp up of this segment's program and fronting business. The gross written premiums on this program and fronting business were $10.0 million for the six months ended June 30, 2014 (previously there had been none). Many of the infrastructure and personnel costs necessary to produce and administer this business (by necessity) precede the production and earning of these premiums. The expense ratio for this segment is expected to decline significantly as this segment increases premium volume in its new businesses and territories during the remainder of 2014 and in future periods.

Underwriting Loss. As a result of the items discussed above, the underwriting results of the Specialty Admitted Insurance segment improved 35.2%, from a $1.6 million loss for the six months ended June 30, 2013 to a $1.0 million loss for the six months ended June 30, 2014.

Casualty Reinsurance Segment

Results for the Casualty Reinsurance segment are as follows:

	Six Months Ended June 30,		%
	2014	2013	Change
	($ in thousands)		
Gross written premiums	$ 99,278	$ 57,989	*71.2%*
Net written premiums	$ 98,600	$ 58,247	*69.3%*
Net earned premiums	$ 87,323	$ 87,083	*0.3%*
Losses and loss adjustment expenses	(57,383)	(59,993)	*(4.4)%*
Underwriting expenses	(29,533)	(29,811)	*(0.9)%*
Underwriting gain (loss)[1]	$ 407	$ (2,721)	—
Ratios:			
Loss ratio	65.7%	68.9%	—
Expense ratio	33.8%	34.2%	—
Combined ratio	99.5%	103.1%	—

[1] See "— Reconciliation of Non-GAAP Measures."

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.

Combined Ratio. The combined ratio for the Casualty Reinsurance segment for the six months ended June 30, 2014 was 99.5%, comprised of a loss ratio of 65.7% and an expense ratio of 33.8%. The combined ratio for the six months ended June 30, 2013 was 103.1%, comprised of a loss ratio of 68.9% and an expense ratio of 34.2%.

Loss Ratio. The loss ratio of 65.7% for the six months ended June 30, 2014 includes $3.6 million, or 4.1 percentage points, of net adverse reserve development in business assumed by the Casualty Reinsurance segment in prior accident years. The loss ratio for the six months ended June 30, 2013 included $3.1 million (including $1.0 million of adverse development on assumed crop business) which was discontinued on December 31, 2012), or 3.6 percentage points, of net adverse reserve development in our loss estimates for prior accident years.

Expense Ratio. The expense ratio for the Casualty Reinsurance segment decreased from 34.2% for the six months ended June 30, 2013 to 33.8% for the six months ended June 30, 2014. This decrease is the result of improved terms on renewing and new treaties written during late 2012 and throughout 2013.

Underwriting Profit. As a result of the items discussed above, the underwriting results for the Casualty Reinsurance segment improved from a $2.7 million underwriting loss for the six months ended June 30, 2013 to a $407,000 underwriting gain for the six months ended June 30, 2014.

Reserves

The Company's gross reserve for losses and loss adjustment expenses at June 30, 2014 was $683.6 million. Of this amount, 72.2% relates to IBNR. The Company's gross reserve for losses and loss adjustment expenses by segment are summarized as follows:

	Gross Reserves at June 30, 2014			
	Case	IBNR	Total	IBNR % of Total
	($ in thousands)			
Excess and Surplus Lines	$ 72,383	$ 335,743	$ 408,126	82.3%
Specialty Admitted Insurance	26,661	28,193	54,854	51.4%
Casualty Reinsurance	91,180	129,413	220,593	58.7%
Total	$ 190,224	$ 493,349	$ 683,573	72.2%

The Company's net reserve for losses and loss adjustment expenses at June 30, 2014 was $561.9 million. Of this amount, 69.9% relates to IBNR. The Company's reserve for losses and loss adjustment expenses net of ceded reinsurance by segment are summarized as follows:

	Net Reserves at June 30, 2014			
	Case	IBNR	Total	IBNR % of Total
	($ in thousands)			
Excess and Surplus Lines	$ 65,347	$ 257,570	$ 322,917	79.8%
Specialty Admitted Insurance	24,676	21,882	46,558	47.0%
Casualty Reinsurance	79,348	113,116	192,464	58.8%
Total	$ 169,371	$ 392,568	$ 561,939	69.9%

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 includes the expenses of the Corporate and Other segment.

Corporate and Other Segment

Other operating expenses for the Corporate and Other segment primarily include personnel costs associated with the Bermuda and U.S. holding companies, professional fees and various other corporate expenses. We include these expenses in the calculation of our consolidated expense ratio and combined ratio. A portion of these costs are reimbursed by our subsidiaries. These reimbursements are included primarily as underwriting expenses in the results of our operating subsidiaries. Accordingly, other operating expenses of the Corporate and Other segment generally represent the expenses of both the Bermuda and U.S. companies that were not reimbursed by our subsidiaries, including costs associated with potential acquisitions and other strategic initiatives. These costs vary from period to period based on the status of these initiatives.

For the six months ended June 30, 2014 and 2013, total operating expenses of the Corporate and Other segment were $3.7 million and $3.9 million, respectively.

Investing Results

Net investment income for the six months ended June 30, 2014 and 2013 was $23.2 million and $25.5 million, respectively. The decrease in net investment income is primarily attributable to reduced income from fixed maturities, which was $11.3 million and $13.6 million for the six months ended June 30, 2014 and 2013, respectively. We have reduced the investment allocation to fixed maturities and shortened the average duration of the fixed maturity portfolio to lessen exposure to interest rate risk. The shorter average duration has resulted in lower yields. Also included in our investment income is investment income from bank loan participations of $6.8 million and $7.8 million for the six months ended June 30, 2014 and 2013, respectively. Additionally, for the six months ended June 30, 2014 and 2013, our net investment income relating to our renewable energy investments was $4.0 million and $3.8 million, respectively. These investments are interests in certain limited liability companies that are managed by an affiliate of our largest shareholders and together their carrying value was $23.4 million at June 30, 2014. Our interests in these companies are classified as "other invested assets" and the equity method is being used to account for the investments. See "Certain Relationships and Related Party Transactions — Related Party Transactions — Investments with Affiliates of the D. E. Shaw Affiliates."

The following table summarizes our investment returns:

	Six Months Ended June 30,	
	2014	2013
Annualized gross investment yield on:		
Average cash and invested assets	4.0%	4.6%
Average fixed maturity securities	3.5%	4.2%
Annualized tax equivalent yield on:		
Average fixed maturity securities	3.6%	4.3%

Of our total cash and invested assets of $1,276.1 million at June 30, 2014, $59.1 million represents the cash and cash equivalents portion of the portfolio. The majority of the portfolio, or $807.8 million, is comprised of fixed maturity and equity securities that are classified as available-for-sale and carried at fair value with unrealized gains and losses on these securities reported, net of applicable taxes, as a separate component of accumulated comprehensive income or loss. Also included in our investments is $129.9 million of short-term investments, $41.0 million of other invested assets and $14.2 million of fixed maturity securities classified as trading and held at the U.S. holding company. Our trading portfolio is carried at fair value with changes to the value reported as net investment income in our condensed consolidated income statement.

For the six months ended June 30, 2014, we recognized net realized investment losses of $3.7 million. The realized losses included impairment losses related to our investment exposure to entities located in the Commonwealth of Puerto Rico. For the six months ended June 30, 2013, we recognized net realized investment gains of $12.5 million principally from the sale of fixed maturity securities and bank loans.

Included in our investment portfolio are $224.2 million of bank loan participations which are classified as held-for-investment and reported at amortized cost, net of an allowance for credit losses of $963,000 related exclusively to Puerto Rico loans as detailed herein (the allowance for credit losses was $242,000 at December 31, 2013). Changes in this credit allowance are included in realized gains or losses. These bank loan participations are primarily senior, secured floating-rate debt which are rated "B" or "BB" 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 June 30, 2014 and December 31, 2013, the fair market value of these securities was $226.4 million and $200.6 million, respectively.

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. In connection with this review, the Company determined that two municipal bonds issued by Puerto Rico were other than temporarily impaired at June 30, 2014. Puerto Rico's weak economic conditions and heavy debt burden, combined with the passage of new legislation that allows public corporations to defer or reduce payments on outstanding debt, has heightened the risk of default on the bonds. The Company recognized impairment losses of $1.4 million on the bonds for the six months ended June 30, 2014. The impaired securities had a carrying value of $3.4 million at June 30, 2014 after the impairment noted above.

At June 30, 2014, the Company holds participations in two loans issued by companies that produce and sell electricity subject to power purchase agreements with the Puerto Rico Electric Power Authority ("PREPA"). PREPA is a public corporation and governmental agency of the Commonwealth of Puerto

Rico. To date, the loans are current with respect to contractual payments of principal and interest. However, PREPA's credit strength has been affected by the economic conditions in Puerto Rico, thus raising doubt about the Company's continuing ability to collect amounts owed by PREPA in order to continue to make full and timely payments on the debt obligations held by the Company. PREPA has been downgraded by Moody's to "Caa2" and by S&P to "B-." PREPA's debt has recently traded at a significant discount to par with very high yields. Additionally, Puerto Rico passed legislation that would allow PREPA to restructure and potentially default on its debt. It is unclear how the power contracts would be treated under a PREPA restructuring. After consulting with other holders of this debt, and with the companies that issued the loans, management concluded that the loans were impaired at June 30, 2014 and recorded losses of $963,000 to establish an allowance for credit losses on the loans. The impaired loans had a carrying value of $9.2 million at June 30, 2014 and unpaid principal of $10.8 million.

For the six months ended June 30, 2013, the Company determined that no other-than-temporary impairment had occurred on its fixed maturity or equity securities. For our portfolio of bank loan participations, we recognized an impairment loss of $111,000 on one loan for the six months ended June 30, 2013.

At June 30, 2014, our available-for-sale investment portfolio of fixed maturity and equity securities had net unrealized gains of $23.1 million representing 2.9% of the cost or amortized cost of the portfolio. Additionally, at June 30, 2014, 85.1% of our fixed maturity security portfolio was rated "A-" or better by Standard & Poor's or an equivalent rating from another nationally recognized statistical rating organization. Fixed maturity securities with ratings below investment grade by Standard & Poor's or another nationally recognized statistical rating organization at June 30, 2014 had an aggregate fair value of $40.8 million and an aggregate unrealized gain of $638,000.

The average duration of our investment portfolio, excluding bank loans, was 3.9 years at June 30, 2014. The duration for bank loans is 0.3 years, resulting in an approximate duration for the entire portfolio of three years.

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

	June 30, 2014			December 31, 2013		
	Cost or Amortized Cost	Fair Value	% of Total Fair Value	Cost or Amortized Cost	Fair Value	% of Total Fair Value
			($ in thousands)			
Fixed maturity securities:						
State and municipal	$ 86,823	$ 93,791	*11.6%*	$ 74,678	$ 76,146	*10.4%*
Residential mortgage-backed	123,639	123,708	*15.3%*	101,352	98,569	*13.5%*
Corporate	250,275	258,090	*32.0%*	245,139	251,517	*34.5%*
Commercial mortgage and asset-backed	106,171	109,113	*13.5%*	81,054	83,965	*11.5%*
Obligations of U.S. government corporations and agencies	102,536	103,763	*12.8%*	104,153	104,961	*14.4%*
U.S. Treasury securities and obligations guaranteed by the U.S. government	55,310	55,446	*6.9%*	46,435	46,311	*6.3%*
Redeemable preferred stock	2,025	1,860	*0.2%*	2,025	1,649	*0.2%*
Total	726,779	745,771	*92.3%*	654,836	663,118	*90.8%*
Equity securities:						
Preferred stock	45,149	49,428	*6.1%*	37,016	37,042	*5.1%*
Common stock	12,747	12,598	*1.6%*	30,113	29,765	*4.1%*
Total	57,896	62,026	*7.7%*	67,129	66,807	*9.2%*
Total investments	$ 784,675	$ 807,797	*100.0%*	$ 721,965	$ 729,925	*100.0%*

The following table sets for the composition of the Company's portfolio of fixed maturity securities (both available-for-sale and trading) by rating as of June 30, 2014:

Standard & Poor's or Equivalent Designation	Fair Value	% of Total
	($ in thousands)	
AAA	$ 101,095	13.3%
AA	397,936	52.4
A	147,698	19.4
BBB	72,386	9.5
BB	17,674	2.3
Below BB and unrated	23,172	3.1
Total	$ 759,961	100.0%

At June 30, 2014, our portfolio of fixed maturity securities contained corporate fixed maturity securities (both available-for-sale and trading) with a fair value of $263.2 million. A summary of these securities by industry segment is shown below as of June 30, 2014:

Industry	Fair Value	% of Total
	($ in thousands)	
Industrials and other	$ 188,572	71.7%
Financial	53,272	20.2
Utilities	21,337	8.1
Total	$ 263,181	100.0%

Corporate fixed maturity securities (both available-for-sale and trading) include public traded securities and privately placed bonds is shown below as of June 30, 2014:

Public/Private	Fair Value	% of Total
	($ in thousands)	
Publicly Traded	$ 225,150	85.5%
Privately Placed	38,031	14.5%
Total	$ 263,181	100.0%

In addition to the $807.8 million of available-for-sale securities in the preceding table, the Company holds other invested assets of $41.0 million, $14.2 million of fixed maturity securities classified as trading (which are held at our U.S. holding company), short-term investments of $129.9 million and $224.2 million of bank loan participations for a total invested asset balance at June 30, 2014 of $1,217.1 million.

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

	June 30, 2014		
	Amortized Cost	Fair Value	% of Total Fair Value
	($ in thousands)		
Due in:			
One year or less	$ 39,065	$ 39,644	5.3%
After one year through five years	286,382	290,957	39.0%
After five years through ten years	68,500	72,863	9.8%
After ten years	100,997	107,626	14.4%
	494,944	511,090	68.5%
Residential mortgage-backed	123,639	123,708	16.6%
Commercial mortgage and asset-backed	106,171	109,113	14.6%
Redeemable preferred stock	2,025	1,860	0.3%
Total	$ 726,779	$ 745,771	100.0%

At June 30, 2014, the Company held two securities with a market value of $181,000 in securitizations of alternative-A mortgages, both of which are performing and are rated “investment grade” by the established ratings agencies. The Company has no investments in sub-prime mortgages or collateralized debt obligations at June 30, 2014.

Other Expenses

For the six months ended June 30, 2014 and 2013, other expenses of $389,000 and $534,000, respectively, include $253,000 and $392,000, respectively, of due diligence costs for various merger and acquisition activities which were not consummated.

Interest Expense

Interest expense was $3.1 million and $3.6 million for the six months ended June 30, 2014 and 2013, respectively.

See “Liquidity and Capital Resources — Sources and Uses of Funds” for information regarding our senior bank debt facility and trust preferred securities.

Amortization of Intangibles

We recorded $298,000 and $1.3 million of amortization expense for the six months ended June 30, 2014 and 2013, respectively. The significant decrease in amortization relates to certain intangible assets arising from the Acquisition in December 2007 that had a six-year useful life and became fully amortized during the prior year.

U.S. Federal Income Tax Expense

Our effective tax rate fluctuates from period to period based on the relative mix of income reported by our various legal entities 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 (state and municipal securities represent 11.6% and 11.1% of our available-for-sale securities at June 30, 2014 and 2013, respectively) and dividends received income. For the six months ended June 30, 2014 and 2013, income tax expense was 8.5% and 12.6%, respectively, of income before taxes.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

The following table summarizes our results for the years ended December 31, 2013 and 2012:

	Year Ended December 31,		%
	2013	2012	Change
	($ in thousands)		
Gross written premiums	$ 368,518	$ 491,931	*(25.1)%*
Net retention[1]	88.2%	71.6%	—
Net written premiums	$ 325,166	$ 352,309	*(7.7)%*
Net earned premiums	$ 328,078	$ 364,568	*(10.0)%*
Losses and loss adjustment expenses	(184,486)	(264,496)	*(30.2)%*
Other operating expenses	(114,804)	(126,884)	*(9.5)%*
Underwriting gain (loss)[2]	28,788	(26,812)	—
Net investment income	45,373	44,297	*2.4%*
Net realized investment gains	12,619	8,915	*41.5%*
Other income	222	130	*70.8%*
Other expenses	(677)	(3,350)	*(79.8)%*
Interest expense	(6,777)	(8,266)	*(18.0)%*
Amortization of intangible assets	(2,470)	(2,848)	*(13.3)%*
Income before impairment and taxes	77,078	12,066	*538.8%*
Impairment of intangible assets	—	(4,299)	—
Income before taxes	77,078	7,767	*892.4%*
U.S. federal income tax (expense) benefit	(9,741)	897	—
Net income	$ 67,337	$ 8,664	*677.2%*
Net operating income	$ 58,918	$ 7,935	*642.5%*
Ratios:			
Loss ratio	56.2%	72.6%	—
Expense ratio	35.0%	34.8%	—
Combined ratio	91.2%	107.4%	—

[1] Net retention is defined as the ratio of net written premiums to gross written premiums.

[2] See "— Reconciliation of Non-GAAP Measures" for further detail.

We had an underwriting gain of $28.8 million for the year ended December 31, 2013. This compares to an underwriting loss of $26.8 million for the prior year. On a consolidated basis, the Company recognized $37.5 million of net favorable reserve development for the year ended December 31, 2013 and $1.4 million of adverse reserve development for the year ended December 31, 2012. The significant improvement in results reflects both increased profitability in our Excess and Surplus Lines segment and improved underwriting in our Specialty Admitted Insurance and Casualty Reinsurance segments. Additionally, the underwriting loss for 2012 includes a $5.7 million underwriting loss from assumed crop reinsurance. We stopped writing crop reinsurance on December 31, 2012. The increased profitability of the Excess and Surplus Lines segment was driven by an increase in the favorable reserve development recognized on prior accident years from $20.1 million in 2012 to $40.7 million in 2013 as well as a 22.3% increase in net earned premiums. The significant favorable reserve development in this segment reflects both benign loss activity and continuing positive loss trends.

During the year ended December 31, 2013, our Specialty Admitted Insurance segment recognized a $13.5 million decrease to its underwriting loss from the prior year underwriting loss of $17.3 million. The underwriting loss for the year ended December 31, 2013 was $3.9 million. The Specialty Admitted Insurance segment recognized $1.4 million of net favorable development for the year ended December 31, 2013 and $4.9 million of adverse reserve development for the year ended December 31, 2012. The improved underwriting results in 2013 reflect the impact of corrective underwriting actions taken during 2012 and 2013, most notably in pricing increases and the termination of a number of unprofitable agency relationships.

The underwriting loss for 2012 also included, in our Casualty Reinsurance segment, a $5.7 million underwriting loss related to our assumed crop reinsurance that was affected by the extreme drought which occurred in the United States in 2012. On December 31, 2012, the Company stopped writing crop reinsurance.

The results of operations for the years ended December 31, 2013 and 2012 included certain non-recurring items that are significant to the operating results of the Company. These items (on a pre-tax basis) include:

- The results of operations for the years ended December 31, 2013 and 2012 include $12.6 million and $8.9 million, respectively, of net realized investment gains resulting primarily from the sale of fixed maturity securities for 2013 and from the sale of fixed maturity securities and equity securities for 2012.

- The results of operations for the years ended December 31, 2013 and 2012 also include $677,000 and $3.4 million, respectively, of other expenses. For the year ended December 31, 2012, other expenses were comprised principally of $2.7 million of expense related to bonus shares granted and $432,000 of expenses relating to due diligence for a potential acquisition candidate that we chose not to acquire.

- Interest expense for the years ended December 31, 2013 and 2012 includes $663,000 and $662,000, respectively, relating to finance expenses in connection with a minority interest in real estate pursuant to which we are deemed the accounting owner. The debt is nonrecourse to us and was not arranged by us. See Note 1 to the Notes to the Audited Consolidated Financial Statements for additional information with respect to our minority interest.

- Additionally, the results of operations for the year ended December 31, 2012 include a $4.3 million impairment relating exclusively to the intangible assets of the Specialty Admitted Insurance segment acquired as part of the Acquisition. This impairment results from a more conservative projection of future operating income than in prior years, recognition of unprofitable agencies terminated during 2012, and the consideration of this segment's lack of profitability during 2011 and 2012.

Our income before taxes and net income for the years ended December 31, 2013 and 2012 reconcile to our net operating income as follows:

	Year Ended December 31,			
	2013		2012	
	Income Before Taxes	Net Income	Income Before Taxes	Net Income
	(in thousands)			
Income as reported	$ 77,078	$ 67,337	$ 7,767	$ 8,664
Net realized investment gains	(12,619)	(9,427)	(8,915)	(6,131)
Other expenses	677	577	3,350	2,178
Interest expense on leased building the Company is deemed to own for accounting purposes	663	431	662	430
Impairment of intangible assets	—	—	4,299	2,794
Net operating income	$ 65,799	$ 58,918	$ 7,163	$ 7,935

Our combined ratio for the year ended December 31, 2013 was 91.2%. The combined ratio for the year ended December 31, 2013 included $37.5 million, or 11.4 percentage points, of net favorable development on direct and assumed business underwritten by the Company on prior accident years, including $40.7 million of favorable reserve development from the Excess and Surplus Lines segment and $1.4 million of favorable reserve development from the Specialty Admitted Insurance segment offset by $4.7 million of adverse development from the Casualty Reinsurance segment.

Our combined ratio for the year ended December 31, 2012 was 107.4%. It included $1.4 million, or 0.4 percentage points, of net adverse development on direct and assumed business underwritten by the Company on prior accident years, including $20.1 million of favorable reserve development from the Excess and Surplus Lines segment offset by $4.9 million of adverse reserve development from the Specialty Admitted Insurance segment and $16.6 million of adverse development from the Casualty Reinsurance segment.

Expense Ratios

Our expense ratio was substantially the same for the years ended December 31, 2013 and 2012. The small increase in the expense ratio for 2013 over the prior year is primarily attributable to the 10.0% decrease in our net earned premiums compared to the prior year without a proportional reduction in other operating expenses. Planned premium decreases in the Specialty Admitted Insurance and Casualty Reinsurance segments drove the overall decline in our net earned premium.

Premiums

For the five year period from 2008 to 2012, the Casualty Reinsurance segment assumed reinsurance for crop-related risks. Gross written premiums for this business were generally recorded at the inception of the policies and were $94.5 million for 2012; although we limited these premiums on a net written basis to $15.0 million for the 2012 underwriting year through the purchase of proportional reinsurance. Operating results of this program are included in the Casualty Reinsurance segment.

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

	Year Ended December 31,		%
	2013	2012	Change
	($ in thousands)		
Gross written premiums:			
Excess and Surplus Lines	$ 192,394	$ 158,654	21.3%
Specialty Admitted Insurance	20,594	36,709	(43.9)%
Casualty Reinsurance	155,530	296,568	(47.6)%
	$ 368,518	$ 491,931	(25.1)%
Net written premiums:			
Excess and Surplus Lines	$ 155,064	$ 123,483	25.6%
Specialty Admitted Insurance	18,169	33,041	(45.0)%
Casualty Reinsurance	151,933	195,785	(22.4)%
	$ 325,166	$ 352,309	(7.7)%
Net earned premiums:			
Excess and Surplus Lines	$ 141,826	$ 115,940	22.3%
Specialty Admitted Insurance	17,908	32,189	(44.4)%
Casualty Reinsurance	168,344	216,439	(22.2)%
	$ 328,078	$ 364,568	(10.0)%

Our net premium retention by segment is as follows:

	Year Ended December 31,	
	2013	2012
Excess and Surplus Lines	80.6%	77.8%
Specialty Admitted Insurance	88.2%	90.0%
Casualty Reinsurance	97.7%	66.0%
Total	88.2%	71.6%

For the Excess and Surplus Lines segment (which represents 52.2% of our gross written premiums for the year ended December 31, 2013), gross written premiums for the year ended December 31, 2013 increased 21.3% over the prior year. Our casualty rates per unit of exposure in this segment increased 2.6% over the prior year and the average annual gross written premiums per policy increased 12.1% over the prior year. The gross written premiums increase was most notable in the following divisions within the Excess and Surplus Lines segment:

- Manufacturers and Contractors division (representing 30.4% of this segment's 2013 business) which increased $11.9 million (or 25.4%) for the year ended December 31, 2013 over the prior year;
- Energy division (representing 11.1% of this segment's 2013 business) which increased $5.6 million (or 35.7%) over the prior year; and
- General Casualty division (representing 11.8% of this segment's 2013 business) which increased $10.0 million (or 78.6%) over the prior year. Our TNC business was a component of this increase. Gross written premiums from our TNC business were $2.5 million for 2013 and zero in 2012.

For the Specialty Admitted Insurance segment (which represents 5.6% of our gross written premiums for the year ended December 31, 2013) during the year ended December 31, 2013, gross written premiums decreased 43.9% compared to the prior year. We reunderwrote our entire workers' compensation book of business in late 2012 and 2013. Accordingly, the decline in gross written premiums was attributable to (1) a program that included a deliberate increase in our premium rates, (2) the termination of 35 agencies in late 2012 for unprofitability and/or limited premium production and (3) more selectivity in the accounts and classes of business that we chose to underwrite. Accordingly, the number of policies decreased as renewal business policies issued decreased 54.8% in the year ended December 31, 2013 as compared to the prior year. New business increased by 5.1% for the year ended December 31, 2013, as compared to the prior year. The reduction in policies issued was mitigated by a 25.8% increase in average premium per policy issued for the year ended December 31, 2013 over the year ended December 31, 2012.

It is our policy to audit payroll for each expired workers' compensation insurance policy in the Specialty Admitted Insurance segment to determine the difference between the original estimated payroll at the time the policy was written and the final actual payroll of the insured after the policy is completed. Audit premiums increased both written and earned premiums for the year ended December 31, 2013 by $517,000 (in the prior year, audit premiums increased both written and earned premiums by $1.5 million). Additionally, gross written premiums for the years ended December 31, 2013 and 2012 each included $1.4 million of assumed premiums from our allocation of the North Carolina involuntary workers' compensation pool.

Effective January 1, 2012, the Specialty Admitted Insurance segment lowered its retention from $5.0 million per occurrence to $1.0 million per occurrence through the use of reinsurance. Effective August 1, 2012, this segment further reduced its retention to $500,000 per occurrence. These reductions in our retention caused a reduction in our net premium retention compared to that of the prior year.

For the Casualty Reinsurance segment (which represents 42.2% of our gross written premiums for the year ended December 31, 2013), gross written premiums decreased 47.6%, from $296.6 million for the year ended December 31, 2012 to $155.5 million for the year ended December 31, 2013. 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, it is done with relatively low catastrophe sub-limits.

Additionally, included in total gross written premiums for the Casualty Reinsurance segment is $94.5 million ($22.5 million on a net basis) of assumed crop reinsurance for the year ended December 31, 2012. Due to poor results in 2011, the Casualty Reinsurance segment entered into agreements to cede (through retrocession agreements) 75.0% of its assumed crop business on the 2012 accident year. Moreover, the Company's total net written premiums were capped under contractual terms at $15.0 million for the 2012 crop year. Effective January 1, 2013, we no longer write crop reinsurance. Absent the premiums for crop reinsurance assumed, the gross written premiums for the Casualty Reinsurance segment decreased 23.0% from $202.0 million to $155.5 million for the years ended December 31, 2012 and 2013, respectively.

The decline in gross written premiums excluding crop reinsurance for the year ended December 31, 2013 was driven by the non-renewal of several contracts in our Casualty Reinsurance segment which had been included in the written premiums in 2012. These non-renewals were part of a significant, planned decrease in our Casualty Reinsurance segment's premiums. We achieved the decrease by taking smaller shares on renewal treaties and, continuing to maintain price discipline even when competitors were willing to offer lower pricing. We also focused on certain terms and conditions in our contract negotiations that we believe protect us from losses in our reinsurance book (*e.g.* down-side protection through use of sliding scale commissions in quota-share treaties). We took these underwriting actions knowing that it would reduce writings in our Casualty Reinsurance segment, but with the goal of increasing underwriting profitability.

Net Retention

The net premium retention for the Company increased from 71.6% to 88.2% for the years ended December 31, 2012 and 2013, respectively. Termination of the crop reinsurance program noted previously contributed to the increase in retention. The net premium retention would have been 83.0% for the year ended December 31, 2012 absent crop reinsurance assumed. The increase in our net retention over the prior year was also driven by our decision not to renew several treaties in the Casualty Reinsurance segment that had significant retrocessions in 2012.

Underwriting Results

The following table compares our combined ratios by segment:

	Year Ended December 31,	
	2013	2012
Excess and Surplus Lines	69.3%	85.4%
Specialty Admitted Insurance	121.6%	153.8%
Casualty Reinsurance	101.5%	108.8%
Total	91.2%	107.4%

Excess and Surplus Lines Segment

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

	Year Ended December 31,		%
	2013	2012	Change
	($ in thousands)		
Gross written premiums	$ 192,394	$ 158,654	*21.3%*
Net written premiums	$ 155,064	$ 123,483	*25.6%*
Net earned premiums	$ 141,826	$ 115,940	*22.3%*
Losses and loss adjustment expenses	(57,250)	(60,985)	*(6.1)%*
Underwriting expenses	(41,053)	(37,976)	*8.1%*
Underwriting profit[1]	$ 43,523	$ 16,979	*156.3%*
Ratios:			
Loss ratio	40.4%	52.6%	—
Expense ratio	28.9%	32.8%	—
Combined ratio	69.3%	85.4%	—

[1] See "— Reconciliation of Non-GAAP Measures."

Combined Ratio. The combined ratio of the Excess and Surplus Lines segment for the year ended December 31, 2013 was 69.3%, comprised of a loss ratio of 40.4% and an expense ratio of 28.9%. The combined ratio for the year ended December 31, 2012 was 85.4%, comprised of a loss ratio of 52.6% and an expense ratio of 32.8%.

Loss Ratio. The loss ratio of 40.4% for the year ended December 31, 2013 includes $40.7 million, or 28.7 percentage points, of net favorable development in our loss estimates for prior accident years. The significant favorable reserve development in this segment reflects benign loss activity and continuing positive loss trends.

The loss ratio of 52.6% for the year ended December 31, 2012 includes $20.1 million, or 17.4 percentage points, of net favorable development in our loss estimates for prior accident years.

Expense Ratio. The expense ratio decreased from 32.8% in 2012 to 28.9% in 2013. The decrease in the expense ratio is primarily attributable to the increase in net earned premiums without a proportional increase in the total amount of operating expenses.

Underwriting Profit. As a result of the items discussed above, underwriting profit of the Excess and Surplus Lines segment increased 156.3%, from $17.0 million for the year ended December 31, 2012 to $43.5 million for the year ended December 31, 2013.

Specialty Admitted Insurance Segment

Results for the Specialty Admitted Insurance segment are as follows:

	Year Ended December 31,		%
	2013	2012	Change
	($ in thousands)		
Gross written premiums	$ 20,594	$ 36,709	*(43.9)%*
Net written premiums	$ 18,169	$ 33,041	*(45.0)%*
Net earned premiums	$ 17,908	$ 32,189	*(44.4)%*
Losses and loss adjustment expenses	(12,066)	(37,988)	*(68.2)%*
Underwriting expenses	(9,710)	(11,519)	*(15.7)%*
Underwriting loss[1]	$ (3,868)	$ (17,318)	*(77.7)%*
Ratios:			
Loss ratio	67.4%	118.0%	—
Expense ratio	54.2%	35.8%	—
Combined ratio	121.6%	153.8%	—

[1] See "— Reconciliation of Non-GAAP Measures."

Combined Ratio. The combined ratio of the Specialty Admitted Insurance segment for the year ended December 31, 2013 was 121.6%, comprised of a loss ratio of 67.4% and an expense ratio of 54.2%. This compares to the combined ratio in the prior year of 153.8%, comprised of a loss ratio of 118.0% and an expense ratio of 35.8%. The substantial improvement in the loss ratio for the year ended December 31, 2013 reflects a significant increase in premium rates, more selectivity in accounts and classes of business we underwrite, and the effects of a ground-up review of our agency network—all of which began in the third quarter of 2012.

Loss Ratio. The loss ratio for the year ended December 31, 2013 includes $1.4 million, or 7.9 percentage points, of net favorable development on prior accident years.

During the year ended December 31, 2012, this segment incurred significant losses as a result of continued high unemployment coupled with unfavorable rulings from both judicial and administrative agencies in its primary state of North Carolina. This led to significant frequency and severity issues for the segment and recognition that inadequate premium rates had been charged over the past several years. Additionally, this loss ratio of 118.0% includes $4.9 million, or 15.2 percentage points, of net adverse reserve development on direct business primarily for the 2011 and 2010 accident years.

Expense Ratio. The expense ratio of 54.2% for the year ended December 31, 2013 increased from 35.8% in the prior year. The total expenses for this segment for the years ended December 31, 2013 and 2012 include $1.3 million, or 7.0 percentage points, and $866,000 (or 2.7 percentage points), respectively, of legal, regulatory, and other out-of-pocket expenses relating to the two Ohio domiciled shell companies acquired on December 31, 2011. The remaining increase in the expense ratio from that of the prior year is primarily attributable to the 44.4% decrease in net earned premiums without a corresponding decrease in expenses.

Underwriting Loss. As a result of the items discussed above, the underwriting results improved from an underwriting loss of $17.3 million for the year ended December 31, 2012 to an underwriting loss of $3.9 million for the year ended December 31, 2013.

Casualty Reinsurance Segment

Results for the Casualty Reinsurance segment are as follows:

	Year Ended December 31,		%
	2013	2012	Change
	($ in thousands)		
Gross written premiums	$ 155,530	$ 296,568	(47.6)%
Net written premiums	$ 151,933	$ 195,785	(22.4)%
Net earned premiums	$ 168,344	$ 216,439	(22.2)%
Losses and loss adjustment expenses	(115,170)	(165,523)	(30.4)%
Underwriting expenses	(55,734)	(70,065)	(20.5)%
Underwriting loss[(1)]	$ (2,560)	$ (19,149)	(86.6)%
Ratios:			
Loss ratio	68.4%	76.5%	—
Expense ratio	33.1%	32.4%	—
Combined ratio	101.5%	108.8%	—

(1) See "— Reconciliation of Non-GAAP Measures."

Net Written Premiums. Net written premiums decreased from $195.8 million for the year ended December 31, 2012 to $151.9 million for the year ended December 31, 2013. The Casualty Reinsurance segment had a significant, planned decrease in net written premiums as a result of taking smaller shares on renewal treaties, continuing to maintain price discipline and attempting to improve terms and other features of our reinsurance contracts (*e.g.* down-side protection through the use of sliding scale commissions in quota share treaties). Additionally, assumed crop reinsurance gross and net premiums written in 2012 were $94.5 million and $22.5 million, respectively. Accordingly, excluding the crop reinsurance assumed, gross written premiums for this segment would have decreased 23.0% from $202.0 million to $155.5 million and net written premiums would have decreased 12.5%, from $173.3 million to $151.6 million for the years ended December 31, 2012 and December 31, 2013, respectively.

Combined Ratio. The combined ratio of the Casualty Reinsurance segment for the year ended December 31, 2013 was 101.5%, comprised of a loss ratio of 68.4% and an expense ratio of 33.1%. This compares to the combined ratio for the same period in the prior year of 108.8%, comprised of a loss ratio of 76.5% and an expense ratio of 32.4%.

Loss Ratio. The loss ratio for the year ended December 31, 2013 included $4.7 million, or 2.8 percentage points, of net adverse reserve development in our loss estimates for the prior accident years. In comparison, the loss ratio for the prior year included $16.6 million, or 7.7 percentage points, of adverse reserve development in our loss estimates for prior accident years.

During the year ended December 31, 2012, our crop-related reinsurance was adversely affected by the severe drought which affected the United States. This drought was primarily responsible for the $5.7 million underwriting loss, net of reinsurance, which we incurred on our crop-related reinsurance. Absent the crop-related business, the combined ratio of this segment was 106.9%, comprised of a loss ratio of 72.1% and an expense ratio of 34.9%. The loss ratio also includes $7.6 million of net adverse reserve development on non-crop risks for the year ended December 31, 2012, representing 3.5 percentage points of the segment's loss ratio. The reserve development for crop-related risks was $9.0 million of net adverse development for the year ended December 31, 2012, representing 4.6 percentage points of the segment's loss ratio.

Expense Ratio. The expense ratio of the Casualty Reinsurance segment increased from 32.4% for the year ended December 31, 2012 to 33.1% for the year ended December 31, 2013. The increase in the expense ratio over that of the prior year is attributable to the decrease in earned premiums without a proportional decrease in operating expenses.

Underwriting Loss. As a result of the items discussed above, the underwriting results for the Casualty Reinsurance segment improved from an underwriting loss of $19.1 million for the year ended December 31, 2012 to an underwriting loss of $2.6 million for the year ended December 31, 2013.

Reserves

The Company's gross reserve for losses and loss adjustment expenses at December 31, 2013 was $646.5 million. Of this amount, 70.9% relates to amounts that are incurred but not reported. The Company's gross reserve for losses and loss adjustment expenses by segment are summarized as follows:

	Gross Reserves at December 31, 2013			
	Case	IBNR	Total	IBNR % of Total
	($ in thousands)			
Excess and Surplus Lines	$ 70,230	$ 308,737	$ 378,967	81.5%
Specialty Admitted Insurance	31,470	27,436	58,906	46.6%
Casualty Reinsurance	86,566	122,013	208,579	58.5%
Total	$ 188,266	$ 458,186	$ 646,452	70.9%

The Company's net reserve for losses and loss adjustment expenses at December 31, 2013 was $527.0 million. Of this amount, 68.2% related to amounts that were incurred but not reported. The Company's reserve for losses and loss adjustment expenses net of ceded reinsurance by segment are summarized as follows:

	Net Reserves at December 31, 2013			
	Case	IBNR	Total	IBNR % of Total
	($ in thousands)			
Excess and Surplus Lines	$ 63,348	$ 233,220	$ 296,568	78.6%
Specialty Admitted Insurance	28,996	22,485	51,481	43.7%
Casualty Reinsurance	75,498	103,438	178,936	57.8%
Total	$ 167,842	$ 359,143	$ 526,985	68.2%

Other Operating Expenses

Other operating expenses for the Company include the underwriting, acquisition and insurance expenses of the Excess and Surplus Lines segment, the Specialty Admitted Insurance segment and the Casualty Reinsurance segment as well as 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 the calculation of our expense ratio and combined ratio. A portion of these costs are reimbursed by our subsidiaries. These reimbursements are included primarily as underwriting expenses in the results of our operating subsidiaries. Accordingly, 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 potential acquisitions and other strategic initiatives. These costs vary from period to period based on the status of these initiatives.

For the years ended December 31, 2013 and 2012, the total operating expenses of the Corporate and Other segment were $8.3 million and $7.3 million, respectively. The variance from the prior year principally relates to compensation related expenses resulting from the Company's improved underwriting profits in 2013.

Investing Results

Net investment income for the years ended December 31, 2013 and 2012 were $45.4 million and $44.3 million, respectively. Included in net investment income for these years is $14.4 million and $13.7 million, respectively, of income from bank loan participations. The increase in net investment income despite the lower interest rate environment is primarily attributable to $4.3 million of income recognized on the Company's renewable energy investments in 2013. These investments are interests in certain limited liability companies that are managed by an affiliate of one of our largest shareholders and have a total carrying value of $26.8 million at December 31, 2013. The Company's interests in these companies are classified as "other invested assets" and accounted for using the equity method. Losses of $637,000 were recognized on these renewable energy investments for the year ended December 31, 2012. See "Certain Relationships and Related Party Transactions — Related Party Transactions — Investments with Affiliates of the D. E. Shaw Affiliates."

Investment income for 2013 also reflects a lower invested asset base than in the prior year as a result of the $89.1 million of cash utilized to repurchase our shares during April 2013. See "— Liquidity and Capital Resources — Share Repurchase."

The following table summarizes our investment returns:

	Year Ended December 31,	
	2013	2012
Annualized gross investment yield on:		
Average cash and invested assets	4.0%	4.0%
Average fixed maturity securities	3.9%	4.6%
Annualized tax equivalent yield on:		
Average fixed maturity securities	4.0%	4.8%

Of our total cash and invested assets of $1,217.1 million at December 31, 2013, $158.6 million represents the cash and cash equivalent portion of the portfolio. The majority of the portfolio, $729.9 million, is comprised of fixed maturity and equity securities that are classified as available-for-sale and are carried at fair value with unrealized gains and losses on these securities reported, net of applicable taxes, as a separate component of accumulated comprehensive income or loss. Also included in our investments is $71.5 million of short-term investments, $42.1 million of other invested assets and $17.3 million of fixed maturity securities that are classified as trading and held at the U.S. holding company. Our trading portfolio is carried at fair value with changes to the value reported as net investment income in our consolidated income statement.

The last component of our investment portfolio is comprised of $197.7 million of bank loan participations which are classified as held-for-investment, and reported at amortized cost, net of an allowance for credit losses of $242,000, (which was $121,000 at December 31, 2012). Our bank loan participations are primarily senior, secured floating-rate debt which are rated "B" or "BB" 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. Bank loans consist of, but are not limited to, term loans, the funded and unfunded portions of revolving credit loans and similar loans and investments. At December 31, 2013 and December 31, 2012, the fair market value of these securities was $200.6 million and $171.1 million, respectively.

In conjunction with our outside investment managers, the Company performs quarterly reviews of all securities within its investment portfolio to determine whether any impairment has occurred. In connection with this review for the year ended December 31, 2013, the Company determined that no impairment had occurred on any of its fixed maturity securities. We concluded that one of the equity securities with an unrealized loss at December 31, 2013 experienced an other-than-temporary impairment, and accordingly, the Company recorded an impairment loss of $804,000 in 2013. For our portfolio of bank loan participations, we recognized impairment losses of $121,000 and $780,000 as of December 31, 2013 and 2012, respectively, on one of the securities in our bank loan participation portfolio.

At December 31, 2013, our available-for-sale investment portfolio of fixed maturity and equity securities had an unrealized gain of $8.0 million (which was $55.9 million at December 31, 2012), representing 1.1% of the cost or amortized cost of the portfolio. Additionally, at December 31, 2013, 82.5%

of our fixed maturity security portfolio was rated “A-” or better by Standard & Poor’s or an equivalent rating from another nationally recognized statistical rating organization. Fixed maturity securities with ratings below investment grade by Standard & Poor’s or another nationally recognized statistical rating organization at December 31, 2013 had an aggregate fair value of $53.3 million and an aggregate net unrealized gain of $1.1 million.

The average duration of our fixed income securities portfolios for 2013 and 2012 was 3.7 years and 4.4 years, respectively. We planned this decrease in duration in furtherance of our cautious interest rate strategy, and we continue to look at trades that will shorten duration while not materially affecting yield. The significant realized gains taken during 2013 were the result of this duration shortening strategy.

For the year ended December 31, 2013, the Company recognized net realized investment gains of $12.6 million. This amount was comprised primarily of $11.5 million of net realized gains from the sale of fixed maturity securities and $2.0 million in net realized gains from the sale of bank loan participations, offset by the $804,000 equity impairment loss noted previously.

For the year ended December 31, 2012, the Company recognized net realized investment gains of $8.9 million. This amount included $3.6 million of net realized gains on fixed maturity securities and $4.1 million of gains on equity securities, and $1.3 million of gains on bank loan participations.

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

	December 31, 2013			December 31, 2012		
	Cost or Amortized Cost	Fair Value	% of Total Fair Value	Cost or Amortized Cost	Fair Value	% of Total Fair Value
			($ in thousands)			
Fixed maturity securities:						
State and municipal	$ 74,678	$ 76,146	*10.4%*	$ 136,076	$ 153,415	*18.1%*
Residential mortgage-backed	101,352	98,569	*13.5%*	149,970	154,607	*18.2%*
Corporate	245,139	251,517	*34.5%*	278,225	293,855	*34.6%*
Commercial mortgage and asset-backed	81,054	83,965	*11.5%*	36,766	42,331	*5.0%*
Obligations of U.S. government corporations and agencies	104,153	104,961	*14.4%*	108,052	113,835	*13.4%*
U.S. Treasury securities and obligations guaranteed by the U.S. government	46,435	46,311	*6.3%*	29,791	30,774	*3.6%*
Redeemable preferred stock	2,025	1,649	*0.2%*	1,097	1,119	*0.1%*
Total	654,836	663,118	*90.8%*	739,977	789,936	*93.0%*
Equity securities:						
Preferred stock	37,016	37,042	*5.1%*	32,821	37,072	*4.4%*
Common stock	30,113	29,765	*4.1%*	20,019	21,727	*2.6%*
Total	67,129	66,807	*9.2%*	52,840	58,799	*7.0%*
Total investments	$ 721,965	$ 729,925	*100.0%*	$ 792,817	$ 848,735	*100.0%*

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

	December 31, 2013		
	Amortized Cost	Fair Value	% of Total Value
	($ in thousands)		
Due in:			
One year or less	$ 13,771	$ 13,959	2.1%
After one year through five years	310,360	315,828	47.6%
After five years through ten years	74,373	75,927	11.5%
After ten years	71,901	73,221	11.0%
Residential mortgage-backed	101,352	98,569	14.9%
Commercial mortgage and asset-backed	81,054	83,965	12.7%
Redeemable preferred stock	2,025	1,649	0.2%
Total	$ 654,836	$ 663,118	100.0%

At December 31, 2013, the Company held two securities with an aggregate market value of $512,000 in securitizations of alternative-A mortgages, all of which are performing and are rated “investment grade” by the established ratings agencies. The Company has no investments in sub-prime mortgages or collateralized debt obligations at December 31, 2013.

Other Expenses

Other expenses for the years ended December 31, 2013 and 2012 were $677,000 and $3.4 million, respectively. In 2013, these expenses include $392,000 of due diligence expenses related to an acquisition that was not consummated. In 2012, these expenses were comprised principally of $2.7 million of expense in connection with a grant of bonus shares and $432,000 of expenses relating to due diligence for a potential acquisition candidate that we chose not to acquire.

Interest Expense

Interest expense was $6.8 million and $8.3 million for the years ended December 31, 2013 and 2012, respectively. Interest for the James River Capital Trust IV was fixed at 7.51% until March 15, 2013 at which time it became variable at 3-month LIBOR plus 3.1%. Similarly, interest for Franklin Holdings II (Bermuda) Capital Trust I was fixed at 7.97% until June 15, 2013 at which time it became variable at 3-month LIBOR plus 4.0%.

See “— Liquidity and Capital Resources — Sources and Uses of Funds” for information regarding our senior bank debt facility and trust preferred securities.

Amortization of Intangibles

The Company recorded $2.5 million and $2.8 million of amortization of intangibles for the years ended December 31, 2013 and 2012, respectively.

Goodwill and Impairment

We test goodwill and other intangible assets in each operating segment for impairment at least annually. The fair value of the reporting units is determined by weighting the results of a discounted cash flow analysis and a valuation derived from a market-based approach. Intangible assets are valued using various methodologies. The projection of future cash flows is dependent upon assumptions on the future levels of income as well as business trends, prospects and market and economic conditions.

We perform this assessment to determine whether there has been any impairment in the value of goodwill or intangible assets by comparing its fair value to the net carrying value of the reporting units. If the carrying value exceeds its estimated fair value, an impairment loss is recognized and the asset is written down accordingly.

The Company completed its impairment tests and fair value analyses for goodwill and other intangible assets during the fourth quarter. No impairment was present for the year ended December 31, 2013; however, an impairment of $4.3 million occurred during the year ended December 31, 2012 for our Specialty Admitted Insurance segment. This impairment did not affect our cash flow, cash balance, liquidity position, compliance with debt covenants, or statutory surplus of our regulated entities. The impairment was comprised of the following items of the Specialty Admitted Insurance segment (in thousands):

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Write-down of customer relationships	$—	$ 3,830
Write-down of trademarks	—	300
Write-down of broker relationships	—	169
	$—	$ 4,299

Factors that led to the 2012 impairments included a more conservative projection of future operating income than in prior years, recognition of unprofitable agencies terminated during 2012, and the consideration of the segment's lack of profitability during 2011 and 2012.

U.S. Federal 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, our 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 (state and municipal securities represented 10.4% and 18.1% of our available-for-sale securities at December 31, 2013 and 2012, respectively) and dividends received income. For the years ended December 31, 2013 and 2012, our U.S. federal income tax provision were an expense of 12.6% and a benefit of 11.5%, respectively, of income before taxes, as the amount of tax-exempt investment income and the dividends received deduction in 2012 were high relative to the level of U.S. pre-tax income for the year.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

The following table summarizes our results for the years ended December 31, 2012 and 2011:

	Year Ended December 31,		% Change
	2012	2011	2012 vs. 2011
	($ in thousands)		
Gross written premiums	$ 491,931	$ 490,821	*0.2%*
Net retention[1]	71.6%	88.2%	—
Net written premiums	$ 352,309	$ 433,069	*(18.6%)*
Net earned premiums	$ 364,568	$ 337,105	*8.1%*
Losses and loss adjustment expenses	(264,496)	(233,479)	*13.3%*
Other operating expenses	(126,884)	(115,378)	*10.0%*
Underwriting loss[2]	(26,812)	(11,752)	*128.1%*
Net investment income	44,297	48,367	*(8.4%)*
Net realized investment gains	8,915	20,899	*(57.3%)*
Other income	130	226	*(42.5%)*
Other expenses	(3,350)	(592)	*465.9%*
Interest expense	(8,266)	(8,132)	*1.6%*
Amortization of intangible assets	(2,848)	(2,848)	—
Income before impairment and taxes	12,066	46,168	*(73.9%)*
Impairment of intangible assets	(4,299)	—	—
Income before taxes	7,767	46,168	*(83.2%)*
U.S. federal income tax benefit (expense)	897	(7,695)	—
Net income	$ 8,664	$ 38,473	*(77.5%)*
Net operating income	$ 7,935	$ 22,352	*(64.5%)*
Ratios:			
Loss ratio	72.6%	69.3%	—
Expense ratio	34.8%	34.2%	—
Combined ratio	107.4%	103.5%	—

[1] Net retention is defined as the ratio of net written premiums to gross written premiums.

[2] See "Reconciliation of Non-GAAP Measures" for further detail.

We had an underwriting loss of $26.8 million for the year ended December 31, 2012. This compares to an underwriting loss of $11.8 million in the prior year. The Company recognized $1.4 million of net adverse reserve development for the year ended December 31, 2012 and $19.9 million of net favorable reserve development for the year ended December 31, 2011.

During the year ended December 31, 2012, our Specialty Admitted Insurance segment recognized an underwriting loss of $17.3 million, of which $4.9 million related to net adverse reserve development from prior accident years. The increase in the loss ratio for the 2012 accident year represented our recognition of inadequate rate levels as well as continued frequency and severity of loss issues in this book during 2012. The total underwriting loss of the Specialty Admitted Insurance segment represents 4.8 percentage points to both our loss and combined ratio for the year ended December 31, 2012. The underwriting loss for 2012 also included, in our Casualty Reinsurance segment, a $5.7 million loss related to our assumed crop reinsurance that was affected by the extreme drought which occurred in the United States in 2012. On December 31, 2012, the Company stopped writing crop reinsurance.

During the year ended December 31, 2011 our Specialty Admitted Insurance segment experienced elevated severity in its losses including individual losses of $3.2 million and $1.7 million, when previously this segment did not have any individual loss in excess of $1.0 million. Also our results for the year ended December 31, 2011 included a $9.4 million underwriting loss relating to our assumed crop reinsurance business which was affected by the results of extreme wind and hail on the risks we underwrote.

The results of operations for the years ended December 31, 2012 and 2011 included certain items that are significant to the operating results of the Company. These items (on a pre-tax basis) include:

- The results of operations for the year ended December 31, 2012 include $8.9 million of net realized investment gains resulting primarily from the sale of fixed maturity securities and equity securities. In the prior year, our results included $20.9 million of net realized investment gains resulting primarily from the sale of fixed maturity securities.
- The results of operations for the years ended December 31, 2012 and 2011 include $3.4 million and $592,000, respectively, of other expenses. Other expenses for 2012 were comprised principally of $2.7 million of expense related to bonus stock granted and $432,000 of expenses relating to due diligence for a potential acquisition candidate that we chose not to acquire. Other expenses for 2011 were comprised principally of $409,000 of legal and professional fees relating to a potential acquisition that was not consummated.
- Interest expense for the years ended December 31, 2012 and 2011 includes $662,000 and $660,000, respectively, relating to finance expenses in connection with a minority interest in real estate pursuant to which we are deemed the accounting owner. The debt is nonrecourse to us and was not arranged by us. See Note 1 to the Consolidated Financial Statements for the years ended December 31, 2013, 2012, and 2011 for additional information with respect to our minority interest.
- Additionally, the results of operations for the year ended December 31, 2012, include a $4.3 million impairment relating exclusively to the intangible assets of the Specialty Admitted Insurance segment acquired as part of the Acquisition. This impairment results from a revision to our projections of future operating income to reflect the impact of unprofitable agencies on overall results and the consideration of the segment's lack of profitability during 2011 and 2012.

Our income before taxes and net income for the years ended December 31, 2012 and 2011 reconcile to net operating income as follows:

	Year Ended December 31,			
	2012		2011	
	Income Before Taxes	Net Income	Income Before Taxes	Net Income
	(in thousands)			
Income as reported	$ 7,767	$ 8,664	$ 46,168	$ 38,473
Net realized investment gains	(8,915)	(6,131)	(20,899)	(17,078)
Other expenses	3,350	2,178	592	528
Interest expense on leased building the Company is deemed to own for accounting purposes	662	430	660	429
Impairment of intangible assets	4,299	2,794	—	—
Net operating income	$ 7,163	$ 7,935	$ 26,521	$ 22,352

Our combined ratio for the year ended December 31, 2012 was 107.4%. The combined ratio for the year ended December 31, 2012 included $1.4 million of net adverse development on direct and assumed business underwritten by the Company on prior accident years, including $20.1 million of favorable reserve development from the Excess and Surplus Lines segment offset by $4.9 million of adverse reserve development from the Specialty Admitted Insurance segment and $16.6 million of adverse development from the Casualty Reinsurance segment.

Our combined ratio for the year ended December 31, 2011 was 103.5%. It included $19.9 million, or 5.9 percentage points, of net favorable development on direct and assumed business underwritten by the

Company on prior accident years, including $21.0 million of favorable reserve development from the Excess and Surplus Lines segment and $1.7 million of favorable reserve development from the Specialty Admitted Insurance segment offset by $2.8 million of adverse development from the Casualty Reinsurance segment.

Expense Ratios

Our expense ratio increased from 34.2% for the year ended December 31, 2011 to 34.8% for the year ended December 31, 2012, as the 10.0% increase in other operating expenses in 2012 slightly exceeded the 8.1% increase in net earned premiums.

Premiums

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

	Year Ended December 31,		%
	2012	2011	Change
	($ in thousands)		
Gross written premiums:			
Excess and Surplus Lines	$ 158,654	$ 131,007	*21.1%*
Specialty Admitted Insurance	36,709	44,914	*(18.3%)*
Casualty Reinsurance	296,568	314,900	*(5.8%)*
	$ 491,931	$ 490,821	*0.2%*
Net written premiums:			
Excess and Surplus Lines	$ 123,483	$ 105,004	*17.6%*
Specialty Admitted Insurance	33,041	44,414	*(25.6%)*
Casualty Reinsurance	195,785	283,651	*(31.0%)*
	$ 352,309	$ 433,069	*(18.6%)*
Net earned premiums:			
Excess and Surplus Lines	$ 115,940	$ 101,099	*14.7%*
Specialty Admitted Insurance	32,189	37,918	*(15.1%)*
Casualty Reinsurance	216,439	198,088	*9.3%*
	$ 364,568	$ 337,105	*8.1%*

Our net premium retention by segment is as follows:

	Year Ended December 31,	
	2012	2011
Excess and Surplus Lines	77.8%	80.2%
Specialty Admitted Insurance	90.0%	98.9%
Casualty Reinsurance	66.0%	90.1%
Total	71.6%	88.2%

Gross written premiums for the Excess and Surplus Lines segment for the year ended December 31, 2012 increased 21.1% over the prior year. This increase is attributable to a 10.3% increase in submissions, a 13.6% increase in average new policy premium, a 17.0% increase in average renewal policy premium, and a 2.1% increase in exposure adjusted renewal pricing for the year ended December 31, 2012. The increase in this segment's gross written premiums was most notable in the following divisions within the Excess and Surplus Lines segment:

- Excess Casualty division (representing 18.8% of this segment's 2012 business) which increased $9.0 million (or 43.4%) for the year ended December 31, 2012 over the prior year;

- Manufacturers and Contractors division (representing 29.4% of this segment's 2012 business) which increased $8.1 million (or 21.0%) for the year ended December 31, 2012 over the prior year; and

- Energy division (representing 9.9% of this segment's 2012 business) which increased $5.2 million (or 49.2%) for the year ended December 31, 2012 over the prior year.

During the year ended December 31, 2012, gross written premiums for the Specialty Admitted Insurance segment decreased 18.3% over the prior year. We reunderwrote our workers' compensation book of business in late 2012. Accordingly, the decline in gross written premiums was attributable to (1) a program that included a deliberate increase in our premium rates, (2) the termination of 35 agencies in late 2012 for unprofitability and/or limited premium production, and (3) more selectivity in the accounts and classes of business that we chose to underwrite.

It is our policy to audit payroll for each expired policy in the Specialty Admitted Insurance segment to determine the difference between the original estimated payroll at the time the policy was written and the final actual payroll of the customer after the policy is completed. Audit premiums increased both written and earned premiums for the year ended December 31, 2012 by $1.5 million (in the prior year, audit premiums increased both written and earned premiums by $443,000). Additionally, gross written premiums for the year ended December 31, 2012 and 2011 each included $1.4 million of assumed premiums from our allocation of the North Carolina involuntary workers' compensation pool.

Effective January 1, 2012, the Specialty Admitted Insurance segment lowered its retention from $5.0 million per occurrence to $1.0 million per occurrence through the use of reinsurance. Effective August 1, 2012, this segment further reduced its retention to $500,000 per occurrence, also through the use of reinsurance. These changes caused a reduction in our net premium retention over that of the prior year.

For the Casualty Reinsurance segment, gross written premiums decreased 5.8%, from $314.9 million for the year ended December 31, 2011 to $296.6 million for the year ended December 31, 2012. 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, it is done with relatively low catastrophe sub-limits.

Additionally, included in total gross written premiums for the Casualty Reinsurance segment is $94.5 million and $53.2 million of assumed crop reinsurance for the years ended December 31, 2012 and 2011, respectively. Due to poor results in 2011, we entered into agreements in 2012 to cede (through retrocession agreements) 75.0% of the segment's assumed crop business on the 2012 accident year. Moreover, the Company's total net written premiums were capped under contractual terms at $15.0 million for the 2012 crop year. During 2011, we entered into both a 28% proportional retrocession treaty and an excess of loss treaty for 70% of all losses between 115% and 130% of earned premiums covering our exposure for 2011 assumed crop business. Absent crop reinsurance assumed, the gross written premiums for the Casualty Reinsurance segment decreased 22.8% from $261.7 million to $202.0 million for the years ended December 31, 2012 and 2011, respectively.

Net Retention

The net premium retention for the Company decreased from 88.2% for the year ended December 31, 2011 to 71.6% for the year ended December 31, 2012. The decrease in retention is due primarily to the increase in both ceded workers' compensation insurance and crop reinsurance noted previously.

Underwriting Results

The following table compares our combined ratios by segment:

	Year Ended December 31,	
	2012	2011
Excess and Surplus Lines	85.4%	80.0%
Specialty Admitted Insurance	153.8%	124.0%
Casualty Reinsurance	108.8%	107.4%
Total	107.4%	103.5%

Excess and Surplus Lines Segment

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

	Year Ended December 31,		%
	2012	2011	Change
	($ in thousands)		
Gross written premiums	$ 158,654	$ 131,007	*21.1%*
Net written premiums	$ 123,483	$ 105,004	*17.6%*
Net earned premiums	$ 115,940	$ 101,099	*14.7%*
Losses and loss adjustment expenses	(60,985)	(49,017)	*24.4%*
Underwriting expenses	(37,976)	(31,813)	*19.4%*
Underwriting profit[1]	$ 16,979	$ 20,269	*(16.2%)*
Ratios:			
Loss ratio	52.6%	48.5%	—
Expense ratio	32.8%	31.5%	—
Combined ratio	85.4%	80.0%	—

[1] See — "Reconciliation of Non-GAAP Measures"

Combined Ratio. The combined ratio of the Excess and Surplus Lines segment for the year ended December 31, 2012 was 85.4%, comprised of a loss ratio of 52.6% and an expense ratio of 32.8%. The combined ratio for the year ended December 31, 2011 was 80.0%, comprised of a loss ratio of 48.5% and an expense ratio of 31.5%.

Loss Ratio. The loss ratio of 52.6% for the year ended December 31, 2012 includes $20.1 million, or 17.4 percentage points, of net favorable development in our loss estimates for prior accident years. The loss ratio of 48.5% for the year ended December 31, 2011 included $21.0 million, or 20.8 percentage points, of net favorable development in our loss estimates for prior accident years.

Expense Ratio. The expense ratio increased from 31.5% in 2011 to 32.8% in 2012. The increase in the expense ratio is primarily attributable to the increase in underwriting expenses without a proportional increase in net earned premiums.

Underwriting Profit. As a result of the items discussed above, underwriting profit of the Excess and Surplus Lines segment decreased 16.2% from $20.3 million for the year ended December 31, 2011 to $17.0 million for the year ended December 31, 2012.

Specialty Admitted Insurance Segment

Results for the Specialty Admitted Insurance segment are as follows:

	Year Ended December 31,		%
	2012	2011	Change
	($ in thousands)		
Gross written premiums	$ 36,709	$ 44,914	*(18.3%)*
Net written premiums	$ 33,041	$ 44,414	*(25.6%)*
Net earned premiums	$ 32,189	$ 37,918	*(15.1%)*
Losses and loss adjustment expenses	(37,988)	(37,009)	*2.6%*
Underwriting expenses	(11,519)	(10,004)	*15.1%*
Underwriting loss[1]	$ (17,318)	$ (9,095)	*90.4%*
Ratios:			
Loss ratio	118.0%	97.6%	—
Expense ratio	35.8%	26.4%	—
Combined ratio	153.8%	124.0%	—

[1] See — "Reconciliation of Non-GAAP Measures"

Combined Ratio. The combined ratio of the Specialty Admitted Insurance segment for the year ended December 31, 2012 was 153.8%, comprised of a loss ratio of 118.0% and an expense ratio of 35.8%. The combined ratio in the prior year was 124.0%, comprised of a loss ratio of 97.6% and an expense ratio of 26.4%.

Loss Ratio. This segment incurred significant losses during the year ended December 31, 2012 as a result of continued high unemployment coupled with unfavorable rulings from both judicial and administrative agencies in its primary state. This has led to significant frequency and severity issues for the segment as well as our recognition that inadequate premium rates had been charged over the past several years. As a result, the loss ratio increased from 97.6% in 2011 to 118.0% in 2012. Additionally, the 2012 loss ratio includes $4.9 million, or 15.2 percentage points, of net adverse reserve development on direct business primarily for the 2011 and 2010 accident years.

During the year ended December 31, 2011, this segment was adversely affected by both frequency and severity issues, particularly in the 2011 accident year where we had two individual losses of $3.2 million and $1.7 million, representing 12.9 percentage points of this segment's loss ratio in the aggregate, when previously this segment never had any individual loss exceed $1.0 million. The loss ratio for the year ended December 31, 2011 also included $1.7 million, or 4.5 percentage points, of net favorable reserve development on business written by the segment on prior accident years.

Expense Ratio. The expense ratio of 35.8% for the year ended December 31, 2012 increased from 26.4% in the prior year. The total expenses for this segment for 2012 include $866,000 (or 2.7 percentage points) of start-up expenses relating to the two Ohio domiciled shells acquired on December 31, 2011. The remaining increase in the expense ratio from that of the prior year is primarily attributable to the 15.1% decrease in earned premiums without a corresponding decrease in operating expenses.

Underwriting Loss. As a result of the items discussed above, the underwriting loss increased from $9.1 million for the year ended December 31, 2011 to $17.3 million for the year ended December 31, 2012.

Casualty Reinsurance Segment

Results for the Casualty Reinsurance segment are as follows:

	Year Ended December 31,		%
	2012	2011	Change
	($ in thousands)		
Gross written premiums	$ 296,568	$ 314,900	*(5.8%)*
Net written premiums	$ 195,785	$ 283,651	*(31.0%)*
Net earned premiums	$ 216,439	$ 198,088	*9.3%*
Losses and loss adjustment expenses	(165,523)	(147,453)	*12.3%*
Underwriting expenses	(70,065)	(65,309)	*7.3%*
Underwriting loss[1]	$ (19,149)	$ (14,674)	*30.5%*
Ratios:			
Loss ratio	76.5%	74.4%	—
Expense ratio	32.4%	33.0%	—
Combined ratio	108.8%	107.4%	—

[1] See — "Reconciliation of Non-GAAP Measures"

Net Written Premiums. Net written premiums decreased 31.0% during the year ended December 31, 2012, from $283.7 million for the year ended December 31, 2011 to $195.8 million for the year ended December 31, 2012. The Casualty Reinsurance segment took this significant, planned decrease, in net written premiums as a result of taking smaller shares on renewal treaties, continuing to maintain price discipline, and attempting to improve terms and other features of our reinsurance contracts (e.g. down-side protection through the use of sliding scale commissions in quota share treaties). Also as previously noted, assumed crop reinsurance net written premiums in 2012 were $22.5 million (which were down 40.2% from the prior year's total of $37.6 million). For the 2012 underwriting year, we retroceded 75% of our assumed crop business, and net written premiums were capped at a maximum of $15.0 million for the 2012 crop year. During 2011, we entered into both a 28% proportional retrocession treaty and an excess of loss treaty for 70% of all losses between 115% and 130% of earned premiums for the 2011 assumed crop business. Accordingly, excluding the crop reinsurance assumed, net written premiums for this segment would have decreased 29.6%, from $246.0 million to $173.3 million for the years ended December 31, 2011 and December 31, 2012, respectively.

Combined Ratio. The combined ratio of the Casualty Reinsurance segment for the year ended December 31, 2012 was 108.8%, comprised of a loss ratio of 76.5% and an expense ratio of 32.4%. This compares to the combined ratio for the same period in the prior year of 107.4%, comprised of a loss ratio of 74.4% and an expense ratio of 33.0%.

During the year ended December 31, 2012, our crop-related reinsurance was adversely affected by the severe drought which affected the United States. This drought was primarily responsible for the $5.7 million underwriting loss, net of reinsurance, which we incurred on our crop-related reinsurance. Absent the 2012 crop-related business, the combined ratio of this segment would have been 106.9% comprised of a loss ratio of 72.1% and an expense ratio of 34.9%.

During 2011, our crop-related reinsurance was adversely affected by the results of extreme wind and hail on the risks underwritten for the 2011 crop year which resulted in an underwriting loss, net of reinsurance, of $9.4 million for crop-related risk alone. Absent the crop-related business, the 2011 combined ratio of this segment was 103.3%, comprised of a loss ratio of 66.6% and an expense ratio of 36.7%.

Loss Ratio. The loss ratio for the year ended December 31, 2012 included $16.6 million (including $9.0 million of net adverse reserve development for crop-related reinsurance risks), or 7.7 percentage points, of net adverse reserve development in our loss estimates for the prior accident years. In comparison, the loss ratio for the prior year included $2.8 million (including $500,000 of net favorable reserve development for crop-related reinsurance risks), or 1.4 percentage points of net adverse reserve development in our loss estimates for prior accident years.

The loss ratios of the Casualty Reinsurance segment excluding crop-related risk were 72.1% and 66.6% for the years ended December 31, 2012 and 2011, respectively. These ratios include $7.6 million and $3.3 million, respectively, of net adverse reserve development on non-crop-related risks for the years ended December 31, 2012 and 2011, representing 3.5 percentage points and 1.7 percentage points of the segment's loss ratio, respectively.

Expense Ratio. The expense ratio of the Casualty Reinsurance segment decreased from 33.0% for the year ended December 31, 2011 to 32.4% for the year ended December 31, 2012. The decrease in the expense ratio from that of the prior year is attributable to the increase in earned premiums without a corresponding increase in operating expenses.

Underwriting Loss. As a result of the items discussed above, the underwriting loss for the Casualty Reinsurance segment increased from $14.7 million for the year ended December 31, 2011 to $19.1 million for the year ended December 31, 2012.

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 includes 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. A portion of these costs are reimbursed by our subsidiaries. These reimbursements are primarily included as underwriting expenses in the results of our operating subsidiaries. Accordingly, 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 potential acquisitions and other strategic initiatives. These costs vary from period-to-period based on the status of these initiatives.

For the year ended December 31, 2012 and 2011, the total operating expenses of the Corporate and Other segment were $7.3 million and $8.3 million, respectively. The variance from the prior year principally relates to a decrease in share-based compensation which was $2.0 million for the year ended December 31, 2011 and $1.0 million for the year ended December 31, 2012. This decrease in share compensation relates to the fact that a substantial portion of our options became fully vested during 2012.

Investing Results

Net investment income for the year ended December 31, 2012 and 2011 was $44.3 million and $48.4 million, respectively. Included in net investment income for those years was $13.7 million and $12.0 million, respectively, of income from bank loan participations. The decrease in net investment income in 2012 reflects the overall decrease in the interest rate environment and its effect on the Company.

The following table summarizes our investment returns:

	Year Ended December 31,	
	2012	2011
Annualized gross investment yield on:		
Average cash and invested assets	4.0%	4.6%
Average fixed maturity securities	4.6%	4.9%
Annualized tax equivalent yield on:		
Average fixed maturity securities	4.8%	5.1%

For the year ended December 31, 2012, the Company recognized net realized investment gains of $8.9 million. This amount included $3.6 million of net realized gains on fixed maturity securities, $4.1 million of gains on equity securities, and $1.3 million of gains on bank loan participations.

For the year ended December 31, 2011, the Company recognized net realized investment gains of $20.9 million. This amount included $17.8 million of net realized gains on fixed maturity securities, $1.2 million in net realized gains on bank loan participations, and a $2.9 million gain on a note receivable which the Company had significantly discounted but which was paid in full in 2011.

Other Expenses

Other expenses for the years ended December 31, 2012 and 2011 were $3.4 million and $592,000, respectively. In 2012, these expenses were comprised principally of $2.7 million of expense associated with a grant of bonus shares and $432,000 of expenses relating to due diligence for a potential acquisition candidate that we chose not to acquire. In 2011, those expenses were comprised principally of $409,000 of legal and professional fees relating to a potential acquisition that was not consummated.

Interest Expense

Interest expense was $8.3 million and $8.1 million for the years ended December 31, 2012 and 2011, respectively.

See "— Liquidity and Capital Resources—Sources and Uses of Funds" for information regarding our senior bank debt facility and trust preferred securities.

Amortization of Intangibles

In connection with the Acquisition, the Company recorded $2.8 million of amortization of intangibles for both the year ended December 31, 2012 and 2011 (See "—Goodwill and Impairment").

Goodwill and Impairment

The Company completed its impairment tests and fair value analyses for goodwill and other intangible assets during the fourth quarter. No impairment was present for the year ended December 31, 2011; however, an impairment of $4.3 million occurred during the year ended December 31, 2012 for our Specialty Admitted Insurance segment. This impairment did not affect our cash flow, cash balance, liquidity position, compliance with debt covenants, or statutory surplus of our regulated entities. The impairment was comprised of the following items:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Write-down of customer relationships	$ 3,830	$ —
Write-down of trademarks	300	—
Write-down of broker relationships	169	—
	$ 4,299	$ —

Factors that led to the 2012 impairments included a revision to our projections of future operating income to reflect the impact of unprofitable agencies on overall results and the consideration of the segment's lack of profitability during 2011 and 2012.

U.S. Federal 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, our 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 (state and municipal securities represented 18.1% and 16.8% of our available-for-sale securities at December 31, 2012 and 2011, respectively) and dividends received income. For the years ended

December 31, 2012 and 2011, our U.S. federal income tax provision was a benefit of 11.5% and an expense of 16.7%, respectively, of income before taxes, as the amount of tax-exempt investment income and the dividends received deduction in 2012 were high relative to the level of U.S. pre-tax income for the year.

Liquidity and Capital Resources

Sources and Uses of Funds

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 equity and debt securities, corporate service fees or dividends received from our insurance 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 reduction of statutory surplus to inadequate levels and could refuse to permit the payment of dividends calculated under any applicable formula. See "Certain Regulatory Considerations — U.S. Insurance Regulation — State Regulation" for additional information. The maximum amount of dividends and return of capital available to us from JRG Re in 2014 without regulatory approval is $80.2 million. Additionally, the maximum amount of dividends available to the U.S. holding company from our U.S. insurance subsidiaries during 2014 without regulatory approval is $26.4 million.

At June 30, 2014, our Bermuda holding company had $676,000 of cash and cash equivalent assets. At December 31, 2013, our Bermuda holding company had $514,000 of cash and invested assets. At June 30, 2014, our U.S. holding company had $56.6 million of cash and invested assets, comprised of cash and cash equivalents of $1.3 million, fixed maturity securities of $14.2 million, other invested assets of $41.0 million, and short-term investments of $120,000, which are not subject to regulatory restrictions. At December 31, 2013, our U.S. holding companies had $62.6 million of cash and invested assets, comprised of cash and cash equivalents of $3.2 million, fixed maturity securities of $17.3 million, and $42.1 million of other invested assets which are not subject to regulatory restrictions. Payments of dividends from our U.S. holding company to the Company are currently subject to a 30% withholding tax.

Our net written premiums to surplus ratio (defined as net written premiums to statutory surplus or for JRG Re, statutory capital and surplus) is reviewed by management as well as our rating agency as a component of leverage and efficiency of deployed capital. For the six months ended June 30, 2014, our annualized net written premiums to surplus ratio was 0.7x. For the six months ended June 30, 2013, this ratio was 0.5x. For the years ended December 31, 2013 and 2012, our net written premiums to surplus ratio was 0.6x.

In May 2004, we issued $15.0 million of senior debt due April 29, 2034, with net proceeds to us of $14.5 million. 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 this senior debt contain certain covenants, with which we are in compliance 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.

On June 5, 2013, we closed on a three-year $125.0 million senior revolving credit facility which matures on June 5, 2016. The Company and JRG Re are the borrowers on the new facility. The new facility is comprised of two parts:

- A $62.5 million secured revolving facility used by JRG Re to issue letters of credit for the benefit of third-party reinsureds. At June 30, 2014, JRG Re had issued $36.5 million of letters of credit under the facility.

- A $62.5 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 of 2.25%, which is subject to change depending upon our total outstanding debt to capitalization. This facility replaced the $20.0 million outstanding under our previous facility and the $22.2 million of promissory notes which were issued in conjunction with the repurchase of our shares in April 2013. At June 30, 2014, we had drawn $43.0 million on the unsecured revolver.

On September 24, 2014, we closed on an amendment to the senior revolving credit facility which, among other things, included an increase in the size of the unsecured revolving facility from $62.5 million to $112.5 million and extended the maturity date from June 5, 2016 to September 24, 2019. The amendment also reduced the interest rate applicable to borrowings under the revolver such that the current LIBOR margin dropped from 2.25% to 2.00%.

The senior revolving credit facility contains certain financial and other covenants (including risk-based capital, minimum shareholders' equity levels, maximum ratios of total debt outstanding to total capitalization and minimum fixed charge coverage ratios) with which the Company is in compliance at June 30, 2014.

In August 2014, we declared a dividend payable to our shareholders of record as of June 30, 2014, in the aggregate amount of $70.0 million, which we financed with a $50.0 million dividend paid to the Company by JRG Re and approximately $20.0 million in additional borrowings under our senior revolving credit facility.

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 June 30, 2014 (including the Company's repurchase of a portion of these Trust Preferred Securities described herein):

	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
			($ in thousands)		
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%	7.51% until March 15, 2013; Three-Month LIBOR plus 3.1% thereafter	7.97% until June 15, 2013; Three-Month LIBOR plus 4.0% thereafter

All of the junior subordinated debt is 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 June 30, 2014. All of these securities are currently redeemable at par.

At June 30, 2014 and December 31, 2013, the ratio of total debt outstanding to total capitalization (defined as total debt plus total shareholders' equity) was 18.1% and 18.8%, 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 subsidiaries enter into reinsurance contracts to limit our exposure to potential losses arising from large risks 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 six months ended June 30, 2014 and 2013, our net premium retention was 87.5% and 89.1%, respectively. For the years ended December 31, 2013, 2012 and 2011, our net retention was 88.2%, 71.6% and 88.2%, respectively.

The following is a summary of our ceded reinsurance in place as of July 1, 2014:

Line of Business	Company Retention
Casualty	
Primary Specialty Casualty	Up to $1.0 million per occurrence, subject to a $1.0 million aggregate deductible
Excess Casualty	Up to $1.0 million per occurrence[1]
Excess Professional Liability	Up to $1.0 million per occurrence[2]
Workers' Compensation	Up to $675,000 per occurrence, plus any amounts over $20.0 million per occurrence or above $10.0 million for any one life occurrence
Property	Up to $5.0 million per event[3]

[1] For policies with an occurrence limit of $1.0 million or higher, the excess casualty treaty is set such that our retention is $1.0 million. For policies where we also write an underlying primary casualty policy, the excess casualty is added to our retention on the primary casualty coverage, which results in a total retention of $2.0 million on that risk.

[2] Only for policies where we do not write the underlying primary professional liability policy.

[3] The property catastrophe reinsurance treaty has a limit of $40.0 million with one reinstatement.

On July 1, 2014, we purchased 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 $6.0 million in excess of a $2.5 million retention for loss occurrences within the treaty term. This coverage has two reinstatements in the event we exhaust any of the coverage.

In our Excess and Surplus Lines segment, we write a small book of excess property insurance (but we do not write primary property insurance). 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, and pricing, as well as to manage our overall portfolio 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). Based upon our modeling, a $45.0 million gross catastrophe loss approximates our 1,000 year PML. In the event of a $45.0 million gross property catastrophe loss to the Company, we estimate our pre-tax cost at approximately $7.7 million, including reinstatement premiums and net retentions. In addition to this retention, we would retain any losses in excess of our reinsurance coverage limits.

Additionally, our Specialty Admitted Insurance segment enters 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, to provide additional capacity for growth and to support new specialty admitted and program business initiatives. This segment purchases reinsurance for at least 50% of the exposed limits on specialty admitted property-casualty business. On a program-by-program basis, the Specialty Admitted Insurance segment:

- retains the first $675,000 per occurrence in losses on workers' compensation policies and are reinsured above that level to $20.0 million per occurrence, with a maximum reinsured recovery of $10.0 million for any one life;
- purchases a property catastrophe reinsurance program to cover $4.0 million in excess of a $1.0 million retention for its incidental property exposure to approximate a 1,000 year PML; this coverage has one reinstatement in the event we exhaust any of the coverage; and
- purchases proportional reinsurance and excess of loss reinsurance in our program and fronting business to limit our exposure to no more than $1.0 million per occurrence.

In our Casualty Reinsurance segment, we also have limited property catastrophe exposure. We believe that this exposure would not exceed $1.0 million on any one event.

Reinsurance contracts do not relieve us from our obligations to policyholders. The failure of a reinsurer to honor its obligations could result in losses to us, and therefore, we establish allowances for amounts considered uncollectible. At June 30, 2014 and 2013, there was no allowance for such uncollectible reinsurance recoverables. At December 31, 2013 and 2012, there was no allowance for such uncollectible reinsurance recoverables. The Company generally seeks to purchase reinsurance from reinsurers with A.M. Best financial strength ratings of "A-" (Excellent) or better.

At June 30, 2014, we had reinsurance recoverables on unpaid losses of $121.6 million and reinsurance recoverables on paid losses of $3.1 million. At December 31, 2013, we had reinsurance recoverables on unpaid losses of $119.5 million and reinsurance recoverables on paid losses of $1.0 million. All material reinsurance recoverable amounts are from companies with A.M. Best ratings of "A-" or better, or collateral has been posted by the reinsurer for our benefit.

The following table sets forth our most significant reinsurers by amount of reinsurance recoverables and the amount of reinsurance recoverables pertaining to each such reinsurer as well as its A.M. Best rating as of December 31, 2013:

Reinsurer	Reinsurance Recoverable as of December 31, 2013	A.M. Best Rating December 31, 2013
	(in thousands)	
Berkley Insurance Company	$ 33,172	A+
Swiss Reinsurance America Corporation	23,150	A+
Cherokee Reinsurance SPC No. 6[1]	11,114	Unrated
QBE Reinsurance Corporation	7,382	A
Appalachian Reinsurance (Bermuda) Ltd.[1]	6,407	Unrated
Cherokee Reinsurance SPC No. 7[1]	6,305	Unrated
Aspen Insurance UK Ltd.	5,737	A
Lloyd's Syndicate Number 4472	4,381	A
Munich Reinsurance America	3,610	A+
Safety National Casualty	3,104	A+
Top 10 Total	104,362	
Other	15,105	
Total	$ 119,467	

[1] These reinsurers are unrated, and thus we are collateralized by each reinsurer for the recoverable amounts.

Share Repurchase

On April 3, 2013, the Company repurchased 150,000 common shares for a total purchase price of $110.8 million.

Cash Flows

Our sources of operating funds consist primarily of premiums written, investment income, reinsurance recoveries and proceeds from offerings of debt and equity securities and from sales and redemptions of investments. We use the operating cash flows primarily to pay operating expenses, losses and loss adjustment expenses, and income taxes. Cash flow from operations may differ substantially from net income. The potential for a large claim under an insurance or reinsurance contract means that substantial and unpredictable payments may need to be made within relatively short periods of time.

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Cash and cash equivalents provided by (used in):		
Operating activities	$ 48,379	$ 44,699
Investing activities	(147,609)	9,283
Financing activities	(315)	(89,208)
Change in cash and cash equivalents	$ (99,545)	$ (35,226)

Cash used in investing activities in 2014 reflects our efforts to enhance the yield in our investment portfolio by investing available cash and cash equivalents into higher yielding fixed maturity securities and bank loan participations.

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Cash and cash equivalents provided by (used in):			
Operating activities	$ 105,638	$ 49,392	$ 74,909
Investing activities	46,755	(101,497)	30,204
Financing activities	(89,583)	(1,977)	(565)
Change in cash and cash equivalents	$ 62,810	$ (54,082)	$ 104,548

The increase in cash provided by operating activities for 2013 over 2012 reflects a $55.6 million increase in underwriting profits compared to the prior year.

Cash provided by investing activities increased in 2013 as investments were sold to generate cash for the Company’s repurchase of its common shares. The financing activities in 2013 include the $110.8 million to repurchase the Company’s common shares. Also, the Company drew $43.0 million on its new senior revolving credit facility to repay the $20.0 million balance outstanding on its previous credit facility and to repay the $22.2 million of promissory notes issued in conjunction with the repurchase of our shares in April 2013.

The decline in cash provided by operating activities for 2012 compared to 2011 reflects an increase in underwriting losses from $11.8 million in 2011 to $26.8 million in 2012 and an 18.6% decline in net written premiums.

The change in cash and cash equivalents from investing activities reflects the direction of the Investment Committee of the Board of Directors that the Company reduce its cash and cash equivalent balances during the year ended December 31, 2012 whereas during 2011, their direction was to accumulate cash and cash equivalents. Cash and cash equivalents comprised 7.8% of total cash and invested assets at December 31, 2012 compared to 12.9% at December 31, 2011.

Ratings

The A.M. Best financial strength rating for our group's regulated insurance subsidiaries is "A-" (Excellent), with a "positive outlook." 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. A.M. Best assigns ratings to both insurance and reinsurance companies, which generally range from "A++" (Superior) to "S" (Suspended). The rating for our operating companies of "A-" (Excellent) is the fourth highest rating 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), with a "positive outlook" 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 Awards

For the six months ended June 30, 2014 and 2013, the Company recognized $213,000 and $343,000, respectively, of share-based compensation expense, respectively. The unrecognized share based compensation expense to be recognized over the remaining weighted-average service period of 2.3 years at June 30, 2014 is $806,000. There were no option exercises during six months ended June 30, 2014 or 2013. The Company granted 500 non-qualified share options during the six months ended June 30, 2013 at a weighted-average exercise price of $782.49. The Company did not grant any share options during the six months ended June 30, 2014.

For the years ended December 31, 2013, 2012 and 2011, the Company recognized $647,000, $1.0 million and $2.0 million, respectively, of share-based compensation expense. The amount of unrecognized share-based compensation expense to be recognized over the remaining weighted-average service period of 2.7 years at December 31, 2013 is $1.0 million. There were no option exercises during the years ended December 31, 2013 or December 31, 2011. During 2012, fully vested options of Franklin Holdings II were exercised for which the Company issued 6,240 common shares. No other such subsidiary options remain outstanding. The Company granted 1,000 non-qualified share options during the year ended December 31, 2013 at exercise prices ranging from $782.49 to $900.43 per option. The Company granted 11,900 non-qualified share options during the year ended December 31, 2012 at exercise prices ranging from $699.73 to $782.49 per option. The Company granted 6,000 non-qualified share options during the year ended December 31, 2011 at an exercise price of $747.94 per option. The options have a seven-year life and vest ratably over four years. In addition, 3,425, 12,750 and 13,400 fully vested options with exercise prices of $782.49 lapsed or were forfeited during 2013, 2012 and 2011, respectively.

Contractual Obligations and Commitments

The following table illustrates our contractual obligations and commercial commitments by due date as of December 31, 2013:

	Payments Due by Period				
	Total	Less than 1 year	1 − 3 years	3 − 5 years	More than 5 years
			(in thousands)		
Reserve for losses and loss adjustment expenses	$ 646,452	$ 181,890	$ 185,446	$ 70,903	$ 208,213
Long-term debt:					
Senior notes	58,000	—	43,000	—	15,000
Junior subordinated debt	104,055	—	—	—	104,055
Operating lease obligations	6,577	1,369	2,536	2,012	660
Interest on debt obligations	101,934	5,503	10,314	8,753	77,364
Financing obligations	28,467	726	1,497	1,160	—
Total	$ 945,485	$ 189,488	$ 242,793	$ 82,828	$ 405,292

The reserve for losses and loss adjustment expenses represent management's estimate of the ultimate cost of settling losses. As more fully discussed in "— Critical Accounting Policies — Reserves for Losses and Loss Adjustment Expenses" above, the estimation of losses is based on various complex and subjective judgments. Actual losses paid may differ, perhaps significantly, from the reserve estimates reflected in our consolidated financial statements. Similarly, the timing of payment of our estimated losses is not fixed and there may be significant changes in actual payment activity. The assumptions used in estimating the likely payments due by period are based on our historical claims payment experience and industry payment patterns, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid in any such period can be significantly different from the amounts disclosed above.

Financing obligations represent obligations for a build-to-suit lease which expires in 2018. At the termination of the lease, no payment will be required for the Company to settle the obligation. Instead, the Company will surrender the building that is the subject of the lease at lease termination.

The amounts in the above table represent our gross estimates of known liabilities as of December 31, 2013 and do not include any allowance for claims for future events within the time period specified. Accordingly, it is highly likely that the total amounts paid out in the time periods shown will be greater than those indicated in the table.

Interest on debt obligations less than one year was determined using actual debt payments through June 30, 2014 and calculated interest amounts using contractual interest rates for the remainder of the year. Interest on debt obligations beyond one year were calculated using the LIBOR rate as of September 15, 2014 with the assumption that interest rates would remain flat over the remainder of the period that the debt was outstanding.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Reconciliation of Non-GAAP Measures

Reconciliation of Underwriting Profit (Loss)

We believe that the disclosure of underwriting profit (loss) 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 (loss). Our definition of underwriting profit (loss) may not be comparable to that of other companies.

The following table reconciles the underwriting profit (loss) by individual segment and of the Company as a whole to consolidated income before U.S. federal income taxes for the six months ended June 30, 2014 and 2013.

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Underwriting profit (loss) of the operating segments:		
Excess and Surplus Lines	$ 8,115	$ 7,660
Specialty Admitted Insurance	(1,040)	(1,606)
Casualty Reinsurance	407	(2,721)
Total underwriting profit of the operating segments	7,482	3,333
Other operating expenses of the Corporate and Other segment	(3,721)	(3,867)
Underwriting profit (loss)	3,761	(534)
Net investment income	23,193	25,534
Net realized investment (losses) gains	(3,711)	12,514
Other income	941	103
Interest expense	(3,104)	(3,626)
Amortization of intangible assets	(298)	(1,278)
Other expenses	(389)	(534)
Income before taxes	$ 20,393	$ 32,179

The following table reconciles the underwriting profit (loss) by individual segment and of the Company as a whole to consolidated income before U.S. federal income taxes for the years ended December 31, 2013, 2012 and 2011.

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Underwriting profit (loss) of the operating segments:			
Excess and Surplus Lines	$ 43,523	$ 16,979	$ 20,269
Specialty Admitted Insurance	(3,868)	(17,318)	(9,095)
Casualty Reinsurance	(2,560)	(19,149)	(14,674)
Total underwriting profit (loss) of the operating segments	37,095	(19,488)	(3,500)
Other operating expenses of the Corporate and Other segment	(8,307)	(7,324)	(8,252)
Underwriting profit (loss)	28,788	(26,812)	(11,752)
Net investment income	45,373	44,297	48,367
Net realized investment gains	12,619	8,915	20,899
Other income	222	130	226
Other expenses	(677)	(3,350)	(592)
Interest expense	(6,777)	(8,266)	(8,132)
Amortization of intangible assets	(2,470)	(2,848)	(2,848)
Impairment of intangible assets	—	(4,299)	—
Income before taxes	$ 77,078	$ 7,767	$ 46,168

Reconciliation of Net Operating Income

We define net operating income as net income excluding net realized investment gains and losses, expenses related to due diligence costs for various merger and acquisition activities, severance costs associated with terminated employees, impairment charges on goodwill and intangible assets and gains on extinguishment of debt. We use net operating income as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance. Net operating income should not be viewed as a substitute for net income calculated in accordance with GAAP, and our definition of net operating income may not be comparable to that of other companies.

Our income before taxes and net income for the six months ended June 30, 2014 and 2013, respectively, reconciles to our net operating income as follows:

	Six Months Ended June 30,			
	2014		2013	
	Income Before Taxes	Net Income	Income Before Taxes	Net Income
	(in thousands)			
Income as reported	$ 20,393	$ 18,651	$ 32,179	$ 28,136
Net realized investment losses (gains)	3,711	2,143	(12,514)	(9,160)
Other expenses	389	341	534	484
Interest expense on leased building the Company is deemed to own for accounting purposes	332	216	332	216
Net operating income	$ 24,825	$ 21,351	$ 20,531	$ 19,676

Our income before taxes and net income for the years ended December 31, 2013, 2012 and 2011 reconcile to our net operating income as follows:

	Year Ended December 31,					
	2013		2012		2011	
	Income Before Taxes	Net Income	Income Before Taxes	Net Income	Income Before Taxes	Net Income
	(in thousands)					
Income as reported	$ 77,078	$ 67,337	$ 7,767	$ 8,664	$ 46,168	$ 38,473
Net realized investment gains	(12,619)	(9,427)	(8,915)	(6,131)	(20,899)	(17,078)
Other expenses	677	577	3,350	2,178	592	528
Interest expense on leased building the Company is deemed to own for accounting purposes	663	431	662	430	660	429
Impairment of intangible assets	—	—	4,299	2,794	—	—
Net operating income	$ 65,799	$ 58,918	$ 7,163	$ 7,935	$ 26,521	$ 22,352

Return on Tangible Equity

One of our key financial measures that we use to assess our longer term financial performance is our percentage growth in tangible equity per share and return on tangible equity. Since our formation in December of 2007 through June 30, 2014, we have increased our tangible equity per share at a compounded rate of 9.3% per year, after giving effect to dividends paid and share repurchases.

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. We use tangible equity internally to evaluate the strength of our balance sheet and to compare returns relative to this measure. The following table reconciles shareholders' equity to tangible equity as of December 31, 2013, 2012 and 2011 and as of June 30, 2014 and 2013.

	As of December 31,			As of June 30,	
	2013	2012	2011	2014	2013
			(in thousands)		
Shareholders' equity	$ 701,490	$ 784,040	$ 762,375	$ 731,858	$ 669,025
Less:					
Goodwill	181,831	181,831	183,488	181,831	181,831
Intangible assets	40,722	43,192	50,339	40,424	41,914
Tangible equity	$ 478,937	$ 559,017	$ 528,548	$ 509,603	$ 445,280

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 equity price risk associated with investments in equity securities and interest rate risk associated with investments in fixed maturities. We do not have material exposure to foreign currency exchange rate risk or commodity risk.

Credit risk is the potential loss resulting from adverse changes in an issuer's ability to repay its debt obligations. General concern exists about the number of municipalities experiencing financial difficulties in light of the adverse economic conditions experienced over the past several years. We manage the exposure to credit risk in our municipal bond portfolio by investing in high quality securities and by diversifying our holdings, which are typically either general obligation or revenue bonds related to essential products and services.

We monitor our investment portfolio to ensure that credit risk does not exceed prudent levels. The majority of our investment portfolio is invested in high credit quality, investment grade fixed maturity securities. We also invest in higher yielding fixed maturities, equity securities, bank loans and private investments. Our fixed maturity portfolio has an average rating by at least one nationally recognized rating organization of "AA-," with approximately 83% rated "A-" or better. At December 31, 2013, less than 8% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes some securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

The estimated fair value of our total invested assets and cash and cash equivalents at December 31, 2013 was $1.2 billion, 75% of which was invested in fixed maturities, short-term investments and cash and cash equivalents, 5% was invested in equity securities, 16% was invested in bank loans and 3% was invested in private investments.

Interest Rate Risk

Our fixed maturity investments and borrowings are subject to interest rate risk. Increases and decreases in interest rates typically result in decreases and increases, respectively, in the fair value of these financial instruments.

The majority of our investable assets come from premiums paid by policyholders. These funds are invested predominantly in high quality corporate, government and municipal bonds with relatively short durations. The fixed maturity portfolio has an average duration of 3.7 years at December 31, 2013 and an average rating by at least one nationally recognized rating organization of "AA-". See Note 2 to the Notes to the Audited Consolidated Financial Statements for disclosure of contractual maturity dates of our fixed maturity portfolio. The changes in the estimated fair value of the fixed maturity portfolio classified as available-for-sale are presented as a component of shareholders' equity in accumulated other comprehensive income, net of taxes.

We work to manage the impact of interest rate fluctuations on our fixed maturity portfolio. The effective duration of the fixed maturity portfolio is managed with consideration given to the estimated duration of our liabilities. We have investment guidelines that set targets for average duration and maturity of the fixed maturity portfolio.

Our fixed maturity investment manager employs a model to estimate the effect of interest rate risk on the fair values of our fixed maturity securities and our bank loan participations. Our bank loan participations are primarily floating-rate debt, so their fair values are less sensitive to changes in interest rates than our fixed maturity securities. The model estimates the impact of interest rate changes on a wide range of factors, including duration and prepayment. Fair values of borrowings are estimated based on the net present value of cash flows, using a representative set of possible future interest rate scenarios. The model requires that numerous assumptions be made about the future. To the extent that any of the assumptions are invalid, incorrect estimates could result. The usefulness of a single point-in-time model is limited, as it is unable to accurately incorporate the full complexity of market interactions.

The following table summarizes our interest rate risk and shows the effect of hypothetical changes in interest rates as of December 31, 2013. The selected hypothetical changes do not indicate what could be the potential best or worst case scenarios.

	As of December 31, 2013			
	Estimated Fair Value	Hypothetical Change in Interest Rates (bp=basis points)	Estimated Fair Value after Hypothetical Change in Interest Rates	Estimated Hypothetical Percentage Increase (Decrease) in Fair Value
	($ in thousands)			
Fixed Maturity Securities				
Total fixed maturity investments	$ 680,424	200 bp decrease	$ 730,707	7.4%
		100 bp decrease	706,484	3.8%
		100 bp increase	654,976	(3.7)%
		200 bp increase	630,685	(7.3)%
Bank Loan Participations				
Bank Loan Participations	$ 200,626	200 bp decrease	$ 201,597	0.5%
		100 bp decrease	201,110	0.2%
		100 bp increase	200,147	(0.2)%
		200 bp increase	199,671	(0.5)%
Liabilities				
Borrowings	$ 132,223	200 bp decrease	$ 125,954	(4.7)%
		100 bp decrease	129,313	(2.2)%
		100 bp increase	134,752	1.9%
		200 bp increase	136,961	3.6%

Equity Price Risk

A portion of our portfolio is invested in equity securities, which have historically produced higher long-term returns relative to fixed maturities. We own preferred stocks, generally in the financial services industry, and common stocks. The changes in the estimated fair value of the equity securities portfolio are presented as a component of shareholders' equity in accumulated other comprehensive income, net of taxes. See Note 2 to the Notes to the Audited Consolidated Financial Statements for disclosure of gross unrealized gains and losses by investment category.

At December 31, 2013, our equity securities portfolio was concentrated in terms of the number of issuers and industries. Such concentrations can lead to higher levels of price volatility.

The following table summarizes our equity price risk and shows the effect of a hypothetical 35% increase or decrease in the fair value of our equity securities portfolio as of December 31, 2013. We believe that this range represents a reasonably likely scenario, as the largest annual increases and decreases in the S&P 500 Index in the past twenty-five years were 34.1% (1995) and (38.5%) (2008), respectively. The selected hypothetical changes do not indicate what could be the potential best or worst case scenarios.

	As of December 31, 2013		
	Estimated Fair Value	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Prices
		($ in thousands)	
Equity securities	$ 66,807	35% increase	$ 90,189
		35% decrease	43,425

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies in all industries. The guidance applies to all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards, such as insurance contracts. Under this guidance, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 becomes effective for the Company during the first quarter of 2017 and must be applied retrospectively. The Company is currently evaluating ASU No. 2014-09 to determine the potential impact that adopting this standard will have on its consolidated financial statements.

INSURANCE AND REINSURANCE INDUSTRY OVERVIEW

Property and casualty ("P&C") insurance companies provide insurance coverage under a policy in exchange for premiums paid by the customer. An insurance policy is a contract between the insurance company and the insured under which the insurance company agrees to pay for losses suffered by the insured, or a third-party claimant, that are covered under the contract.

The type of coverage and source of premiums are often classified based on how long an insurance company may have exposure to the risks covered by the policy. Property insurance or reinsurance, which covers the insured or reinsured for losses to the insured's property, is generally considered short-term or "short tail" risk, and casualty insurance or reinsurance, which covers the insured or reinsured against claims by third parties, is generally considered medium to long tail. For the year ended December 31, 2013, over 95% of our gross written premiums were generated from casualty lines of business, while the remainder were generated from property lines.

Casualty insurance policies are also classified primarily as either "claims-made and reported" or "occurrence" policies. Claims-made and reported policies cover liabilities only when the event giving rise to the claim occurs during the policy period and a claim is reported during the policy period (or an extended "reporting period," if applicable). Occurrence policies cover liabilities if an event occurs during the term of policy, irrespective of when a claim was made. Workers' compensation is a statutory system under which an employer is required to pay for its employees' medical, disability, vocational rehabilitation and death benefit costs for work-related injuries or illnesses. Most employers satisfy this requirement by purchasing workers' compensation insurance. Workers' compensation policies are occurrence policies. The principal concept underlying workers' compensation laws is that employees injured in the course and scope of their employment have only the legal remedies available under workers' compensation laws and do not have any other recourse against their employer. An employer's obligation to pay workers' compensation does not depend on any negligence or wrongdoing on the part of the employer and exists even for injuries that result from the negligence or fault of another person, a co-employee, or, in most instances, the injured employee.

U.S. Property and Casualty Insurance Industry

According to A.M. Best, the U.S. P&C insurance industry, the largest P&C market in the world, generated approximately $550 billion in direct premiums written in 2013, the latest year for which A.M. Best has provided industry data. The P&C insurance industry is closely correlated to gross domestic product ("GDP"), with P&C insurance direct premiums written in the United States averaging approximately 3.4% of GDP annually since 1996. In 2013, the U.S. direct insurance industry premiums were split 48.2% and 51.8% between commercial lines and personal lines, respectively.

U.S. Excess and Surplus Lines Business

The U.S. P&C insurance industry is further subdivided between standard lines (also referred to as the admitted market) and non-standard lines (also referred to as the non-admitted market or excess and surplus lines market). In 2013, 70.0% of our group-wide gross written premiums (both insurance and reinsurance) were from E&S lines.

The standard lines market represented 93.1% of 2013 direct premiums written in the total U.S. P&C market and 86.3% of the US commercial lines P&C market according to A.M. Best. Standard lines insurance rates and forms are highly regulated by state insurance departments, resulting in relatively standardized products and coverages among industry participants. While there are various reasons for insureds to choose among standard lines insurers, the decision is often based on price, given the relative uniformity of standard line products in the market. Standard lines consist of both commercial and personal lines.

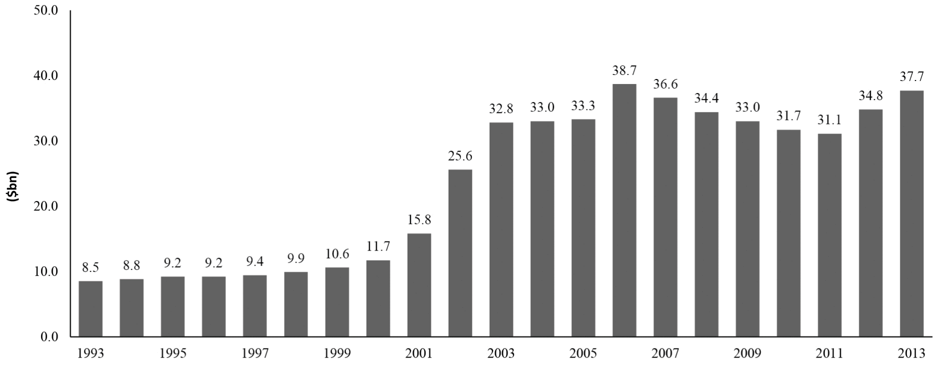
The E&S market functions as a supplemental market that covers hard to place, higher risk and unique classes of business that do not fit standard lines insurers' underwriting guidelines. The majority of the E&S business is commercial lines, although some personal lines coverage is also written. According to A.M. Best, the E&S market represented approximately 6.9% of 2013 direct premiums written in the U.S. P&C insurance market and 13.7% of the commercial lines P&C market. The risks placed in the E&S market can be classified generally as one of the following:

- Unique risks: specialized or unusual risk that the standard market is unwilling or unprepared to insure;
- New or emerging risks: requiring special underwriting expertise and flexibility;
- High hazard or capacity risks: requiring high insurance limits that may exceed the capacity of the standard market or may need specialized loss control or claims handling; or
- Distressed risks: characterized by unfavorable attributes, such as high frequency losses that have made the risks unacceptable to the standard market.

Unlike standard lines insurers, E&S insurers are not subject to the rate and form regulations of state insurance regulators. Therefore, E&S insurers have more flexibility to use policy forms and rates that they believe are appropriate for the risks they underwrite and accept. This freedom of rate and form allows the unique qualities of the underlying risk to be fully evaluated and underwritten and provides the E&S insurer with greater flexibility to customize pricing and terms and conditions to meet the needs of the insured. Competition in the E&S market tends to focus less on price than in the standard lines insurance market and more on other value-based considerations such as availability, terms of coverage, customer service and underwriting expertise.

Over the past twenty years, the E&S market has expanded, increasing its direct premiums written from $8.5 billion in 1993 to $37.7 billion in 2013, according to A.M. Best. Even though the majority of the commercial lines business is still written on an admitted basis, E&S insurers have increased market share, accounting for approximately 13.7% of all U.S. commercial lines direct premiums written in 2013, up from 6.1% in 1993. The growth in the E&S market has followed the increased complexity of business risks, arising in part from (1) increased globalization and acceleration of technology, which has introduced new categories of risk at an increasing rate and (2) a generally increased level of litigation and regulation which has the potential to increase liability costs for businesses.

Total E&S Lines Premium ($bn)



Source: A.M. Best

In 2013, the total E&S direct premiums written was $37.7 billion which represented an increase of 8.4% from 2012 as compared to a 4.3% increase for the broader U.S. P&C insurance market. From 1993 to 2013, E&S direct premiums written have grown at a CAGR of 7.7% compared with the U.S. P&C insurance market which has grown at a CAGR of 3.9%. The higher growth rate reflects a combination of higher rate increases demanded by many E&S insurers as well as an increased number of risks moving from the standard lines market into the non-admitted market as standard lines insurers began to tighten underwriting criteria. Additionally, over the past 5, 10 and 15 year periods, the E&S market has delivered an average combined ratio that was 2.1%, 6.8% and 7.6% better, respectively, than the broader U.S. P&C insurance industry.

The 25 leading E&S companies accounted for approximately 74.4% of total E&S direct premiums written in 2013. With almost $7.1 billion in direct premiums written, the Lloyd's of London ("Lloyd's") market accounted for approximately 18.8% of the U.S. E&S business. Our total E&S gross written premiums in 2013 in our Excess and Surplus Lines segment totaled $192.4 million in 2013, which we believe places us in the Top 40 of leading E&S companies.

Retail insurance brokers deal directly with insureds and offer admitted companies the first opportunity to underwrite risks. Risks not accepted in the admitted market are generally submitted to the E&S market. Over 70% of E&S business is placed through wholesale broker agents who act as intermediaries between the retail insurance agents and the E&S insurance carriers. Most retail insurance agents do not have the volume of non-standard business to permit them to develop expertise in the E&S market, or relationships with a cross section of E&S insurers. Most E&S insurance companies rely exclusively on wholesale brokers.

P&C Insurance Cycle

The broader P&C insurance market (including the specialty admitted and reinsurance markets) has long been subject to market cycles. "Soft" markets occur when the supply of insurance capital in a given market or territory is greater than the amount of insurance capital demanded by all potential insureds in that market. When this occurs, insurance prices tend to decline and policy terms and conditions become more favorable to the insured.

Conversely there are periods when there is not enough insurance capital capacity in the market to meet the needs of potential insureds, leading to a "hard" market where insurance prices generally rise and policy terms and conditions become more favorable to the insurer. The E&S insurance industry cycles generally track the overall insurance market cycle; however, there are some variations. For example, during hard markets, where insurance capacity becomes restricted, or in response to a major industry event or loss, a significant amount of premiums flow from the admitted market to the E&S market. In these circumstances, admitted market carriers tend to become more conservative and restrictive and write only the business they feel most comfortable underwriting and tend to avoid exposures and risks that are more complex.

From 2006 to 2010, P&C insurance market experienced a soft market cycle with commercial lines rates generally decreasing and overall property and casualty direct premiums written actually declining in certain years. Standard market carriers were competing more on risks that had traditionally been placed in the surplus lines market, leading to the sustained competitiveness in the marketplace and profit margin pressure for surplus lines carriers. A number of risks moved from the surplus market to the standard market. From 2006 to 2010, premiums in the overall P&C market declined 4.5% while premiums in E&S market declined 18.0%.

During this soft underwriting cycle, we remained selective and disciplined to underwrite risks that met our internal return thresholds. Consequently, we chose not to renew unprofitable lines and our direct premiums written in the Excess and Surplus Lines segment declined from $249.1 million for the year ended December 31, 2006 to $116.1 million for the year ended December 31, 2010. We also reduced our writings in our Specialty Admitted Insurance segment with direct premiums written declining from $44.7 million for the year ended December 31, 2006 to $33.7 million for the year ended December 31, 2010.

During this soft market cycle, the financial crisis of 2007 – 2008 led to an economic recession which caused significant liquidity and solvency constraints for many financial institutions, including P&C insurers. This prompted risk managers to move businesses away from challenged P&C insurers and this provided an opportunity for other E&S carriers to gain market share.

Despite softening market conditions, as described above, some of our peers sought to take advantage of this dislocation to acquire market share from the challenged insurers, increase their top-line growth and rapidly expand into new products and markets. By contrast, during this period, we maintained our underwriting discipline and selectively wrote business that met our underwriting return criteria.

By 2011, the combined effect of the low interest environment caused by monetary easing policy by the Federal Reserve and prevailing soft market conditions increased the pressure on the insurance industry to raise rates to achieve adequate returns. This coincided with a gradual improvement in the overall economy which created insurable exposure in the small and mid-sized account space that required surplus lines capacity. Our discipline during the soft underwriting cycle positioned us favorably to capitalize on an improving rate environment and increased demand for surplus lines.

Our peers in the E&S and specialty admitted markets (including program business) that had aggressively written risks during the soft cycle saw their books maturing unfavorably, and many were forced to exit the market or reduce their writings. With increasing demand and modest decline in supply in the small and mid-sized account markets, we have been able to expand our business and write business that we believe meets our underwriting return criteria.

Trends in the first half of 2014 suggest continued moderate price increases in direct commercial lines. Within commercial lines, direct casualty lines rates continue to increase while property rates have declined. According to The Council of Insurance Agents and Brokers, the small account risk market continues to experience positive rate increases, though at a slower pace than in previous years.

Workers' Compensation Business

Workers' compensation in the United States is a mandated, state-legislated, no-fault insurance program requiring employers to fund medical expenses, lost wages and other costs resulting from work-related injuries and illness. According to the 2014 National Council on Compensation Insurance ("NCCI") State of the Line Report, the total net written premiums by state funds and private carriers of workers' compensation insurance in the United States were $41.9 billion for the year ended December 31, 2013, having grown at a 7.4% CAGR since 2010. Written premium levels are driven by payroll and pricing. The collapse of the housing market and severe downturn in the construction and related businesses following the economic crisis of 2007 and 2008 had driven our premiums down in our workers' compensation business in our Specialty Admitted Insurance segment which depended heavily on residential contractor payrolls.

The premium growth in workers' compensation has been driven by the recovery of employment levels to generally at or near pre-recession levels. As employment and payroll levels continue to increase, we believe workers' compensation insurance premiums should see corresponding growth. This line of business also experiences cyclicality with respect to underwriting profitability, with combined ratios peaking at 115% in 2010. This is due, in part, to the increasing severity of workers' compensation claims, in terms of medical costs and indemnity costs per claim.

The 2014 NCCI State of the Line Report indicates that medical costs per claim increased by approximately 6.6% on average per year from 1995 through 2013. To improve profitability, carriers increased rates in recent years. According to Moody's Investor Service's US Workers Compensation: Sector Profile, rates in 2013 increased 8% and are expected to rise 5.5% in 2014. Today, the combination of rising employment and increasing rates has attracted new entrants into the market, and caused industry participants who had decreased their activity levels during the recession to re-enter the market as macro-economic conditions and profit outlook improve.

Reinsurance Business

P&C reinsurance is a contract between a P&C insurance company and a reinsurance company. Reinsurance companies provide coverage to insurance companies for part or all of a risk or group of risks in exchange for which the insurance company pays premiums to the reinsurance company. The reinsurance company in turn agrees to pay for certain losses suffered by the insurance company as a result of claims paid by the P&C company on policies covered under the reinsurance contract. P&C insurance companies cede portions of the risks they underwrite to reinsurers for a variety of reasons, including in order to reduce the effect of individual or aggregate exposure to losses, protect financial ratings, protect capital resources, reduce volatility in specific lines, improve risk-adjusted portfolio returns, and increase gross premium writings and risk capacity without requiring additional capital.

P&C reinsurance is offered on either a proportional or non-proportional basis through treaties or facultative reinsurance. In proportional (or quota share) treaty reinsurance, the reinsurer assumes a proportional share of the original premiums and losses incurred by the P&C insurance company ("ceding company" or "cedent"). The reinsurer pays the ceding company a commission, which is generally based on the ceding company's cost of acquiring the business being reinsured (including commissions, premium taxes, assessments and miscellaneous administrative expenses) and may also include a profit margin.

In a non-proportional (or excess of loss) treaty reinsurance agreement, the reinsurer indemnifies the reinsured against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called a retention or attachment point. Non-proportional business is written in layers and a reinsurer or group of reinsurers accepts a band of coverage up to a specified amount. The total coverage purchased by the cedent is referred to as a "program" and is typically placed with predetermined reinsurers in pre-negotiated layers. Any liability exceeding the upper limit of the program reverts to the ceding company.

In a facultative (proportional or non-proportional) reinsurance agreement, the reinsurer assumes individual risks. The reinsurer separately rates and underwrites each risk rather than assuming all or a portion of a class of risks as in the case of treaty reinsurance.

For the year ended December 31, 2013, 42% of our gross written premiums were reinsurance premiums, and all of these premiums were treaty reinsurance. Of these premiums, 92% were proportional and 8% were non-proportional.

Reinsurance is a cyclical business. The cyclicality of the reinsurance market has tended to be more pronounced than in the direct insurance market. Currently, the reinsurance market is in a "soft market" and is experiencing declining rates. Reinsurance rates are under pressure due to availability of increased levels of alternative capital and significant profits generated from the past few years as a result of a low number of catastrophe events. In addition, reinsurers are actively pursuing casualty business and have offered reinsurance at more attractive rates, which has benefited direct insurers. While this market activity will potentially be detrimental to our reinsurance operations, we believe that it will be more beneficial to our Excess and Surplus Lines and Specialty Admitted Insurance segments, which are significant purchasers of reinsurance. As a result, in aggregate we expect to be a net beneficiary of the softening reinsurance markets in the near term.

On a selected basis, our reinsurance segment purchases reinsurance (called "retrocessional reinsurance," which is generally purchased from other reinsurance companies called "retrocessionaires") to reduce its exposure on certain reinsurance risks assumed and to mitigate the effect of any single major event or the performance of an underlying individual reinsurance contract. These agreements provide for the recovery of a portion of losses and loss expenses from retrocessionaires. The Company remains liable to its cedents to the extent that the retrocessionaires do not meet their obligations under retrocessional agreements, and therefore retrocessions are subject to credit risk in all cases and to aggregate loss limits in certain cases. The Company holds collateral, including escrow funds, trusts, securities and letters of credit under all retrocessional agreements that are in place. Provisions are made for amounts considered potentially uncollectible and reinsurance losses recoverable from retrocessionaires are reported after allowances for uncollectible amounts.

Reinsurance is generally placed by reinsurance brokers or intermediaries who act as agents of the ceding companies and then market such reinsurance business directly to P&C reinsurance companies. In some instances, reinsurance companies assume reinsurance directly from P&C insurance companies without a reinsurance broker in the transaction. All of the assumed reinsurance that JRG Re writes has a reinsurance broker in the transaction who is an agent of the reinsured.

BUSINESS

Our Company

James River Group Holdings, Ltd. is a Bermuda-based insurance holding company. We own and operate a group of specialty insurance and reinsurance companies founded by members of our management team. For the year ended December 31, 2013, 70% of our group-wide gross written premiums originated from the U.S. excess and surplus lines market. Substantially all of our business is casualty insurance and reinsurance, and for the year ended December 31, 2013, we derived over 95% of our group-wide gross written premiums from casualty insurance and reinsurance. Our objective is to generate compelling returns on tangible equity, while limiting underwriting and investment volatility. We seek to accomplish this by earning profits from insurance and reinsurance underwriting on a consistent basis while managing our capital opportunistically to grow tangible equity per share for our shareholders. Our group includes three specialty property-casualty insurance and reinsurance segments: Excess and Surplus Lines, Specialty Admitted Insurance and Casualty Reinsurance. In all of our segments, we tend to focus on accounts associated with small or medium-sized businesses.

For the year ended December 31, 2013, we wrote $368.5 million in gross written premiums, earned net income of $67.3 million and had a combined ratio of 91.2%. For the six months ended June 30, 2014, our combined ratio was 98.0%. Our combined ratio from January 1, 2008 to June 30, 2014 was 99.4%. A combined ratio that is less than 100% indicates profitable underwriting. Earning an underwriting profit means the premiums earned in the period are greater than the sum of all losses, loss-adjustment expenses and other costs associated with operations in that same period. Making consistent underwriting profits is important to us because if we earn positive results from underwriting, we can then count all of our investment income as profits. If we have underwriting losses, we must use investment income or capital to cover those losses. This is why we believe underwriting results are an important criterion for evaluating our performance. According to a report issued in September 2014 by A.M. Best Company, the U.S. E&S lines market (from which we earn 70% of our gross written premiums) has had meaningfully better underwriting results than the broader U.S. property-casualty industry over the five and ten year periods ending in 2013.

We also measure financial performance by our percentage growth in tangible equity per share and return on tangible equity. Since our formation in December of 2007 through June 30, 2014, we have increased tangible equity per share at a compounded rate of 9.3% per year, after giving effect to dividends paid and share repurchases. Tangible equity is defined as our shareholders' equity less goodwill and intangible assets. Until recently, we held substantial amounts of undeployed capital as we had to fully capitalize our reinsurance company prior to its writing any business. We are now growing into our capital base, and in the twelve month period ended June 30, 2014, our after-tax operating return on tangible equity was 12.7%. In August 2014, we declared a $70.0 million dividend to our shareholders.

We write very little property or catastrophe insurance and no property catastrophe reinsurance. For the year ended December 31, 2013, property insurance and reinsurance represented less than 5% of our gross written premiums. When we do write property insurance, we buy reinsurance to significantly mitigate our risk. We have structured our reinsurance arrangements so that our estimated net pre-tax loss from a 1/1000 year probable maximum loss event is no more than $10.0 million on a group-wide basis.

When attractive opportunities arise, we seek to grow our business while maintaining a conservative balance sheet and having lower volatility in our underwriting results. For example, for the year ended December 31, 2013, our Excess and Surplus Lines segment's gross written premiums increased by 21.3% over 2012 and rate per unit of exposure grew by 2.6% over 2012. The growth in premiums and increase in rates has continued in 2014, with premiums up 27.3% through the six months ended June 30, 2014 compared to the corresponding period in 2013, while rates per unit of exposure have increased by 4.7% through the six months ended June 30, 2014 over the corresponding period in 2013. Unit of exposure is a measure that is used to associate the premiums charged on a policy with a factor that relates directly to the exposures covered by the policy.

We report our business in four segments: Excess and Surplus Lines, Specialty Admitted Insurance, Casualty Reinsurance and Corporate and Other.

The Excess and Surplus Lines segment offers E&S commercial lines liability and property insurance in every U.S. state and the District of Columbia through James River Insurance and its wholly-owned subsidiary, James River Casualty. James River Insurance and James River Casualty are both non-admitted carriers. Non-admitted carriers writing in the E&S market are not bound by most of the rate and form regulations imposed on standard market companies, allowing them flexibility to change the coverage terms offered and the rate charged without the time constraints and financial costs associated with the filing process. In 2013, the average account in this segment generated annual gross written premiums of approximately $16,000. The Excess and Surplus Lines segment distributes primarily through wholesale insurance brokers. Members of our management team have participated in this market for over three decades and have long-standing relationships with the wholesale agents who place E&S lines accounts. The Excess and Surplus Lines segment produced 52.2% of our gross written premiums for the year ended December 31, 2013.

The Specialty Admitted Insurance segment focuses on niche classes within the standard insurance markets, such as workers' compensation coverage for residential contractors, light manufacturing operations, transportation workers and healthcare workers in North Carolina, Virginia, South Carolina and Tennessee. This segment has admitted licenses in 47 states and the District of Columbia. While this segment has historically focused on workers' compensation business, going forward, we anticipate growing our fronting business and our other commercial lines through our program business. We believe we can earn substantial fees in our program and fronting business by writing policies and then transferring all or a substantial portion of the underwriting risk position to other capital providers that pay us a fee for "fronting" or ceding the business to them. The Specialty Admitted Insurance segment distributes through a variety of sources, including independent retail agents, program administrators and MGAs. The Specialty Admitted Insurance segment produced 5.6% of our gross written premiums for the year ended December 31, 2013.

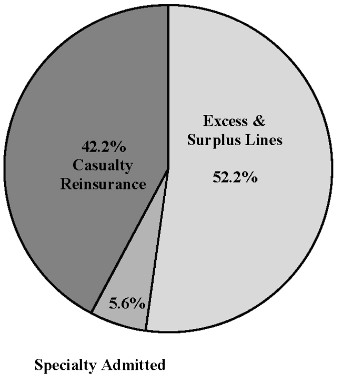
The Casualty Reinsurance segment consists of JRG Re, our Bermuda domiciled reinsurance subsidiary, which provides proportional and working layer casualty reinsurance to third parties and to our U.S.-based insurance subsidiaries. The Casualty Reinsurance segment's underwriting results only include the results of reinsurance written with unaffiliated companies and does not include the premiums and losses ceded under our internal quota share arrangement described below, which are captured in our Excess and Surplus Lines and Specialty Admitted Insurance segments, respectively. Typically, we structure our reinsurance contracts (also known as treaties) as quota share arrangements, with loss mitigating features, such as commissions that adjust based on underwriting results. We frequently include risk mitigating features in our excess working layer treaties, which allows the ceding company to capture a greater percentage of the profits should the business prove more profitable than expected, or alternatively provides us with additional premiums should the business incur higher than expected losses. We believe these structures allow us to participate in the risk side-by-side with the ceding company and best align our interests with the interests of our cedents. Treaties with loss mitigation features including sliding scale ceding commissions represented 85% of the gross premiums written by our Casualty Reinsurance segment during the first six months of 2014. We typically do not assume large individual risks in our Casualty Reinsurance segment, nor do we write property catastrophe reinsurance. Two of the three largest unaffiliated accounts written by JRG Re in 2013 and during the first six months of 2014 were ceded from E&S carriers. The Casualty Reinsurance segment distributes through traditional reinsurance brokers. The Casualty Reinsurance segment produced 42.2% of our gross written premiums for the year ended December 31, 2013.

We have direct intercompany reinsurance agreements under which we cede 70% of the pooled net written premiums of our U.S. subsidiaries (after taking into account third-party reinsurance) to JRG Re. This business is ceded to JRG Re under a proportional, or quota-share, reinsurance treaty that provides for an arm's length ceding commission. Notwithstanding the intercompany agreement, from an accounting perspective, the economic results (underwriting profits or losses) of this business are reflected in our Excess and Surplus Lines and Specialty Admitted Insurance reporting segments. At June 30, 2014, approximately 64% of our cash and invested assets were held by JRG Re, which benefits from a favorable operating environment, including an absence of corporate income or investment taxes. For the year ended December 31, 2013, our total effective tax rate was 12.6%. We also pay a 1% excise tax on premiums ceded to JRG Re.

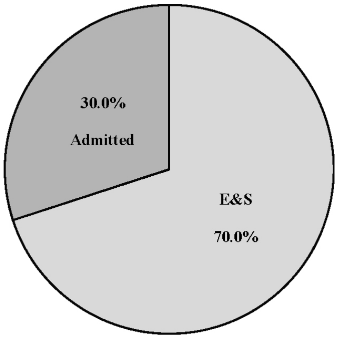
The Corporate and Other segment consists of the management and treasury activities of our holding companies and interest expense associated with our debt.

In 2013, our underwriting subsidiaries wrote a total of $368.5 million in gross written premiums, allocated by segment and underlying market as follows:

Gross Written Premiums by Segment



Gross Written Premiums by Underlying Market



2013 Gross Written Premiums: $368.5 million

The A.M. Best financial strength rating for our group's regulated insurance subsidiaries is "A-" (Excellent), with a "positive outlook." 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 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), with a "positive outlook" 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.

Our History

In 2002, a group of experienced insurance executives with a history of starting and operating profitable specialty insurance operations created James River Group. James River Group was listed on the NASDAQ Stock Market (symbol: JRVR) in 2005 and consistently produced attractive underwriting results. James River Group had two insurance company subsidiaries, James River Insurance and Stonewood Insurance. Both of these subsidiaries as well as James River Group are now subsidiaries of ours.

In 2007, James River Group's management team decided to enhance James River Group's long-term profitability by combining the earnings power of James River Group with the efficiency of an affiliated Bermuda domiciled reinsurer. A group of investors led by the D. E. Shaw Affiliates, currently our largest affiliated investors, acquired James River Group, at which point it ceased trading as a public company. Simultaneously, the investors and management founded and capitalized JRG Re and we began the process of building our present company. The U.S. economy entered a severe recession immediately after we took our company private. The downturn posed a particular challenge to us because the effects of the recession were deeply felt in segments of the economy where we had a large customer base. We had to react quickly to significant changes in the risk profiles presented by our customers. While we adapted our business plan to reflect changes in the economy, we continued to believe that a Bermuda-based casualty-focused specialty insurance company would be well positioned to deliver compelling returns. James River Group Holdings, Ltd., with 70% of our group-wide gross written premiums originating from the U.S. E&S lines market, a casualty focus, and the advantages of a Bermuda domicile, is the company we set out to create.

The fact that the recession occurred almost immediately upon our acquisition of James River Group and the formation of JRG Re posed two primary challenges to us. First, the recession was deepest in the construction markets, where both our workers' compensation business (Specialty Admitted Insurance segment) and Excess and Surplus Lines segment had large concentration of risks. In addition, we had significant undeployed capital, much of which was dedicated to our new reinsurance company. We sought to write reinsurance for unaffiliated third parties, but were aware that terms and conditions for reinsurance were deteriorating, along with the terms and conditions of the insurance business underlying reinsurance.

We responded to this confluence of challenges by shifting our business as follows:

- We reduced writings in our Excess and Surplus Lines segment. In 2007, we wrote $239.7 million in gross written premiums in this segment. Our gross writings decreased from $184.2 million in 2008 to $116.1 million in 2010. Despite shrinking our book, we maintained combined ratios of 87.6%, 91.7% and 88.9%, in 2008, 2009 and 2010, respectively for this segment. We began growing again in 2012 as rates improved and that growth has continued through the first six months of 2014. In the six months ended June 30, 2014, compared to the same period in the prior year, our gross written premiums grew 27.3% in our Excess and Surplus Lines segment.

- We reduced the size of our workers' compensation book significantly. In 2008, we wrote $62.2 million in gross written premiums for our workers' compensation business in the Specialty Admitted Insurance segment. In reaction to rate decreases and a challenging regulatory and claims environment, we reduced our workers' compensation writings to $20.6 million in 2013. The combination of escalated claims activity and reserve strengthening resulted in a $17.3 million underwriting loss for this line of business for the year ended December 31, 2012, raising our combined ratio for the year ended December 31, 2012, by 4.8 percentage points. Subsequently, the segment has seen favorable reserve development of $1.4 million in 2013 and another $1.1 million in the first six months of 2014. Based on rate increases and an improved economic environment, beginning in 2013 and continuing in 2014, we have slowly begun to increase our workers' compensation writings, though they remain well below their peak in 2008 and are unlikely to return to the same premium levels reported in 2008 for some time.

- In light of emerging losses from our workers' compensation book in our Specialty Admitted Insurance segment, we immediately increased our best estimate of reserves to reflect the high level of losses that we were experiencing from our workers' compensation book. We also lowered our net retention with respect to workers' compensation underwriting to $675,000 from $5.0 million. The retention of $5.0 million was set when we held a significant amount of undeployed capital and during a period in which we had not seen any loss in excess of $1.1 million. Retention at such a significant level contributed to our large losses in 2011 and 2012. The reserves we established at the end of 2012 in the Specialty Admitted Insurance segment for workers' compensation are now proving to be redundant, as evidenced by favorable development from January 1, 2013 to June 30, 2014 on accident years where reserves were previously strengthened due to better than expected run off of these liabilities.

- We introduced new management in our Specialty Admitted Insurance segment and developed a new business plan for that segment, which includes prudently growing in segments of the market where we believe we can leverage our underwriting expertise to earn fee income and retain less risk on policies written. This strategy is consistent with our focus on E&S lines, but permits us to participate prospectively in select, profitable admitted lines of business and potentially to grow a strong, fee income-generating fronting business. In addition to generating fee income, we expect that the combination of our refocused workers' compensation business and our new program and fronting businesses will generate an underwriting profit in the Specialty Admitted Insurance segment.

- Our U.S.-based insurance companies entered into a quota share agreement with JRG Re to better utilize capital across the group. This intercompany reinsurance agreement has allowed us to transfer this business along with related cash and invested assets to Bermuda. As of June 30, 2014, approximately 64% of our cash and invested assets were in Bermuda. Separately, we hired a reinsurance management team who began to write third-party business. As a new reinsurer in a "soft" reinsurance market, we were not initially always able to access the reinsurance accounts we would have preferred. We were actively pursuing the creation of an independent reinsurer and felt the need to write reinsurance for unaffiliated third-parties from inception. For example, we underwrote crop reinsurance in 2008 through 2012. After three modestly successful years, we lost $9.4 million and $5.7 million in this line in 2011 and 2012, respectively, increasing our group-wide combined ratio by 2.8 percentage points and 1.6 percentage points in these respective years. We responded by discontinuing any further writing in this line and now have no further exposure to crop reinsurance. We also wrote California workers' compensation reinsurance from 2008 to 2010, which was a period of poor performance in this line and this geography. Now, as a better-established carrier, we emphasize E&S business ceded from unaffiliated insurers. This is business we understand very well given our presence in the primary E&S lines insurance marketplace.

- While continuing to manage our capital carefully, we have opportunistically invested some of our undeployed capital in opportunities that were well-understood by members of our Investment Committee or management team. These investments were all vetted by the Investment Committee of the Board in accordance with guidelines discussed in the "Investment Strategy" portion of this section.

- In 2010 we paid a $24.6 million dividend to our shareholders and also repurchased $6.6 million of trust preferred securities of James River Capital Trust IV at a total purchase price of $5.0 million. We recognized a gain on this extinguishment of debt, after a write-off of $68,000 of capitalized debt issuance costs, of $1.5 million. In 2013, we repurchased 150,000 common shares from certain shareholders for approximately $110.8 million. In August 2014, we declared a $70.0 million dividend to our shareholders.

We now seek to replace some of the capital provided by the D. E. Shaw Affiliates and Goldman Sachs with investments by public equity investors and certain members of our senior management team. We anticipate that the D. E. Shaw Affiliates and Goldman Sachs will sell approximately •% and •% of their existing common shares in the offering, respectively, but will retain approximately •% and •% ownership of the Company's outstanding common shares, respectively, following the completion of the offering. J. Adam Abram, our Executive Chairman, has indicated an intention to invest $• million in the offering, Robert Myron, our President and Chief Operating Officer, has indicated an intention to invest $• million in the offering and Gregg Davis, our Chief Financial Officer, has indicated an intention to invest $• in this offering.

Our Competitive Strengths

We believe we have the following competitive strengths:

Proven and Strong Management Team Whose Financial Interests are Aligned with Shareholders. Our Chairman and Chief Executive Officer, J. Adam Abram, has a history of forming and managing profitable specialty insurance companies. Mr. Abram was the founder of Front Royal Group in 1992, which was sold to Argo Group International Holdings Limited (Nasdaq: AGII) in August 2001. In 2002, Mr. Abram formed James River Group, our predecessor company, which enjoyed strong underwriting profits until it was sold to James River Group Holdings, Ltd. (formerly Franklin Holdings (Bermuda), Ltd.) in December 2007. Mr. Abram has also founded and run successful businesses in the banking and commercial real estate sectors.

Our President and Chief Operating Officer, Robert P. Myron, who has served in various capacities with our group since 2010, has a history of working in a senior management capacity in the insurance and reinsurance industries in both the United States and Bermuda. Mr. Myron has significant experience working in finance, underwriting and operations of several different insurance and reinsurance companies over the course of his career.

Our Chief Financial Officer, Gregg Davis, has been with our group and its predecessors since 1992 and was the Chief Financial Officer of Front Royal Group, working alongside Mr. Abram for almost two decades.

Broad Underwriting Expertise. We have a broad appetite to underwrite a diverse set of risks and strive to be innovative in tailoring our products to provide solutions for our distribution partners and insureds. As a result, we believe we are a “go to” market for a wide variety of risks. We are able to structure solutions for our insureds and the wholesale brokers with whom we work because of our deep technical expertise and experience in the niches and specialties we underwrite.

Conservative Risk Management with an Emphasis on Lowering Volatility. We earn our profits by taking underwriting and investment risk. We have experience underwriting in many classes of insurance. We also have experience investing in many types of assets. At the same time, we actively seek to avoid underwriting business or making investments that involve an unacceptably high risk of causing large losses.

We seek to limit our catastrophic underwriting exposure in all areas, but in particular to property risks and catastrophic events. Our U.S. primary companies purchase reinsurance from unaffiliated reinsurers to manage our net exposure to any one risk or occurrence. In addition, our policy forms and pricing are subject to regular formal analysis to ensure we are insuring the types of risks we intend and that we are being appropriately compensated for taking on those risks. When we write reinsurance, we seek to avoid catastrophic risks and contractually limit the amount of exposure we have to any one risk or occurrence. We prefer to structure our assumed reinsurance treaties as proportional or quota share reinsurance, which is generally less volatile than excess of loss or catastrophe reinsurance. We believe this structure aligns our interests with those of the ceding company.

We attempt to improve risk-adjusted returns in our investment portfolio by allocating a portion of our portfolio to investments where we take measured risks based upon detailed knowledge of certain niche asset classes. We do not operate like a hedge fund, but we are comfortable allocating a portion of our assets to non-traditional investments. We consider non-traditional investments to include investments that are (1) unrated bond or fixed income securities (2) non-listed equities or (3) investments that generally have less liquidity than rated bond or fixed income securities or listed equities. We characterize these investments as non-traditional because we do not believe that these types of investments are commonly held by property-casualty insurance companies. Examples of non-traditional investments held at June 30, 2014 and their respective percentage of our total invested assets at such date include syndicated bank loans (18.4%), interests in limited liability companies that invest in renewable energy opportunities (1.9%), limited partnerships that invest in debt or equity securities (0.4%), and a private debt security (0.4%). While we are willing to make investments in non-traditional types of investments, we seek to avoid asset classes and investments that we do not understand or that could expose us to inappropriate levels of risk. The weighted average credit rating of our portfolio of fixed maturity securities, bank loans and redeemable preferred stocks as of June 30, 2014 was “A.” We also maintain a disciplined interest rate position by maintaining a weighted average duration of approximately three years for this portfolio as of June 30, 2014.

Talented Underwriters and Operating Leadership. The managers of our 15 underwriting divisions have an average of over 25 years of industry experience, substantial subject matter expertise and deep technical knowledge and have been successful and profitable underwriters for us in the specialty casualty insurance and reinsurance sectors. Our segment presidents have an average of 31 years of experience and all have extensive backgrounds and histories working in management capacities in specialty casualty insurance and reinsurance.

Robust Technology and Data Capture. We seek to ground our underwriting decisions in reliable historical data and technical evaluation of risks. Our underwriters utilize intuitive systems and differentiated technologies, many of which are proprietary. We have implemented processes to capture extensive data on our book of business, before, during and after the underwriting analysis and decision. We use the data we collect to inform and, we believe, improve our judgment about similar risks as we refine our underwriting criteria. We use the data we collect in regular formal review processes for each of our lines of business and significant reinsurance treaties.

Focus on Small and Medium-Sized Casualty Niche and Specialty Business. We believe that small and medium-sized casualty accounts, in niche areas where we focus, are consistently among the most attractive subsets of the property-casualty insurance and reinsurance market. We think the unique characteristics of the risks within these markets require each account to be individually underwritten in an efficient manner. Many carriers have chosen either to reject business that requires individual underwriting or have attempted to automate the underwriting of this highly variable business. While we use technology to greatly reduce the cost of individually underwriting these accounts in our Excess and Surplus Lines and Specialty Admitted Insurance segments, we continue to have our underwriters make individual judgments regarding the underwriting and pricing of each account. We believe this approach is more likely to produce consistent results over time and across markets. In addition, while we believe that the insurance and reinsurance industry is generally overcapitalized at this time, and that rates in certain property and casualty sectors are “soft” or “softening,” we are currently achieving rate increases and experiencing benign loss trends in our Excess and Surplus Lines and Specialty Admitted Insurance segments, which represented 57.8% of our gross written premiums for the twelve months ended December 31, 2013. We believe that there are compelling opportunities for measured but profitable growth in many sectors of the insurance and reinsurance market we target.

Active Claims Management. Our U.S.-based primary insurance companies actively manage claims as part of keeping losses and loss adjustment expenses low. We attempt to investigate and settle all covered claims promptly and thoroughly, which we generally accomplish through direct contact with the insured and other affected parties. We have been able to close 90% of claims within three to five years, and as of June 30, 2014, our reserves for claims incurred but not reported were approximately 70% of our total net loss reserves. When our investigation leads us to conclude that a claim or claims are not validly covered under the policy form, we vigorously contest payment and are willing to pursue prosecution for claims fraud when warranted.

Efficient Operating Platform. Our Bermuda domicile and operations provide for capital flexibility and an efficient tax structure. At June 30, 2014, approximately 64% of our cash and invested assets were held by our Bermuda-based subsidiary which benefits from a favorable operating environment, including an absence of corporate income or investment taxes. We also have a competitive and decreasing expense ratio, as we carefully manage personnel and all other costs throughout our group while growing our business. In addition, Bermuda has many advantages as a place of domicile, including a large population of experienced insurance executives, a deep market of reinsurance business and a well-established regulatory regime that has fostered the acceptance of Bermuda-based reinsurers by rating agencies and insurance buyers.

Our Strategy

We believe our approach to our business will help us achieve our goal of generating compelling returns on tangible equity while limiting volatility in our financial results. This approach involves the following:

Generate Consistent Underwriting Profits. We seek to make underwriting profits each and every year. We attempt to find ways to grow in markets that we believe to be profitable, but are less concerned about growth than maintaining profitability in our underwriting activities (without regard to investment income). Accordingly, we are willing to reduce the premiums we write when we cannot achieve the pricing and contract terms we believe are necessary to meet our financial goals.

Maintain a Strong Balance Sheet. Balance sheet integrity is key to our long-term success. In order to maintain balance sheet integrity, we seek to estimate the amount of future obligations, especially reserves for losses, in a consistent and appropriate fashion. Excluding 2012, we have had favorable loss reserve development for each prior year period since 2008 and for the six months ended June 30, 2014. From December 31, 2007 through June 30, 2014, we have experienced $81.5 million of cumulative net favorable reserve development.

Focus on Specialty Insurance Markets. By focusing on specialty markets in which our underwriters have particular expertise and in which we have fewer competitors than in standard markets, we have greater flexibility to price and structure our products in accordance with our underwriting strategy. We believe underwriting profitability can best be achieved through restricting our risk taking on insurance and reinsurance to niches where, because of our expertise, we can distinguish ourselves in the underwriting and pricing process.

Use Timely and Accurate Data. We design our internal processing and data collection systems to provide our management team with accurate and relevant information in real-time. Our data warehouse collects premium, commission and claims data, including detailed information regarding policy price, terms, conditions and the nature of the insured’s business. This data allows us to analyze trends in our business, including results by individual agent or broker, underwriter and class of business and expand or contract our operations quickly in response to market conditions. We rely on our information technology systems in this process. Additionally, the claims staff also contributes to our underwriting operations through its communication of claims information to our underwriters.

Respond Rapidly to Market Opportunities and Challenges. We plan to grow our business to take advantage of opportunities in markets in which we believe we can use our expertise to generate consistent underwriting profits. We seek to measure rates monthly and react quickly to changes in the rates or terms the market will accept. For the year ended December 31, 2013, our Excess and Surplus Lines segment gross written premiums increased by 21.3% and our rate per unit of exposure grew by 2.6%, both over the same period in 2012. The growth in premiums and increase in rates has continued during the first six months of 2014, with gross written premiums up 27.3% and rate per unit of exposure growing 4.7% over the corresponding period of 2013. In this favorable pricing environment, we have taken steps to grow and are increasing gross written premiums across most underwriting divisions in this segment. Recently, we have enjoyed success writing insurance for companies engaged in energy-related businesses and offering insurance products to the growing “shared economy” technology sector. At the same time, as rates have decreased for medical professional liability we have significantly reduced our writings in this class.

When market conditions have been challenging, or when actual experience has not been as favorable as we anticipated, we have tried to act quickly to evaluate our situation and to make course corrections in order to protect our profits and preserve tangible equity. Our actions have included reducing our writings when margins tightened and exiting lines or classes of business when we believed the risk of continuing in a line outweighed the potential rewards from underwriting. We do not hesitate to increase loss estimates when we determine that it is appropriate.

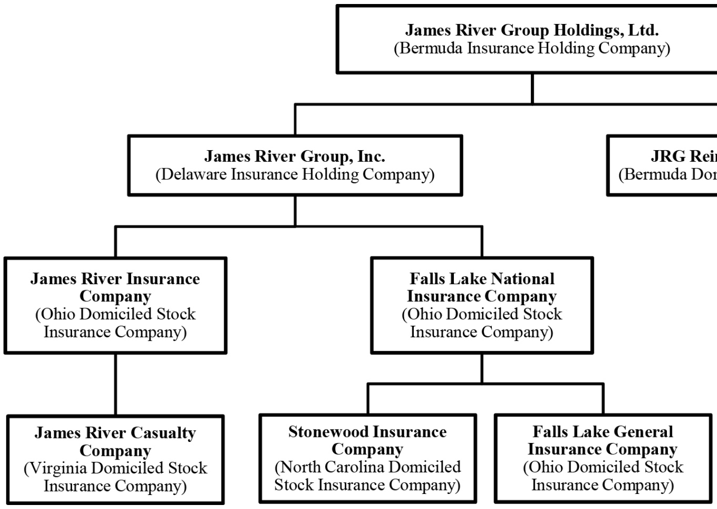
For example, from 2008 through 2011 commercial casualty insurance rates (which we believe are a proxy for E&S casualty pricing) declined and, our Excess and Surplus Lines segment reduced its gross writings from $184.2 million in 2008 to $116.1 million in 2010. While we intentionally shrank our book, we maintained combined ratios of 87.6%, 91.7% and 88.9%, in 2008, 2009 and 2010, respectively for this segment. We resumed growing premiums in this segment in 2012 in response to improving rates.

Additionally, we entered the crop reinsurance business in 2008. After three modestly profitable years, we had pre-tax underwriting losses of $9.4 million and $5.7 million in this line in 2011 and 2012, respectively, increasing the Company’s combined ratio by 2.8 points and 1.6 points in these respective years. We responded by discontinuing any further writing in this line on December 31, 2012 and now have no further exposure to crop reinsurance. From 2004 through 2010, we built a book of workers’ compensation insurance for residential homebuilders in North Carolina. The recession from 2008 to 2012 dramatically affected these businesses. Claims in this book escalated quickly, and we increased our loss ratio picks for this line of business accordingly. We reduced our gross written premiums from a peak of $62.2 million in 2008 to a low of $20.6 million on gross written premiums in 2013. The combination of escalated claims activity and reserve strengthening resulted in a $17.3 million pre-tax underwriting loss for this line of business in 2012, raising our combined ratio on a consolidated basis, for the year ended December 31, 2012, by 4.8 points. Subsequently, we have experienced better than expected run-off of the liabilities for the 2012 and prior accident years. As a result, the additional reserves established in 2012 have proven to be redundant. The segment has seen favorable reserve development of $1.4 million in 2013 and another $1.1 million in the first six months of 2014. As conditions have improved, we have cautiously resumed growth in this sector.

Manage Capital Actively. We seek to make “both sides” of our balance sheet generate better than average risk-adjusted returns than our peers. We invest and manage our capital with a goal of consistently increasing tangible equity for our shareholders and generating attractive returns on tangible equity. We intend to expand our premium volume and capital base to take advantage of opportunities to earn an underwriting profit or to reduce our premium volume and capital base if attractive underwriting opportunities are not available. We expect to finance our future operations with a combination of debt and equity and do not intend to raise or retain more capital than we believe we can profitably deploy in a reasonable time frame. We may not, however, always be able to raise capital when needed. Although we anticipate being able to pay a regular dividend, our ratings from A.M. Best are very important to us and maintaining them will be a principal consideration in our decisions regarding capital management.

Our Structure

The chart below displays our corporate structure as it pertains to our holding and operating subsidiaries.


James River Group Holdings, Ltd.
(Bermuda Insurance Holding Company)
James River Group, Inc.
(Delaware Insurance Holding Company)
JRG Reinsurance Company, Ltd.
(Bermuda Domiciled Reinsurance Company)
James River Insurance Company
(Ohio Domiciled Stock Insurance Company)
Falls Lake National Insurance Company
(Ohio Domiciled Stock Insurance Company)
James River Casualty Company
(Virginia Domiciled Stock Insurance Company)
Stonewood Insurance Company
(North Carolina Domiciled Stock Insurance Company)
Falls Lake General Insurance Company
(Ohio Domiciled Stock Insurance Company)

Business Segments

Excess and Surplus Lines Segment

We report our U.S.-based E&S lines business in our Excess and Surplus Lines segment. We underwrite non-admitted business through our subsidiaries, James River Insurance and James River Casualty, from offices in Richmond, Virginia, Scottsdale, Arizona, and beginning in 2014, Atlanta, Georgia. James River Insurance is our largest subsidiary as measured by gross written premiums (48.5% of total gross written premiums for the six months ended June 30, 2014) and has been engaged in E&S insurance for 12 years. James River Insurance has had a consistent record of underwriting profits since its second year of operation. We added James River Casualty in 2009 to give us the ability to write E&S risks in Ohio.

E&S lines insurance focuses on insureds that generally cannot purchase insurance from standard lines insurers typically due to perceived risk related to their businesses. Our Excess and Surplus Lines segment underwrites property-casualty insurance on an E&S lines basis in all states and the District of Columbia. Our Excess and Surplus Lines segment distributes its policies through a network of appointed independent wholesale brokers throughout the United States. In 2013, our Excess and Surplus Lines segment's gross written premiums grew by 21.3% over 2012 and during the first six months of 2014, this segment's gross written premiums increased again by 27.3% over the same period in 2013. Premium rates increased over 4.7% in the first six months of 2014 over the corresponding period in 2013, and rates increased over 2.6% from 2012 to 2013. The Excess and Surplus Lines segment produced an average combined ratio of 82.6% from 2009 through 2013.

Companies that underwrite on an E&S lines basis operate under a different regulatory structure than standard market carriers. E&S lines carriers are generally permitted to craft the terms of the insurance contract to suit the particular risk they are assuming. Also, E&S lines carriers are, for the most part, free of rate regulation. In contrast, standard market carriers are generally required to use approved insurance forms and to charge rates that have been authorized by or filed with state insurance departments. However, as E&S carriers, our insurance subsidiaries in the Excess and Surplus Lines segment are not backed by any state's guarantee fund, and in most states these subsidiaries may only write coverage for an insured after they have been denied coverage by the standard market and signed declarations stating that the insured is aware that it will not have access to any state guarantee funds should these subsidiaries be unable to satisfy their obligations.

Our Excess and Surplus Lines segment writes policies for a wide range of business and does not write personal lines insurance. Applications for insurance come through appointed wholesale brokers who are generally approached by retail agents after their clients have been rejected by standard markets.

With the exception of two small programs which had total gross written premiums of less than $2 million for the six months ended June 30, 2014, the Excess and Surplus Lines segment does not grant any underwriting authority to brokers or agents, and instead, all underwriting decisions are made by one of our over 100 underwriters who work within James River Insurance's twelve underwriting divisions. Policies are individually underwritten. The average tenure of the leaders of these twelve divisions is 29 years.

All claims for business written by the Excess and Surplus Lines segment are managed by its internal claims department although we do use independent adjusters for inspection of certain claims.

The Excess and Surplus Lines segment tracks the rate per unit of exposure it is able to charge on policies renewed by the company. On average, casualty rates obtained on renewals written by this segment have increased by 2.1%, 2.6% and 4.7% in 2012, 2013 and during the six months ended June 30, 2014, respectively.

The chart below identifies the Excess and Surplus Lines segment's divisions and sets forth the amount of gross written premiums for the six months ended June 30, 2014 and 2013, and the 2013, 2012, and 2011 fiscal years by each division. The table also sets forth the percentages of total gross written premiums written by each division as compared to the aggregate gross written premiums for the Excess and Surplus Lines segment in the six months ended June 30, 2014.

	Gross Written Premiums					
E&S Division	**Six Months Ended June 30, 2014**	**% of Six Months Ended June 30, 2014**	**Six Months Ended June 30, 2013**	**Year Ended December 31, 2013**	**Year Ended December 31, 2012**	**Year Ended December 31, 2011**
			($ in thousands)			
Manufacturers and Contractors	$ 36,309	30.1%	$ 28,948	$ 58,509	$ 46,648	$ 38,566
General Casualty	21,497	17.8%	9,107	22,636	12,674	8,156
Excess Casualty	15,219	12.6%	13,000	32,489	29,761	20,753
Energy	14,718	12.2%	11,762	21,400	15,766	10,566
Excess Property	8,374	6.9%	7,279	10,988	9,231	8,228
Professional Liability	5,418	4.5%	5,527	10,695	10,664	11,058
Allied Health	5,090	4.2%	4,999	9,148	8,391	9,472
Life Sciences	4,829	4.0%	5,260	9,978	9,865	7,886
Small Business	3,739	3.1%	3,373	6,313	5,782	5,886
Medical Professionals	2,153	1.8%	2,697	4,492	5,294	6,177
Environmental	2,061	1.7%	1,345	2,557	2,954	2,289
Sports and Entertainment	1,280	1.1%	1,476	3,189	1,624	1,970
Total	$ 120,687	100.0%	$ 94,773	$ 192,394	$ 158,654	$ 131,007

Manufacturers and Contractors writes primary general liability coverage for a number of risk classes, including manufacturers of consumer goods, industrial equipment distributors and contractors. We typically issue a $1.0 million per occurrence limit in this division and we retain the entire $1.0 million limit. The individual overseeing this division has 30 years of industry experience. During 2013, 2012, and 2011, we wrote $58.5 million, $46.6 million, and $38.6 million in premiums in this division, respectively.

General Casualty writes primary liability coverage on businesses exposed to premises liability type claims, including: mercantile and retail operations, apartments and condominiums, daycare facilities, hotels and motels, restaurants, bars, taverns and schools. The head underwriter in this division has 26 years of experience. We generally write $1.0 million per occurrence in limits, and we retain the entire $1.0 million limit. During 2013, 2012, and 2011, we wrote $22.6 million, $12.7 million, and $8.2 million in premiums in this division, respectively.

Excess Casualty underwrites excess liability coverage for a variety of risk classes, including: manufacturers, contractors, distributors and transportation risks. We typically provide between $1.0 million and $10.0 million per occurrence limits above a $1.0 million attachment point. Of this amount, we retain up to $1.0 million of exposure per occurrence and cede the balance to our reinsurers. We write excess liability coverage above our own primary policies, as well as policies issued by third parties. When we write above others' policies, we are selective regarding underlying carriers, focusing on the nature of the business, the financial strength of the carrier, their pricing and their claims handling capabilities. The underwriter who heads this division has 30 years of industry experience. During 2013, 2012, and 2011, we wrote $32.5 million, $29.8 million, and $20.8 million in premiums in this division, respectively.

Energy writes risks engaged in the business of energy production, distribution or mining. Examples of classes underwritten by this division include oil and gas exploration companies, oil or gas well drillers, oilfield consultants, oil or gas lease operators, oil well servicing companies, oil or gas pipeline construction companies and mining-related risks. We typically provide policy limits between $1.0 million and $5.0 million per occurrence and retain up to $1.0 million in limit net. The underwriter leading this division has 41 years of experience in the business. During 2013, 2012, and 2011 we wrote $21.4 million, $15.8 million, and $10.6 million in premiums in this division, respectively.

Excess Property writes property risks above the primary coverage layer for classes, including apartments, condominiums, resorts, shopping centers, offices and general commercial properties. Typical limits offered are up to $5.0 million. We retain up to the first $5.0 million in any one event. The underwriter leading our Excess Property division has 29 years of experience in the industry. During 2013, 2012, and 2011, we wrote $11.0 million, $9.2 million, and $8.2 million in premiums in this division, respectively.

Professional Liability writes professional liability coverage for accountants, architects, engineers, lawyers and certain other professions. We typically provide policy limits between $1.0 million and $5.0 million per occurrence and retain the first $1.0 million net. The individual who directs our professional liability division has 21 years of industry experience. All of our professional liability coverage is written on a claims made and reported basis. We wrote $10.7 million in premiums during each of 2013 and 2012 and $11.1 million in 2011.

Allied Health underwrites casualty insurance for allied health and social service types of risks, such as long-term care facilities, independent living apartments, group homes, half-way houses and shelters, drug rehab, home health care and medical staffing enterprises. We typically provide policy limits between $1.0 million and $5.0 million per occurrence and retain up to $1.0 million in limit net. The underwriter responsible for this unit has 21 years of experience in the business. Approximately 90.3% of the premiums written by our Allied Health division from inception through 2013 have been written on a claims made and reported form. We believe this policy form significantly reduces our long-term exposure in this complicated class of business. During 2013, 2012, and 2011, we wrote $9.1 million, $8.4 million, and $9.5 million in premiums in this division, respectively.

Life Sciences underwrites general liability, products liability and/or professional liability coverage for manufacturers, distributors and developers of biologics (antibodies & vaccines used for the prevention of disease), nutraceuticals (health, nutrition and herbal supplements), human clinical trials and medical devices. We typically provide policy limits between $1.0 million and $5.0 million per occurrence and retain up to $1.0 million in limit net. The underwriter at the head of this division has 30 years of experience in the industry. During 2013, 2012, and 2011, we wrote $10.0 million, $9.9 million, and $7.9 million in premiums in this division, respectively.

Small Business concentrates on accounts with annual general liability insurance premiums of less than $10,000. All of our Small Business applications are submitted through our internet portal to facilitate quick turnaround and efficient processing. We generally write $1.0 million per occurrence limits and retain the entire amount. The underwriter leading this division has 26 years of industry experience. During 2013, 2012, and 2011, we wrote $6.3 million, $5.8 million, and $5.9 million in premiums in this division, respectively.

Medical Professionals underwrites non-standard physicians' professional liability for individuals or small groups. Our healthcare business is a mix of both surgical and non-surgical classes. We typically provide between $1.0 million and $3.0 million per occurrence limits and retain up to $1.0 million of exposure per occurrence and cede the balance to our reinsurers. All of the policies written by this division have been issued on a claims made and reported basis. The underwriter leading this division has 21 years of experience. During 2013, 2012, and 2011, we wrote $4.5 million, $5.3 million, and $6.2 million in premiums in this division, respectively.

Environmental underwrites contractors' pollution liability, products pollution liability, site specific pollution liability and consultant's professional liability coverage on a stand-alone basis and in conjunction with the general liability coverage. The underwriter heading our Environmental division has 41 years of experience in the business. We generally write environmental coverage for contractors who are not engaged in environmental remediation work on an occurrence form. We typically provide policy limits between $1.0 million and $5.0 million per occurrence and retain up to $1.0 million in limit net. During 2013, 2012, and 2011, we wrote $2.6 million, $3.0 million, and $2.3 million in premiums in this division, respectively.

Sports and Entertainment underwrites liability coverage for sports and entertainment related risks, including family fun centers, water parks, professional sports organizations and campgrounds. Typical limits offered are up to $1.0 million per occurrence, and we retain the entire $1.0 million limit. The underwriter at the head of this division has 26 years of experience in the industry. During 2013, 2012, and 2011, we wrote $3.2 million, $1.6 million, and $2.0 million in premiums in this division, respectively.

The following table shows the Excess and Surplus Lines segment's gross written premiums by state:

	2013		2012		2011	
State	Gross Written Premiums	% of Total	Gross Written Premiums	% of Total	Gross Written Premiums	% of Total
			($ in thousands)			
California	$ 56,241	29.2%	$ 46,888	29.6%	$ 39,454	30.1%
Texas	16,963	8.8%	13,211	8.3%	10,801	8.3%
Florida	14,277	7.4%	9,661	6.1%	9,218	7.0%
New York	14,258	7.4%	11,767	7.4%	6,445	4.9%
Illinois	6,318	3.3%	5,447	3.4%	4,112	3.1%
New Jersey	6,237	3.2%	4,000	2.5%	4,256	3.3%
Arizona	5,731	3.0%	3,565	2.2%	3,154	2.4%
Ohio	5,204	2.7%	2,423	1.5%	1,847	1.4%
Washington	5,007	2.6%	4,779	3.0%	3,012	2.3%
Louisiana	4,403	2.3%	3,678	2.3%	3,553	2.7%
All other states	57,755	30.0%	53,235	33.6%	45,155	34.5%
Total	$ 192,394	100.0%	$ 158,654	100.0%	$ 131,007	100.0%

Marketing and Distribution

The Excess and Surplus Lines segment markets its products through a select group of licensed E&S lines brokers that we believe can produce reasonable volumes of quality business for James River Insurance consistently. These brokers sell policies for us as well as for other insurance companies. At June 30, 2014, the segment had appointed 133 broker groups. The Excess and Surplus Lines segment generally makes broker appointments by broker office and underwriting division. With the exception of its cyber and media liability program, and small hired and non-owned auto program (combined premiums of $1.8 million for the six-months ended June 30, 2014) the Excess and Surplus Lines segment does not grant its brokers any underwriting or claims authority.

Our Excess and Surplus Lines segment selects its brokers based upon management's review of the experience, knowledge and business plan of each broker. While many of our Excess and Surplus Lines segment's brokers have more than one office, we evaluate each office as if it were a separate agency. Often, our Excess and Surplus Lines segment appoints some but not all offices owned by an agency for specialized lines of business. Brokers must be able to demonstrate an ability to competently produce both the quality and quantity of business that we seek. Brokers who are unable to produce consistently profitable business, or who produce unacceptably low volumes of business, may be terminated. Our Excess and Surplus Lines segment's underwriters regularly visit with brokers in their offices in order to discuss the products that we offer and to market to these brokers. We believe the personal relationships we foster with the individual brokers who work for the brokerage offices we appoint, and our ability to respond to a wide variety of risks placed by these brokers makes us an important market for the brokers and brokerage firms which control substantial amounts of excess and surplus lines business.

Our Excess and Surplus Lines segment's three largest brokers produced $82.6 million of gross written premiums for the year ended December 31, 2013, representing approximately 43% of the Excess and Surplus Lines segment's gross written premiums for 2013. The three largest brokers produced $30.7 million, $29.3 million and $22.7 million of gross written premiums for the year ended December 31, 2013, respectively, and each accounted for more than 10% of our gross written premiums in this segment for such year. Our fourth largest broker produced $17.2 million of gross written premiums in 2013.

In 2013, our Excess and Surplus Lines segment paid an average commission to producers of 16.6% of written premiums.

Underwriting

Our Excess and Surplus Lines segment's staff includes over 100 individuals directly employed in underwriting policies. We believe our internal business processing systems allow us to maintain a high ratio of underwriters to total employees. We believe our "paperless" environment allows us to engage fewer employees in policy administration.

We are very selective about the policies we bind. Our Excess and Surplus Lines segment binds approximately 3% of new submissions and one out of every six quotes. We realize all E&S lines applications have already been rejected by the standard market. If our underwriters cannot reasonably expect to bind coverage at the combination of premiums and coverage that meet our standards, they are encouraged to quickly move on to another prospective opportunity. For the year ended December 31, 2013, we received approximately 155,000 submissions, quoted 34,600 policies and bound 11,700 policies.

When we accept risk in our Excess and Surplus Lines segment, we are careful to establish terms that are suited to the risk and the pricing. As an E&S lines writer, we use our freedom of rate and form in order to make it possible to take on risks that have already been rejected by admitted carriers who have determined they cannot insure these risks on approved forms at filed rates.

We attempt to craft policies that offer affordable protection to our insureds by tailoring coverage in ways that make potential losses more predictable and are intended to reduce claims costs. For example, we frequently use a "punitive damages exclusion," "defense inside the limits" endorsement, that are intended to prevent excessive defense costs; "assault and battery" exclusions or sub limits that are less than the full policy limits, that allows us to quantify and limit our losses more precisely than in policies without the exclusion; and "classification limitation" and "specified location" endorsements, that limit coverage to known exposures and locations. We have no material exposure to asbestos, lead paint, silica, mold, or nuclear, biological, or chemical terrorism.

We design our internal processing and data collection systems to provide our management team with accurate and relevant information in real-time. Our data warehouse collects premium, commission and claims data, including detailed information regarding policy price, terms, conditions and the nature of the insured's business. This data allows us to analyze trends in our business, including results by individual agent or broker, underwriter and class of business and expand or contract our operations quickly in response to market conditions. We rely on our information technology systems in this process. Additionally, the claims staff also contributes to our underwriting operations through its communication of claims information to our underwriters.

Claims

Our Excess and Surplus Lines segment's claims department consisted of 25 claims professionals who have an average of 11 years of claims experience in the property-casualty industry as of June 30, 2014.

Our excess and surplus lines business generally results in claims from premises/operations liability, professional liability, first party property losses and products liability. We believe the key to effective claims management is timely and thorough claims investigation. We seek to complete all investigations and adjust reserves appropriately as soon as is practicable after the receipt of a claim. We seek to manage the number of claims per adjuster to allow adjusters sufficient time to investigate and settle claims. Each quarter, senior management reviews each case above a specified amount to ensure that the front-line adjuster has recognized and is addressing the key issues in the case and has adjusted the reserve to the appropriate amount. We keep the settlement authority of front-line adjusters low to ensure the practice of having two or more members of the department participate in the decision as to whether to settle or defend. In addition, cases with unusual damage, liability or policy interpretation issues are subjected to peer reviews on a weekly basis. Members of the underwriting staff participate in this process. Prior to any scheduled mediation or trial involving a claim, claims personnel conduct further peer review to make sure all issues and exposures have been adequately analyzed. We believe that effective management of litigation avoids delays and associated additional costs.

Our claims staff also contributes to our underwriting operations through communication of claims information to our underwriters. The Senior Vice President of Claims heads our forms committee, which reviews and develops all policy forms and exclusions and is also a member of the underwriting review committee.

As of December 31, 2013, approximately 90% of claims were closed within five years and three years in the Excess and Surplus Lines segment and Specialty Admitted Insurance segment, respectively.

Specialty Admitted Insurance Segment

The Falls Lake Group comprises our other U.S. insurance segment, Specialty Admitted Insurance. In 2013, the Specialty Admitted Insurance segment generated 5.6% of the Company's gross written premiums. We anticipate that over time this segment will grow and become a more significant contributor to our profits.

We established this segment in 2004 to underwrite workers' compensation insurance for residential contractors in North Carolina. Initially, we only sought licensure in North Carolina. Later, as our plans for this segment evolved, we sought and obtained additional licensure. The Falls Lake Group Companies are currently licensed to underwrite admitted insurance in 47 states and the District of Columbia.

Following the collapse of the housing market in 2008, and in response to deteriorating results from underwriting workers' compensation for contractors, we reduced our gross written premiums for workers' compensation insurance from $62.2 million in 2008 to $20.6 million in 2013, and brought in new management in 2012 to execute a new business plan for this segment.

We plan to use our broader licensure and management expertise to earn substantial fee income as well as underwriting profits. The Specialty Admitted Insurance segment now has three business lines:

- our traditional workers' compensation business (97.3% of 2013 gross written premiums in this segment and 100% of 2012 and 2011 gross written premiums in this segment);
- program business written through selected managing general agents (2.7% of 2013 gross written premiums in this segment and 0.0% of 2012 and 2011 gross written premiums in this segment); and
- fronting arrangements (launched in the fourth quarter of 2013).

Traditional Workers' Compensation Business

Due to more favorable market conditions currently, we are growing this business line again, extending beyond residential contractors and North Carolina. Contract workers as a class, regardless of industry, represented approximately 43% of the gross written premiums in our workers' compensation book in 2013. Other significant classes include healthcare employees (9%), goods and services (16%), and manufacturing workers (20%). Our individual risk workers' compensation business remains a regionally focused effort. For the year ended December 31, 2013, approximately 82% of our workers' compensation direct written premiums were in North Carolina, 13% were in Virginia and 5% were in South Carolina. We view our workers' compensation business as a core competency, and seek to make consistent underwriting profits from it. We also recognize the cyclical nature of this line, and are prepared to contract the business rapidly when rates decline or the regulatory or economic environment makes it difficult to contain costs. We distribute our workers' compensation product through independent agents.

Program Business

As part of our plan to become less susceptible to admitted market cycles, we have begun to slowly expand into program business. In a program arrangement, we give selected MGAs authority to produce, underwrite and administer policies that meet our underwriting and pricing guidelines. We enter into these arrangements selectively (eight programs were in place as of June 30, 2014, which had combined gross written premiums of $5.0 million during the first six months of 2014) with agents who have significant experience and market presence in specialty risks. The underwriting is subject to regular audit by our staff, and we have electronic access to the underwriting systems of these agents, which facilitates our real-time supervision of their work. Examples of the types of risks we take on in these programs are workers' compensation for loggers and woodworkers, commercial auto coverage for waste haulers and general liability insurance for energy workers in western states. We focus our coverage on casualty risks, although some incidental property insurance is written. We seek to limit our risk generally through reinsurance either on a proportional or excess of loss basis, or both. We generally take up to $1.0 million of loss per occurrence or per risk, net of reinsurance.

Under the terms of these program agreements, we pay lower commissions when underwriting profits are low or lacking and we increase commissions when the business proves particularly profitable. In addition, we typically build in a substantial "spread" between the commission we earn from our reinsurers and the commissions paid to the MGA. This spread enhances our underwriting returns. We distribute our program business through MGAs and program managers.

For initial claims oversight and administration in our program business, we generally outsource frequency layer claims management to third-party administrators for the first $50,000 of a claim, and then assume direct control above this amount.

Fronting Business

Our Specialty Admitted Insurance segment has a small but growing fronting business, also intended to reduce our susceptibility to market cycles (two programs in place as of June 30, 2014, with combined gross written premiums of $4.9 million for the first six months of 2014). Fronting means that we issue insurance policies for another insurance entity or capital pool that may not have the licenses or rating to serve its desired market. The issuance of our policy makes us contractually responsible to the insured in the event they experience a covered loss. When fronting, we expect that all claims will be paid by the party for whom we agreed to front. Typically, for these fronting arrangements, we require a deposit of liquid assets into a collateral trust equal to or greater than the amount of any and all receivables that we have from the entity with whom we have written the fronting arrangement. In many instances, we seek and receive collateral in excess of any and all actuarially estimated receivables from such company to provide protection against unforeseen adverse performance. We charge fees as a percentage of gross written premiums for issuing these policies. Currently, we charge at least 5% of gross written premiums on all of our fronting relationships. We establish fronting opportunities through a variety of sources, including direct carrier relationships, MGAs and reinsurance brokers.

Similar to our program business, for initial claims oversight and administration in our fronting business, we generally outsource frequency layer claims management to the insurance entity or capital pool in the fronting arrangement for the first $50,000, and then assume direct control above this amount.

Our objective over time, is to utilize the combination of fee income and underwriting profits available to our Specialty Admitted Insurance segment to generate returns on tangible equity consistent with results in our Excess and Surplus Lines segment. Additionally, we expect that this fee income will become material in future periods and provide us with a steady revenue stream relatively insulated from the pricing cycles of the admitted insurance market.

The Specialty Admitted Insurance segment relies on an extensive data warehouse to assist it in its business operations. The data warehouse allows it to simultaneously capture risk level detail to manage its business and to identify and capitalize on profitable opportunities.

Casualty Reinsurance Segment

We report our business of writing insurance for insurance companies in our Casualty Reinsurance segment. We participate in the reinsurance business through our Bermuda domiciled reinsurance subsidiary, JRG Re, which is a Class 3B reinsurer. JRG Re provides proportional and working layer insurance to third parties and to our U.S.-based insurance subsidiaries. For purposes of management evaluation, this segment's underwriting results only include premiums ceded by, and losses incurred with respect to business assumed from, unaffiliated companies and does not include premiums and losses ceded under the internal quota share arrangement described below. Business flows to JRG Re from the following two sources:

- We provide proportional and working layer reinsurance to unaffiliated U.S.-based insurance companies. We underwrote $155.5 million in gross written premiums for the year ended December 31, 2013. Our largest treaty, which had gross written premiums of $30.4 million in 2013, writes E&S lines coverage for small and medium-sized businesses. 31% of the third-party premiums written by JRG Re are for non-standard auto carriers, 24% are related to general liability coverage (much of this business is E&S premium), 14% is commercial auto coverage, 25% is workers' compensation insurance and the rest is excess casualty or non-medical professional liability. We typically structure this business as quota share arrangements with loss and risk mitigating features that align our interest with that of the ceding companies. At June 30, 2014, 96% of our third-party treaties are written as "proportional" arrangements. We purchase very little retrocessional coverage in this segment.

- We also have a direct intercompany reinsurance agreement under the terms of which 70% of the pooled net written premiums of our U.S. subsidiaries (after taking into account third-party reinsurance) are ceded to JRG Re in Bermuda. In 2013, our U.S. subsidiaries ceded $123.6 million in premiums to JRG Re. This business is ceded to JRG Re under a proportional, or quota-share, reinsurance treaty that has an arm's length ceding commission. We do not pay corporate income tax on earnings (including investment income) in Bermuda. We do, however, pay a 1% Federal excise tax on premiums ceded to JRG Re.

Almost all of the segment's premiums are for casualty coverages. The Casualty Reinsurance segment writes very little property business and virtually no reinsurance designed to respond to catastrophic events of any kind. For example, we had a $203,000 loss in our Casualty Reinsurance segment from Superstorm Sandy, which occurred in 2012, entirely from one treaty where we reinsured property exposures on motorcycles. During the six months ended June 30, 2014, our Casualty Reinsurance segment earned an underwriting profit of $407,000 when analyzed as a stand-alone entity, without the benefit of the premiums ceded from our Excess and Surplus Lines segment and Specialty Admitted Insurance segment.

The Casualty Reinsurance segment conducted business with four brokers that generated $140.2 million of gross written premiums for the Casualty Reinsurance segment in the year ended December 31, 2013, representing 90.2% of the gross written premiums of the Casualty Reinsurance segment for such year. The four largest brokers produced $65.4 million, $36.4 million, $20.3 million and $18.1 million of gross written premiums for the year ended December 31, 2013, respectively, and each accounted for more than 10% of our gross written premiums for such year. No other broker generated 10% or more of the gross written premiums of the Casualty Reinsurance segment during 2013.

Aon Benfield, Inc. is the broker that produced $65.4 million of our gross written premiums in 2013 in the Casualty Reinsurance segment. These premiums represented 17.8% of our group-wide gross written premiums in 2013.

Underwriting profits and investment income earned by our Bermuda reinsurance company are exempt from U.S. taxation. One effect of the quota share arrangement between our domestic companies and JRG Re is that an increasing percentage of our assets are located in Bermuda. At June 30, 2014, approximately 64% of our total cash and invested assets were located in Bermuda.

Corporate and Other Segment

Our Chairman and Chief Executive Officer, President and Chief Operating Officer and Chief Financial Officer and other holding company employees are part of the Corporate and Other segment. This is where we set and direct strategy for the group as a whole as well as high level objectives for each of the three operating segments. We also make all capital management, capital allocation, treasury functions, information technology and group wide risk management decisions in the corporate segment. Our decisions at this level also includes reinsurance purchasing.

Purchase of Reinsurance

We routinely purchase reinsurance for our Excess and Surplus Lines and Specialty Admitted Insurance segments and, less frequently purchase retrocessional coverage for our Casualty Reinsurance segment to reduce volatility by limiting our exposure to large losses and to provide capacity for growth. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. In a retrocession transaction, a reinsurer transfers, or cedes, all or part of its exposure in return for a portion of the premium. Our companies remain legally responsible for the entire obligation to policyholders and ceding companies, irrespective of any reinsurance or retrocession coverage we may purchase. Typically, we pay claims from our own funds and then seek reimbursement from the reinsurer or retrocessionaire, as applicable. There is credit exposure with respect to losses ceded to the extent that any reinsurer or retrocessionaire is unable or unwilling to meet the obligations ceded by us under reinsurance or retrocessional treaties. The ability to collect on reinsurance or retrocessional reinsurance is subject to many factors, including the solvency of the counterparty and their interpretation of contract language and other factors. We currently have no disputes with any reinsurer or retrocessionaire and we are not aware of any credit problems with any of the group's reinsurers or retrocessionaires.

Purchased Property Reinsurance

Our focus on return on tangible equity leads us to avoid lines of business that are exposed to high degrees of volatility. The Excess and Surplus Lines segment does write a limited book of excess property risks (approximately $11.0 million direct written premiums in 2013). The risks assumed in this book are geographically dispersed and significantly reinsured to limit losses. The Excess and Surplus Lines segment retains up to $5.0 million per risk on our excess property book; however, the average retained amount per risk is $4.0 million. In our Specialty Admitted Insurance segment, we focus on casualty business but we do write a limited amount of property insurance, principally through our programs and fronting business. In our Casualty Reinsurance segment the assumption of property risks is also minimal.

In our Excess and Surplus Lines segment, we have purchased catastrophe reinsurance of $40.0 million in excess of a $5.0 million retention that is intended to cover the 1,000 year modeled PML on the segment's excess property book. Where the Specialty Admitted Insurance segment incurs incidental property risks in its program book of business, the segment is covered for $4.0 million in excess of $1.0 million per occurrence. This is also intended to cover the 1,000 year modeled PML on any property exposures the Specialty Admitted Insurance segment assumes. In our Casualty Reinsurance segment, we believe that our maximum loss from a catastrophic event is approximately $1.0 million, and we do not currently purchase retrocessional reinsurance coverage for property-catastrophe risks. In aggregate, therefore, we believe our pre-tax group-wide PML from a 1,000 year catastrophic event is approximately $10.0 million on a group-wide basis, inclusive of reinstatement premiums payable. We had no losses in our Excess and Surplus Lines and Specialty Admitted Insurance segments from Superstorm Sandy, which occurred in 2012, and a $203,000 loss in our Casualty Reinsurance segment.

Purchased Casualty Reinsurance

In our Excess and Surplus Lines segment, in four of our divisions we only write $1.0 million per occurrence limits (Manufacturers & Contractors, General Casualty, Small Business and Sports and Entertainment), and we do not purchase any reinsurance for these policies. In our other divisions, where we issue policies with larger limits, we purchase reinsurance in excess of $1.0 million per occurrence.

In our Specialty Admitted Insurance segment, we retain the first $675,000 per occurrence in losses on workers' compensation policies and are reinsured above that level to $20.0 million per occurrence, with a maximum reinsured recovery of $10.0 million for any one life. On other lines of business in our program and fronting business, we purchase proportional reinsurance and excess of loss reinsurance to limit our exposure to no more than $1.0 million per occurrence.

For both our Excess and Surplus Lines segment and our Specialty Admitted Insurance segment, we purchase a clash and contingency policy that covers us for $6.0 million in excess of $2.5 million which would cover us, for example, in a situation where we had multiple insureds who had losses from the same event.

In our Casualty Reinsurance segment, we currently do not purchase any material retrocessional reinsurance. In prior periods, we have purchased proportional retrocessional coverage for particular situations related to specific treaties, but have only done so on a limited basis.

For 2013, our top ten reinsurers represented 87.4% of our total ceded reinsurance recoverables, and all of these reinsurance recoverables were from reinsurers with an A.M. Best rating of "A-" (Excellent) or better or are collateralized with letters of credit or by a trust agreement. The following table sets forth, for 2013, our ten most significant reinsurers by amount of reinsurance recoverables and the amount of reinsurance recoverables pertaining to each such reinsurer as well as its A.M. Best rating as of December 31, 2013:

Reinsurer	Reinsurance Recoverable as of December 31, 2013	A.M. Best Rating December 31, 2013
	(in thousands)	
Berkley Insurance Company	$ 33,172	A+
Swiss Reinsurance America Corporation	23,150	A+
Cherokee Reinsurance SPC No. 6[1]	11,114	Unrated
QBE Reinsurance Corporation	7,382	A
Appalachian Reinsurance (Bermuda) Ltd.[1]	6,407	Unrated
Cherokee Reinsurance SPC No. 7[1]	6,305	Unrated
Aspen Insurance UK Ltd.	5,737	A
Lloyd's Syndicate Number 4472	4,381	A
Munich Reinsurance America	3,610	A+
Safety National Casualty	3,104	A+
Top 10 Total	104,362	
Other	15,105	
Total	$ 119,467	

[1] Because these reinsurers are unrated, we are collateralized by each reinsurer for the recoverable amounts.

Reserve Policy

Over time, many insurance companies have underestimated the cost of future losses associated with insurance policies issued. We seek to establish reserves that will adequately meet our obligations. We have six actuaries on staff, and we engage independent actuarial consultants to review our decisions regarding reserves twice a year.

When setting our reserves, we use a blend of actuarial techniques that are chosen to reflect the nature of the lines of insurance we underwrite. We seek to be consistent and transparent in establishing our reserves.

In many cases, several years may elapse between the occurrence of an insured loss, the reporting of the loss and our eventual payment of the loss. We establish loss and loss adjustment expense reserves for the ultimate payment of all losses and loss adjustment expenses incurred. We estimate the reserve for losses and loss adjustment expenses using individual case-basis valuations of reported claims. We also use statistical analyses to estimate the cost of losses that have been incurred but not reported to us. These estimates are based on historical information and on estimates of future trends that may affect the frequency of claims and changes in the average cost of claims that may arise in the future. We also consider various factors such as:

- Loss emergence and insured reporting patterns;
- Underlying policy terms and conditions;
- Business and exposure mix;
- Trends in claim frequency and severity;
- Changes in operations;
- Emerging economic and social trends;
- Inflation;
- Changes in the regulatory and litigation environments; and
- Discussions with third-party actuarial consultants.

The procedures we use to estimate loss reserves assume that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. It also assumes that adequate historical or other data exists upon which to make these judgments. These estimates are by their nature subjective and imprecise, and ultimate losses and loss adjustment expenses may vary from established reserves.

Our Reserve Committee consists of our Chief Actuary, our President and Chief Operating Officer, our Chief Financial Officer, our Chief Accounting Officer and the presidents and chief actuaries of each of our three insurance segments. The Reserve Committee meets quarterly to review the actuarial recommendations made by each Chief Actuary and to decide on amounts to be recorded for the reserve for losses and loss adjustment expenses on our quarterly balance sheet.

The following table reflects our reserve development by segment during the six-months ended June 30, 2014 and the calendar years 2013 to 2008 individually and in the aggregate.

Segment	Excess and Surplus Lines	Specialty Admitted Insurance	Casualty Reinsurance[1]	Grand Total
		(in thousands)		
Calendar Year (except 2014)				
2014 (six months ended June 30, 2014 only)	$ 6,289	$ 1,077	$ (3,616)	$ 3,750
2013	40,734[2]	1,410	(4,692)	37,452
2012	20,122[3]	(4,898)	(16,617)[4]	(1,393)
2011	21,034	1,712	(2,835)	19,911
2010	10,922	(381)	(857)	9,684
2009	3,193	1,591	(1,067)	3,717
2008	6,496	1,875	—	8,371
Cumulative Development	**$ 108,790**	**$ 2,386**	**$ (29,684)**	**$ 81,492**

[1] Casualty Reinsurance segment includes the underwriting results of our assumed crop reinsurance business which was terminated effective December 31, 2012.

(2) Includes $11.7 million of favorable development on casualty lines from the 2009 accident year, $7.5 million of favorable development from the 2007 accident year and $5.7 million of favorable development from the 2008 accident year.

(3) Includes $7.7 million of favorable development on casualty lines from the 2009 accident year, $4.0 million of favorable development from the 2007 accident year and $3.8 million of favorable development from the 2007 accident year.

(4) $9.0 million of adverse development on assumed crop business almost entirely from the 2011 accident year and $7.6 million of adverse development on other assumed business.

Among the indicators of reserve strength that we monitor closely are the number of claims outstanding from a given year and the amount of incurred but not reported ("IBNR") held on our balance sheet for claims that have been incurred but not yet reported to us. As a general rule, every known claim has a specific case reserve established against it which management believes is adequate to resolve the claim and pay attendant expenses. Another indicator of reserve strength that we monitor closely is the percentage of our gross and net loss reserves that are comprised of IBNR reserves.

The table below sets forth the percentage of claims closed by policy year for our Excess and Surplus Lines and Specialty Admitted Insurance segments.

	Percentage of Claims Closed at December 31, 2013	
Policy Year	Excess and Surplus Lines Segment	Specialty Admitted Insurance Segment
2004	95.7%	99.2%
2005	96.3%	99.8%
2006	93.0%	99.4%
2007	94.9%	99.6%
2008	89.7%	97.8%
2009	85.7%	97.0%
2010	74.0%	93.4%
2011	56.7%	87.2%
2012	35.0%	65.7%

The table below sets forth our IBNR, total gross reserves and the percentage that IBNR represents of the total gross reserves, in each case by segment and in the aggregate, at June 30, 2014. The percentage that IBNR represents of total gross reserves at June 30, 2014 is 72.2%, up from 70.9% at December 31, 2013.

	Gross Reserves at June 30, 2014		
	IBNR	Total	IBNR % of Total
		(in thousands)	
Excess and Surplus Lines	$ 335,743	$ 408,126	82.3%
Specialty Admitted Insurance	28,193	54,854	51.4%
Casualty Reinsurance	129,413	220,593	58.7%
Total	$ 493,349	$ 683,573	72.2%

The table below sets forth our IBNR, total net reserves and the percentage that IBNR represents of the total net reserves, in each case by segment and in the aggregate, at June 30, 2014. The percentage that IBNR represents of total net reserves at June 30, 2014 is 69.9%, up from 68.2% at December 31, 2013.

	Net Reserves at June 30, 2014		
	IBNR	Total	IBNR % of Total
	($ in thousands)		
Excess and Surplus Lines	$ 257,570	$ 322,917	79.8%
Specialty Admitted Insurance	21,882	46,558	47.0%
Casualty Reinsurance	113,116	192,464	58.8%
Total	$ 392,568	$ 561,939	69.9%

Reserve Development

We maintain reserves for specific claims incurred and reported, reserves for claims incurred but not reported and reserves for uncollectible reinsurance when appropriate. Our ultimate liability may be greater or less than current reserves. In the insurance industry, there is always the risk that reserves may prove inadequate. We continually monitor reserves using new information on reported claims and a variety of statistical techniques. Anticipated inflation is reflected implicitly in the reserving process through analysis of cost trends and the review of historical development. We do not discount our reserves for losses and loss adjustment expenses to reflect estimated present value.

The following table presents the development of balance sheet property-casualty loss reserves calculated in accordance with GAAP, as of December 31 in each of the years 2007 through 2013. This table does not present accident or policy year development data. The top line of the table shows the gross reserves as of December 31 for each of the indicated years and is reconciled to the net reserve by adjusting for reinsurance recoverables. This represents the estimated amount of net loss and loss adjustment expense arising in the current year and all prior years that are unpaid at the balance sheet date, including IBNR reserves. The table also shows the re-estimated amount of the previously recorded reserves as adjusted for new information received as of the end of each succeeding year.

The estimates change as more information becomes known about the frequency and severity of claims for individual years. The “net cumulative redundancy” represents the aggregate change to date from the original estimate on the third line of the table, “reserves for property-casualty losses, originally stated, net of reinsurance.” The “gross cumulative redundancy” represents the aggregate change to date from the original estimate on the top line of the table, “gross reserves for property-casualty losses.” The table also shows the cumulative net paid amounts as of successive years with respect to the net reserve liability. For example, the liability for losses and loss adjustment expenses net of reinsurance at the end of 2008 for 2008 and all prior years was originally estimated to be $354.1 million. Five years later, as of December 31, 2013, this amount was re-estimated to be $290.7 million, of which $242.5 million had been paid, leaving a reserve of $48.2 million for losses and loss adjustment expenses for 2008 and prior years remaining unpaid as of December 31, 2013.

	2007	2008	2009	2010	2011	2012	2013
				(in thousands)			
Gross reserves for property-casualty losses	$ 394,209	$ 434,588	$ 477,519	$ 511,386	$ 565,955	$ 709,721	$ 646,452
Reinsurance recoverable	98,190	80,534	80,894	89,793	89,194	175,812	119,467
Reserves for property-casualty losses originally stated, net of reinsurance	296,019	354,054	396,625	421,593	476,761	533,909	526,985
Cumulative net paid losses,							
1 year later	68,055	90,360	93,118	115,667	177,325	171,925	
2 years later	126,998	151,646	174,540	205,251	290,710		
3 years later	160,548	196,005	226,637	255,301			
4 years later	183,317	226,552	259,706				
5 years later	198,569	242,538					
6 years later	206,372						
Net reserves re-estimated as of							
1 year later	287,649	350,337	386,940	401,682	478,155	496,457	
2 years later	285,316	340,284	356,758	387,183	440,108		
3 years later	277,918	319,067	341,377	351,427			
4 years later	260,935	308,755	311,756				
5 years later	253,269	290,705					
6 years later	240,698						
Net cumulative redundancy	55,321	63,349	84,869	70,166	36,653	37,452	
Net reserves for losses and loss adjustment expenses re-estimated	240,698	290,705	311,756	351,427	440,108	496,457	
Reinsurance recoverable re-estimated	80,106	60,532	48,203	48,119	69,278	155,838	
Gross reserves for losses and loss adjustment expenses re-estimated	320,804	351,237	359,959	399,546	509,386	652,295	
Gross cumulative redundancy	$ 73,405	$ 83,351	$ 117,560	$ 111,840	$ 56,569	$ 57,426	

Net cumulative redundancy represents the change in the estimate from the original balance sheet date to the date of the current estimate. For example, the liability for losses and loss adjustment expenses developed a $63.3 million redundancy from December 31, 2008 to December 31, 2013. Conditions and trends that have affected the development of loss reserves in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on the table. Gross cumulative redundancy is presented before deductions for reinsurance. Gross deficiencies and redundancies may be significantly more or less than net deficiencies and redundancies due to the nature and extent of applicable reinsurance.

See Note 6 to the Notes to the Audited Consolidated Financial Statements and the discussion under “Critical Accounting Estimates” for a discussion of estimates and assumptions related to the reserves for losses and loss adjustment expenses.

Investment Strategy

One benefit of reinsuring a portion of our business to a Bermuda affiliate is that we have been able to build, and expect to continue building, a substantial asset base in a domicile where corporate earnings, including investment returns, are not taxed. At June 30, 2014, approximately 64% of our cash and invested assets were held by JRG Re in Bermuda with the remainder held by our U.S. subsidiaries. In 2013, our group’s total effective tax rate was 12.6%.

The prolonged low interest rate environment has made it more difficult for insurance companies to earn attractive returns on capital because of reduced investment income. Writing casualty insurance (which generally has a longer holding period for reserves than property insurance), has allowed us to build our asset base so that cash and invested assets now represent 2.5 times our tangible equity.

We attempt to generate better than market average risk-adjusted returns in our investment portfolio by taking measured risks based upon detailed knowledge of certain niche asset classes. We are not a hedge fund that seeks primarily to generate profits by investing the float from an affiliated insurance or reinsurance company. We are an insurance company that seeks to make "both sides" of the balance sheet work to generate better than market average risk-adjusted returns. While we are willing to make investments in non-traditional types of investments, we avoid risks that we do not understand well, as well as structures or situations we think could cause substantial loss of capital.

The majority of our investment portfolio is invested in what we refer to as our Core Portfolio of investment grade fixed income securities. This portfolio provides predictable income with low risk of principal loss. We seek to augment the return on the Core Portfolio by investing in bank loans, higher yielding securities and private investments. We designed these strategies to improve our investment return and are focused on opportunistic investing in areas where we believe our management, directors or employees have expertise or understanding of the risk and return of the investment.

Our strategy is designed to earn higher returns than an investment grade fixed income strategy while maintaining a high overall credit rating and investing in asset classes and allocations that are consistent with the insurance regulatory and rating agency framework within which we operate. We generally focus on securities that provide some current income.

A summary of our investment portfolio at June 30, 2014 is as follows:

	June 30, 2014				
Portfolio	Book Value	Market Value	Carrying Value	Book Yield	% of Carrying Value
			($ in millions)		
Core	$ 788.4	$ 803.3	$ 803.3	2.15%	64.1%
Bank Loans	255.6	256.7	254.4	5.61%	20.3%
Incremental Yield	144.9	154.5	154.5	6.37%	12.3%
Private Investments			41.0	NA	3.3%
Total			$ 1,253.2		100.0%
Less cash and cash equivalents in Core and Bank Loans			$ (36.1)		
Total Invested Assets			$ 1,217.1		

We have generally managed our overall portfolio to a duration of 3 to 5 years. At June 30, 2014, the average duration of our investment portfolio, excluding bank loans, was 3.9 years. The duration for bank loans is 0.3 years, resulting in an approximate duration for the entire portfolio of three years.

Core Portfolio

The Core Portfolio consists of cash and investment grade fixed income securities. Our objective in the Core Portfolio is to earn attractive risk-adjusted returns with a low risk of loss of principal. We use a third-party manager(s) to manage the Core Portfolio.

Bank Loans

The Bank Loan portfolio primarily consists of investments in participations in syndicated bank loans, but may also include a small allocation of bonds. Bank loans in our portfolio are generally senior secured loans with an average credit quality of B+ and floating interest rates based on spreads over LIBOR. We believe bank loans are an attractive asset class because (1) floating-rate loans help to reduce our risk of loss in the event of rising interest rates, (2) the loans are generally senior secured, (3) the asset class has a history of relatively high recovery rates in the event of default, (4) the portfolio provides an attractive yield and

(5) the maturities of the loans are relatively short (average of less than 5 years). We invest in this asset class by owning individual loan participations that are carried at amortized cost less any loan loss allowance. We have over five years of experience in investing in this asset class through a third-party manager.

Incremental Yield Portfolio

The Incremental Yield Portfolio consists of investments in low investment grade and below investment grade bonds, preferred stocks, dividend paying common equities and publicly-traded partnerships. The average credit quality of the fixed income securities in this portfolio as of June 30, 2014 is BBB-. We generally invest in fixed income securities where we believe that risk of default is low relative to the potential yield on the securities. Historically, we made significant purchases of below investment grade securities that were trading at a discount to par. More recently as such opportunities are limited, we have been opportunistically investing in high yield securities where we believe we have expertise or an understanding of the risk. We own preferred stocks, generally in the financial services industry. In some instances, we will purchase common equity securities and master limited partnerships. However, these purchases are generally used as an effective means to get access to some high yielding asset class. As of June 30, 2014, only $11.9 million of the incremental yield portfolio is invested in common equities and master limited partnerships. The Incremental Yield Portfolio was initiated in 2010.

Private Investment Portfolio

We make selective investments in private debt or equity securities in areas where we see significant opportunity or attractive risk and return characteristics. We focus on investments where we believe we have an understanding of the risk and opportunity and have the ability to monitor them closely. At June 30, 2014, we held eight private investments with a carrying value of $41.0 million. During the six months ended June 30, 2014, we have realized final returns on two private investments resulting in pre-tax internal rates of return of 13.1% and 34.2% over the life of these investments. Our portfolio consists of investments in wind and solar energy, banking, real estate, small cap equities and a fund focused on below investment grade securities. Since initiating our private investment strategy, we have realized final returns on four investments with a pre-tax internal rate of return of 50.5%. We are opportunistic in our private investment strategy and our portfolio may grow or shrink based on the opportunities available to us. Despite being only 3.3% of our portfolio, we believe our Private Investment Portfolio has added meaningful returns to our tangible equity. Our Private Investment strategy does have significant risk and not all investments are successful and as a result we intentionally keep this portfolio as a small portion of the overall investment portfolio.

Our recent total returns on our portfolio are as follows:

	2011	2012	2013	6 Mos. Period ended June 30, 2014	Trailing 3 Years ended June 30, 2014
Core	7.15%	4.06%	-1.30%	1.88%	2.78%
Bank Loans	3.23%	15.30%	8.95%	3.53%	8.70%
Incremental	12.18%	15.16%	1.41%	6.86%	9.05%
Subtotal	6.79%	7.44%	1.00%	2.91%	4.78%

Total returns are calculated as the realized or unrealized gain or loss of an asset plus interest and dividends paid while the asset is held.

We consider a portion of our investment portfolio to be invested in non-traditional investments. We consider non-traditional investments to include investments that are (1) not rated bond or fixed income securities (2) non-listed equities or (3) investments that generally have less liquidity than rated bond or fixed income securities or listed equities. We characterize these investments as non-traditional because we do not believe that these types of investments are commonly held by property-casualty insurance companies. Examples of non-traditional investments held at June 30, 2014 and their respective percentage of our total invested assets at such date include syndicated bank loans (18.4%), interests in limited liability companies that invest in renewable energy opportunities (1.9%), limited partnerships that invest in debt or equity securities (0.4%), and a private debt security (0.4%). At June 30, 2014, 22.9% of the portfolio was invested in assets that we consider non-traditional. We will continue to actively review opportunities to invest in non-traditional assets and may invest in additional non-traditional assets in the future.

Our invested assets totaled $1,217.1 million as of June 30, 2014. The weighted average credit rating of our portfolio of fixed maturity securities, bank loans and redeemable preferred stocks as of June 30, 2014 was “A”. We have intentionally maintained a cautious interest rate position by having an average duration of approximately 3.0 years at June 30, 2014. This duration represents a reduction from our duration in recent years and is designed to reduce or risk of decreases in book value resulting from increases in interest rates. Based on the current duration of 3.0 years, a 1.0% increase in interest rates would result in a pretax decline in the market value of our portfolio of approximately $36.4 million.

Insurance Cycle Management and Growth

As discussed under “Insurance and Reinsurance Industry Overview,” the insurance and reinsurance business is cyclical in nature, with “hard” and “soft” cycles. Hard markets occur when insurance underwriters limit their exposure in a line of business or across their entire portfolio. When underwriters exercise restraint, insurance buyers are forced to pay more to induce underwriters to cover their risks. A hard market can also be created by economic expansions when capital committed to backing insurance policies does not grow as fast as demand for insurance. There is generally a correlation between interest rates and the willingness of insurance companies to commit their capital to writing insurance. When fixed income yields are low, insurance companies need to raise insurance prices to improve underwriting results in order to offset loss of investment income.

We are currently in a growth phase for our business overall, particularly for our U.S. primary operations. In both our Excess and Surplus Lines and Specialty Admitted Insurance segments, we are experiencing growth in premiums driven by rate increases as well as increases in policy count and exposures. The table below shows the increases in gross written premiums we have achieved in our Excess and Surplus Lines and Specialty Admitted Insurance segments from 2010 through 2013.

	2013		2012		2011		2010	
Gross Written Premiums	**$**	**% Change**	**$**	**% Change**	**$**	**% Change**	**$**	**Cumulative Change for Period**
				($ in thousands)				
Excess and Surplus Lines	$ 192,394	21.3%	$ 158,654	21.1%	$ 131,007	12.8%	$ 116,109	65.7%
Specialty Admitted Insurance	20,594	(43.9)%	36,709	(5.0)%	44,914	27.8%	35,144	(41.4)%
Casualty Reinsurance	155,530	(47.6)%	296,568	(5.8)%	314,900	225.7%	96,695	60.8%
Grand Total	$ 368,518	(25.1)%	$ 491,931	1.5%	$ 490,821	98.0%	$ 247,948	48.6%

In years prior to those presented, the business written at our U.S. primary operations has, at times, been subject to “soft” market conditions, reflected both in price decreases as well as reduced underlying exposures. The recession in the United States from 2008 – 2010 was a significant driver of these soft market conditions.

As discussed in, “Insurance and Reinsurance Industry Overview,” our Excess and Surplus Lines segment is the most sensitive to hard and soft markets. We have, therefore, sought to diversify this business by geography, line of business and also revenue stream. From 2006 to 2010, we reduced the gross written premiums in this business from $249.1 million to $116.1 million, or 53.4%. While we have been growing this business, and achieving rate increases for several periods through June 30, 2014, there will likely be periods in the future where our growth moderates, stagnates or turns negative.

We believe, however, that our Excess and Surplus Lines segment will be able to make an underwriting profit regardless of the state of the underwriting cycle. This belief has been borne out by our historical results in this segment which has had a weighted average combined ratio of 84.5% for the period from January 1, 2008 through June 30, 2014.

Traditionally, admitted insurance lines have been very susceptible to market cycles. We believe this trend is continuing. We seek to isolate ourselves from these trends in our Specialty Admitted Insurance segment by writing lines of business we believe are slightly less competitive, by prudently purchasing reinsurance and by being willing to dramatically reduce our writings when market conditions warrant.

A material portion of the profitability we seek to achieve from our program and fronting business will come from fee income that is generated via policies that are issued by our insurance companies and then mostly or wholly reinsured to third parties. Because we earn substantial fees from underwriting business on which we retain little or no insurance risk, this business can be profitable to us even in soft market conditions. We generally seek a fronting fee of 5% or more of gross written premiums on this business. Although we have written only $9.9 million of gross written premiums for fronting and program business for the first six months of 2014 ($2.7 million on a net basis), we expect that this fee income will become material in future periods and provide us with a steady revenue stream that will be relatively insulated from conditions in the admitted insurance market.

In the Casualty Reinsurance segment, we have the ability to manage the cycle by growing or shrinking our business according to market conditions and the corresponding prices and terms being offered for the assumption of specific risks. We have a small team of six people in Bermuda who underwrite and administer the business written by JRG Re in Bermuda. Accordingly, our overhead is low and does not necessitate us growing this business from its current size, and in fact it could shrink if necessary.

Competition

We compete in a variety of markets against a variety of competitors depending on the nature of the risk and coverage being underwritten. The competition for any one account may range from large international firms to smaller regional companies in the domiciles in which we operate. To remain competitive, our strategy includes, among other measures: (1) focusing on rate adequacy and underwriting discipline, (2) leveraging our distribution network, (3) controlling expenses, (4) maintaining financial strength and issuer credit ratings and (5) providing quality services to agents and policyholders.

Excess and Surplus Lines

Competition within the E&S lines marketplace comes from a wide range of carriers. In addition to mature E&S companies that operate nationwide, there is competition from carriers formed in recent years. The Excess and Surplus Lines segment may also compete with national and regional carriers from the standard market willing to underwrite selected accounts on an admitted basis. Competitors to this segment include Scottsdale Insurance Company (Nationwide Mutual Group), Markel Corporation, Burlington Insurance Group, Liberty Surplus Insurance Corporation, AXIS Capital Holdings Limited, Arch Capital Group Ltd., Admiral Insurance Co. (W. R. Berkley Corporation), Lexington Insurance Company (American International Group, Inc.), Western World Insurance Group, Inc., Mt. Hawley Insurance Company (RLI Corporation), Colony Specialty Insurance Company (Argo Group International Holdings, Ltd.) and Houston Casualty Company (HCC Insurance Holdings, Inc.).

Specialty Admitted Insurance

Due to the diverse nature of the products offered by the Specialty Admitted Insurance segment, competition comes from various sources. The majority of the competition comes from regional companies or regional subsidiaries of national carriers in the domiciles in which they operate. National carriers tend to compete for larger accounts along all product lines. Competitors to this segment include Builders Mutual Insurance Company, Key Risk Insurance Company (W. R. Berkley Corporation), American Interstate Insurance Company (AMERISAFE, Inc.) and FFVA Mutual Insurance Co.

Casualty Reinsurance

The reinsurance industry is highly competitive. We expect to compete with major reinsurers, most of which are well-established, have a significant operating history and strong financial strength ratings and have developed long-standing client relationships. Competitors to this segment include Maiden Holdings, Ltd., Hamilton Re, Ltd., PartnerRe Ltd. and Third Point Reinsurance Ltd.

Geographic Information

For each of the three years ended December 31, 2013, 2012 and 2011 and the six months ended June 30, 2014, 100% of the gross written premiums and net earned premiums were generated from policies issued to U.S.-based insureds.

Properties

We lease office space in Bermuda, where our principal executive office is located and our casualty reinsurance segment is based. We also lease offices in (1) Raleigh, North Carolina, where our U.S. holding company, James River Group is based, and we conduct business in our Specialty Admitted Insurance segment and (2) Richmond, Virginia, Scottsdale, Arizona and Atlanta, Georgia for the conduct of business in our Excess and Surplus Lines segment. We believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed.

Employees

As of June 30, 2014, we had approximately 272 employees located in the United States and 8 employees located in Bermuda. All of our employees are full time. Our employees are not subject to any collective bargaining agreement and we are not aware of any current efforts to implement such an agreement. We believe we have good working relations with our employees.

Intellectual Property

We hold U.S. federal service mark registration of our corporate logo and several other company trademark registrations or applications for registration with the U.S. Patent and Trademark Office. Such registrations protect our intellectual property from confusingly similar use. We monitor our trademarks and service marks and protect them from unauthorized use as necessary.

We use licensed and proprietary systems and technologies in our underwriting. The licenses have terms that expire at various times from 2014 to 2028. We believe that we can utilize other available systems and technologies in the event that the licenses are not renewed upon their expiration.

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.

CERTAIN REGULATORY CONSIDERATIONS

Bermuda Insurance Regulation

The Insurance Act provides that no person shall carry on insurance business in or from within Bermuda unless registered as an insurer under the Insurance Act by the BMA. The BMA, in deciding whether to grant registration, has broad discretion to act as it thinks fit in the public interest. The BMA is required by the Insurance Act to determine whether the applicant is a fit and proper body to be engaged in the insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise. The registration of an applicant as an insurer is subject to its complying with the terms of its registration and such other conditions as the BMA may impose at any time.

The Insurance Act also grants to the BMA powers to supervise, investigate and intervene in the affairs of insurance companies.

The Insurance Act imposes on Bermuda insurance companies' solvency and liquidity standards, as well as auditing and reporting requirements. Certain significant aspects of the Bermuda insurance regulatory framework applicable to Class 3B insurers are set forth below.

Classification of Insurers

The Insurance Act distinguishes between insurers carrying on long-term business, insurers carrying on general business and insurers carrying on special purpose business. There are six classifications of insurers carrying on general business, ranging from Class 1 insurers (pure captives) to Class 4 insurers (very large commercial underwriters). JRG Re is licensed as a Class 3B insurer.

Classification as a Class 3B insurer

A body corporate is registrable as a Class 3B insurer where (1) 50% or more of its net premiums written or (2) 50% or more of its net loss and loss expense provisions, represent unrelated business and its total net premiums written from unrelated business are $50.0 million or more.

Minimum Paid-Up Share Capital

The minimum amount of fully paid up share capital for a Class 3B insurer is $120,000.

Principal Representative and Principal Office

An insurer is required to maintain a principal office and to appoint and maintain a principal representative in Bermuda. For the purposes of the Insurance Act, the principal office of JRG Re is located at 32 Victoria Street, Hamilton Bermuda HM 12. JRG Re's principal representative is Kevin B. Copeland. Without a reason acceptable to the BMA, an insurer may not terminate the appointment of its principal representative, and the principal representative may not cease to act as such, unless 30 days' notice in writing to the BMA is given of the intention to do so. It is the duty of the principal representative to forthwith notify the BMA where the principal representative believes there is a likelihood of the insurer (for which the principal representative acts) becoming insolvent or that a reportable "event" has, to the principal representative's knowledge, occurred or is believed to have occurred. Examples of a reportable "event" include a failure by the insurer to comply substantially with a condition imposed upon it by the BMA relating to a solvency margin or a liquidity or other ratio, a significant loss reasonably likely to cause the insurer to fail to comply with its enhanced capital requirement (discussed below) and the occurrence of a material change (as such term is defined under the Insurance Act) in its business operations. Within 14 days of such notification to the BMA, the principal representative must furnish the BMA with a written report setting out all the particulars of the case that are available to the principal representative. Where there has been a significant loss which is reasonably likely to cause the insurer to fail to comply with its enhanced capital requirement, the principal representative must also furnish the BMA with a capital and solvency return reflecting an enhanced capital requirement prepared using post-loss data. The principal representative must provide this within 45 days of notifying the BMA regarding the loss. Furthermore, where a notification has been made to the BMA regarding a material change, the principal representative has 30 days from the date of such notification to furnish the BMA with unaudited interim statutory financial statements in relation to such period as the BMA may require, together with a general business solvency certificate in respect of those statements.

Loss Reserve Specialist

A Class 3B insurer must appoint an individual approved by the BMA to be its loss reserve specialist. In order to qualify as an approved loss reserve specialist, the applicant must be an individual and possess adequate professional qualifications as a casualty actuary and/or possess adequate experience to assess the sufficiency of insurance reserves of the insurer. The Class 3B insurer is required to submit annually an opinion of its approved loss reserve specialist with its statutory financial return in respect of its loss and loss expense provisions.

Annual Financial Statements

A Class 3B insurer must prepare and submit, on an annual basis, both audited GAAP and statutory financial statements. The Insurance Act prescribes rules for the preparation and substance of statutory financial statements (which include, in statutory form, a balance sheet, income statement, a statement of capital and surplus and notes thereto). The statutory financial statements include detailed information and analysis regarding premiums, claims, reinsurance and investments of the insurer. In addition, a Class 3B insurer is also required to prepare and submit to the BMA financial statements which have been prepared under generally accepted accounting principles or international financial reporting standards ("GAAP financial statements"). The Company's annual GAAP and statutory financial statements are required to be filed with the BMA within four months from the end of the relevant financial year (unless specifically extended). The statutory financial statements do not form part of the public records maintained by the BMA but the GAAP financial statements are available for public inspection.

Annual Statutory Financial Return and Annual Capital and Solvency Return

A Class 3B insurer is required to file with the BMA a statutory financial return no later than four months after its financial year end (unless specifically extended). The statutory financial return includes, among other matters, a report of the approved independent auditor on the statutory financial statements of the insurer, a general business solvency certificate, the statutory financial statements themselves and the opinion of the loss reserve specialist. The principal representative and at least two directors of the insurer must sign the solvency certificate. The directors are required to certify whether the minimum solvency margin has been met, and the independent approved auditor is required to state whether in its opinion it was reasonable for the directors to make this certification. Where an insurer's accounts have been audited for any purpose other than compliance with the Insurance Act, a statement to that effect must be filed with the statutory financial return.

In addition, each year the insurer is also required to file with the BMA a capital and solvency return along with its annual financial statutory return. The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement (the "BSCR") model or an approved internal capital model in lieu thereof (more fully described below), a schedule of fixed income investments by rating categories, a schedule of net loss and loss expense provisions by line of business, a schedule of premiums written by line of business, a schedule of risk management, a schedule of fixed income securities, a schedule of commercial insurer's solvency self assessment (CISSA), a schedule of catastrophe risk return, a schedule of loss triangles or reconciliation of net loss reserves and a schedule of eligible capital.

Neither the statutory financial return nor the capital and solvency return is available for public inspection.

Quarterly Financial Statements

A Class 3B insurer, not otherwise subject to group supervision (described below), is required to prepare and file quarterly financial returns with the BMA on or before the last day of the months May, August and November of each year. The quarterly financial returns consist of (1) quarterly unaudited financial statements for each financial quarter (which must minimally include a balance sheet and income statement and must also be recent and not reflect a financial position that exceeds two months) and (2) a list and details of material intra-group transactions and risk concentrations that have materialized since the most recent quarterly or annual financial returns, details surrounding all intra-group reinsurance and retrocession arrangements and other intra-group risk transfer insurance business arrangements that have materialized since the most recent quarterly or annual financial returns and details of the ten largest exposures to unaffiliated counterparties and any other unaffiliated counterparty exposures exceeding 10% of the insurer's statutory capital and surplus. Quarterly financial statements are not required where the Class 3B insurer is subject to group supervision. JRG Re is not currently subject to group supervision.

Independent Approved Auditor

A Class 3B insurer must appoint an independent auditor who will annually audit and report on the insurer's GAAP financial statements, its statutory financial statements and its statutory financial returns, each of which are required to be filed annually with the BMA. The auditor must be approved by the BMA as the independent auditor of the insurer. If the insurer fails to appoint an approved auditor or at any time fails to fill a vacancy for such auditor, the BMA may appoint an approved auditor for the insurer and shall fix the remuneration to be paid to the approved auditor within 14 days, if not agreed sooner by the insurer and the auditor.

Non-insurance Business

No Class 3B insurer may engage in non-insurance business unless that non-insurance business is ancillary to its core business. Non-insurance business means any business other than insurance business and includes carrying on investment business, managing an investment fund as operator, carrying on business as a fund administrator, carrying on banking business, underwriting debt or securities or otherwise engaging in investment banking, engaging in commercial or industrial activities and carrying on the business of management, sales or leasing of real property. Class 3B insurers registered before December 31, 2012 will be permitted to continue engaging in non-insurance business but must discontinue doing so not later than year-end 2016.

Minimum Liquidity Ratio

The Insurance Act provides a minimum liquidity ratio for general business. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding reinsurers. There are certain categories of assets which, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined) and letters of credit and guarantees.

Minimum Solvency Margin and Enhanced Capital Requirements

The Insurance Act provides that the value of the statutory assets of an insurer must exceed the value of its statutory liabilities by an amount greater than its prescribed minimum solvency margin ("MSM"). The MSM that must be maintained by a Class 3B insurer with respect to its general business shall be equal to the greatest of (1) $1.0 million, (2) 20% of the first $6.0 million of net premiums written; if in excess of $6.0 million, the figure is $1.2 million plus 15% of net premiums written in excess of $6.0 million, (3) 15% of net discounted aggregate losses and loss expense provisions and other insurance reserves or (4) 25% of the ECR (as defined below) as reported at the end of the relevant year.

Class 3B insurers are also required to maintain available statutory capital and surplus at a level equal to or in excess of its enhanced capital requirement ("ECR") which is established by reference to either the BSCR model or an approved internal capital model.

The BSCR model is a risk-based capital model which provides a method for determining an insurer's capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the insurer's business. The BSCR formulae establish capital requirements for eight categories of risk: fixed income investment risk, equity investment risk, interest rate/liquidity risk, premium risk, reserve risk, credit risk, catastrophe risk and operational risk. For each category, the capital requirement is determined by applying factors to asset, premium, reserve, creditor, probable maximum loss and operation items, with higher factors applied to items with greater underlying risk and lower factors for less risky items.

While not specifically referred to in the Insurance Act, the BMA has also established a target capital level (the "TCL") for each Class 3B insurer equal to 120% of its ECR. While a Class 3B insurer is not currently required to maintain its statutory capital and surplus at this level, the TCL serves as an early warning tool for the BMA and failure to maintain statutory capital at least equal to the TCL will likely result in increased regulatory oversight.

Any Class 3B insurer which at any time fails to meet its MSM requirements must, upon becoming aware of such failure, immediately notify the BMA and, within 14 days thereafter, file a written report with the BMA containing particulars of the circumstances that gave rise to the failure and setting out its plan detailing specific actions to be taken and the expected timeframe in which the company intends to rectify the failure.

Any Class 3B insurer which at any time fails to meet its enhanced capital requirement applicable to it shall upon becoming aware of that failure, or of having reason to believe that such a failure has occurred, immediately notify the BMA in writing and within 14 days of such notification file with the BMA a written report containing particulars of the circumstances leading to the failure; and a plan detailing the manner, specific actions to be taken and time within which the insurer intends to rectify the failure and within 45 days of becoming aware of that failure, or of having reason to believe that such a failure has occurred, furnish the BMA with (1) unaudited interim statutory financial statements covering such period as the BMA may require, (2) the opinion of a loss reserve specialist where applicable, (3) a general business solvency certificate in respect of the financial statements and (4) a capital and solvency return reflecting an enhanced capital requirement prepared using post failure data where applicable.

Eligible Capital

To enable the BMA to better assess the quality of the insurer's capital resources, a Class 3B insurer is required to disclose the makeup of its capital in accordance with a '3-tiered capital system'. Under this system, all of the insurer's capital instruments will be classified as either basic or ancillary capital which in turn will be classified into one of 3 tiers based on their "loss absorbency" characteristics. Highest quality capital will be classified Tier 1 Capital, lesser quality capital will be classified as either Tier 2 Capital or Tier 3 Capital. Under this regime, up to certain specified percentages of Tier 1, Tier 2 and Tier 3 Capital may be used to support the insurer's MSM, ECR and TCL.

The characteristics of the capital instruments that must be satisfied to qualify as Tier 1, Tier 2 and Tier 3 Capital are set out in the Insurance (Eligible Capital) Rules 2012 and any amendments thereto. Under these rules, Tier 1, Tier 2 and Tier 3 Capital may, until January 1, 2024, include capital instruments that do not satisfy the requirement that the instrument be non-redeemable or settled only with the issuance of an instrument of equal or higher quality upon a breach, or if it would cause a breach, of the ECR.

Where the BMA has previously approved the use of certain instruments for capital purposes, the BMA's consent will need to be obtained if such instruments are to remain eligible for use in satisfying the MSM and the ECR.

Code of Conduct

Every Bermuda registered insurer must comply with the Insurance Code of Conduct (the "Bermuda Code of Conduct") which prescribes the duties and standards that must be complied with to ensure sound corporate governance, risk management and internal controls are implemented. The BMA will assess an insurer's compliance with the Bermuda Code of Conduct in a proportionate manner relative to the nature, scale and complexity of its business. Failure to comply with the requirements of the Bermuda Code of

Conduct will be taken into account by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner as prescribed by the Insurance Act and may result in the BMA exercising its powers of intervention and investigation (see below) and will be a factor in calculating the operational risk charge under the insurer's BSCR or approved internal model.

Restrictions on Dividends and Distributions

A Class 3B insurer is prohibited from declaring or paying a dividend if it is in breach of its MSM, ECR or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its MSM or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA. Following the distribution of $70.0 million in dividends to our shareholders, which was declared in August 2014 and financed in part by a $50.0 million dividend paid to the Company by JRG Re, JRG Re has the capacity to pay dividends of $30.2 million, based upon dividend capacity at June 30, 2014.

In addition, a Class 3B insurer is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the BMA an affidavit signed by at least 2 directors (one of whom must be a Bermuda resident director if any of the insurer's directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio. Where such an affidavit is filed, it shall be available for public inspection at the offices of the BMA.

Reduction of Capital. No general business insurer may reduce its total statutory capital by 15% or more, as set out in its previous year's financial statements, unless it has received the prior approval of the BMA. Total statutory capital consists of the insurer's paid in share capital, its contributed surplus (sometimes called additional paid in capital) and any other fixed capital designated by the BMA as statutory capital (such as letters of credit).

Class 3B insurers seeking to reduce their statutory capital by 15% or more, as set out in its previous year's financial statements, must also submit an affidavit signed by at least 2 directors (one of whom must be a Bermuda resident director if any of the company's directors are resident in Bermuda) and the principal representative stating that the proposed reduction will not cause the company to fail its relevant margins. Where such an affidavit is filed, it shall be available for public inspection at the offices of the BMA.

Fit and Proper Controllers

The BMA maintains supervision over the controllers of all registered insurers in Bermuda. A controller includes (1) the managing director of the registered insurer or its parent company; (2) the chief executive of the registered insurer or of its parent company; (3) a shareholder controller; and, (4) any person in accordance with whose directions or instructions the directors of the registered insurer or of its parent company are accustomed to act.

The definition of shareholder controller is set out in the Insurance Act but generally refers to (1) a person who holds 10% or more of the shares carrying rights to vote at a shareholders' meeting of the registered insurer or its parent company or (2) a person who is entitled to exercise 10% or more of the voting power at any shareholders' meeting of such registered insurer or its parent company, or (3) a person who is able to exercise significant influence over the management of the registered insurer or its parent company by virtue of its shareholding or its entitlement to exercise, or control the exercise of, the voting power at any shareholders' meeting. A shareholder controller that owns 10% or more but less than 20% of the shares as described above is defined as a 10% shareholder controller; a shareholder controller that owns 20% or more but less than 33% of the shares as described above is defined as a 20% shareholder controller; a shareholder controller that owns 33% or more but less than 50% of the shares as described above is defined as a 33% shareholder controller; and a shareholder controller that owns 50% or more of the shares as described above is defined as a 50% shareholder controller. Where the shares of a registered insurer, or the shares of its parent company, are traded on a recognized stock exchange, and such person becomes a 10%, 20%, 33% or 50% shareholder controller of the insurer, that person shall, within 45 days, notify the BMA in writing that he has become such a controller.

The BMA may file a notice of objection to any person who has become a controller of any description where it appears that such person is not, or is no longer, a fit and proper person to be a controller of the registered insurer. Before issuing a notice of objection, the BMA is required to serve upon the person concerned a preliminary written notice stating the BMA's intention to issue formal notice of objection. Upon receipt of the preliminary written notice, the person served may, within 28 days, file written representations with the BMA which shall be taken into account by the BMA in making its final determination. Any person who continues to be a controller of any description after having received a notice of objection shall be guilty of an offence and shall be liable on summary conviction to a fine of $25,000 (and a continuing fine of $500 per day for each day that the offence is continuing) or, if convicted on indictment, to a fine of $100,000 and/or 2 years in prison.

Notification by Registered Person of Change of Controllers and Officers

All registered insurers are required to give written notice to the BMA of the fact that a person has become, or ceased to be, a controller or officer of the registered insurer within 45 days of becoming aware of such fact. An officer in relation to a registered insurer means a director, chief executive or senior executive performing duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters.

Notification of Material Changes

All registered insurers are required to give notice to the BMA of their intention to effect a material change within the meaning of the Insurance Act. For the purposes of the Insurance Act, the following changes are material: (1) the transfer or acquisition of insurance business being part of a scheme falling under section 25 of the Insurance Act or section 99 of the Companies Act, (2) the amalgamation with or acquisition of another firm, (3) engaging in unrelated business that is retail business, (4) the acquisition of a controlling interest in an undertaking that is engaged in non-insurance business which offers services and products to persons who are not affiliates of the insurer, (5) outsourcing all or substantially all of the company's actuarial, risk management and internal audit functions, (6) outsourcing all or a material part of an insurer's underwriting activity, (7) the transfer other than by way of reinsurance of all or substantially all of a line of business and (8) the expansion into a material new line of business.

No registered insurer shall take any steps to give effect to a material change unless it has first served notice on the BMA that it intends to effect such material change and before the end of 14 days, either the BMA has notified such company in writing that it has no objection to such change or that period has lapsed without the BMA having issued a notice of objection.

Before issuing a notice of objection, the BMA is required to serve upon the person concerned a preliminary written notice stating the BMA's intention to issue formal notice of objection. Upon receipt of the preliminary written notice, the person served may, within 28 days, file written representations with the BMA which shall be taken into account by the BMA in making its final determination.

Group Supervision

The BMA may, in respect of an insurance group, determine whether it is appropriate for it to act as its group supervisor. An insurance group is defined as a group of companies that conducts exclusively, or mainly, insurance business. The BMA may make such determination where it ascertains that (1) the group is headed by a "specified insurer" (that is to say, it is headed by either a Class 3A, Class 3B or Class 4 general business insurer or a Class C, Class D or Class E long-term insurer or another class of insurer designated by order of the BMA) (2) where the insurance group is not headed by a "specified insurer," where it is headed by a parent company which is incorporated in Bermuda or (3) where the parent company of the group is not a Bermuda company, in circumstances where the BMA is satisfied that the insurance group is directed and managed from Bermuda or the insurer with the largest balance sheet total is a specified insurer.

Where the BMA determines that it should act as the group supervisor, it shall designate a specified insurer that is a member of the insurance group to be the designated insurer (the "Designated Insurer") and it shall give to the Designated Insurer and other competent authorities written notice of its intention to act as group supervisor. Once the BMA has been designated as group supervisor, the Designated Insurer must ensure that an approved group actuary is appointed to provide an opinion as to the adequacy of the insurance group's insurance reserves as reported in its group statutory financial statements.

Pursuant to its powers under the Insurance Act, the BMA will maintain a register of particulars for every insurance group for which it acts as the group supervisor detailing, among other things, the names and addresses of the Designated Insurer; each member company of the insurance group falling within the scope of group supervision; the principal representative of the insurance group in Bermuda; other competent authorities supervising other member companies of the insurance group; and the insurance group auditors. The Designated Insurer must notify the BMA of any changes to the above details entered on the register of an insurance group.

As group supervisor, the BMA will perform a number of supervisory functions, including (1) coordinating the gathering and dissemination of information which is of importance for the supervisory task of other competent authorities, (2) carrying out a supervisory review and assessment of the insurance group, (3) carrying out an assessment of the insurance group's compliance with the rules on solvency, risk concentration, intra group transactions and good governance procedures, (4) planning and coordinating, with other competent authorities, supervisory activities in respect of the insurance group, both as a going concern and in emergency situations, (5) coordinating any enforcement action that may need to be taken against the insurance group or any of its members and (6) planning and coordinating meetings of colleges of supervisors (consisting of insurance regulators) in order to facilitate the carrying out of the functions described above.

In carrying out its functions, the BMA may make rules for (1) assessing the financial situation and the solvency position of the insurance group and/or its members and (2) regulating intra group transactions, risk concentration, governance procedures, risk management and regulatory reporting and disclosure.

Supervision, Investigation, Intervention and Disclosure

The BMA may, by notice in writing served on a registered person or a designated insurer, require the registered person or designated insurer to provide such information and/or documentation as the BMA may reasonably require with respect to matters that are likely to be material to the performance of its supervisory functions under the Insurance Act. In addition, it may require such person's auditor, underwriter, accountant or any other person with relevant professional skill to prepare a report on any aspect pertaining thereto. In the case of a report, the person so appointed shall immediately give the BMA written notice of any fact or matter of which he becomes aware or which indicates to him that any condition attaching to his registration under the Insurance Act is not or has not or may not be or may not have been fulfilled and that such matters are likely to be material to the performance of its functions under the Insurance Act. If it appears to the BMA to be desirable in the interests of the clients of a registered person or relevant insurance group, the BMA may also exercise these powers in relation to subsidiaries, parent companies and other affiliates of the registered person or designated insurer.

If the BMA deems it necessary to protect the interests of the policyholders or potential policyholders of an insurer or insurance group, it may appoint one or more competent persons to investigate and report on the nature, conduct or state of the insurer's or the insurance group's business, or any aspect thereof, or the ownership or control of the insurer or insurance group. If the person so appointed thinks it necessary for the purposes of his investigation, he may also investigate the business of any person who is or has been at any relevant time, a member of the insurance group or of a partnership of which the person being investigated is a member. In this regard, it shall be the duty of every person who is or was a controller, officer, employee, agent, banker, auditor, accountant, barrister and attorney or insurance manager to produce to the person appointed such documentation as he may reasonably require for purposes of his investigation, and to attend and answer questions relevant to the investigation and to otherwise provide such assistance as may be necessary in connection therewith.

Where the BMA suspects that a person has failed to properly register under the Insurance Act or that a registered person or designated insurer has failed to comply with a requirement of the Insurance Act or that a person is not, or is no longer, a fit and proper person to perform functions in relation to a regulated activity, it may, by notice in writing, carry out an investigation into such person (or any other person connected thereto). In connection therewith, the BMA may require every person who is or was a controller, officer, employee, agent, banker, auditor, accountant, barrister and attorney or insurance manager to make a report and produce such documents in his care, custody and control and to attend before the BMA to answer questions relevant to the BMA's investigation and to take such actions as the BMA may direct. The BMA may also enter any premises for the purposes of carrying out its investigation and may petition the court for a warrant if it believes a person has failed to comply with a notice served on him or there are reasonable grounds for suspecting the completeness of any information or documentation produced in response to such notice or that its directions will not be complied with or that any relevant documents would be removed, tampered with or destroyed.

If it appears to the BMA that the business of the registered insurer is being so conducted that there is a significant risk of the insurer becoming insolvent, or that the insurer is in breach of the Insurance Act or any conditions imposed upon its registration, or the minimum criteria stipulated in the Insurance Act is not or has not been fulfilled in respect of a registered insurer, or that a person has become a controller without providing the BMA with the appropriate notice or in contravention of a notice of objection, or the registered insurer is in breach of its ECR, or that a designated insurer is in breach of any provision of the Insurance Act or the regulations or rules applicable to it, the BMA may issue such directions as appear desirable for safeguarding the interests of policyholders or potential policyholders of the insurer or the insurance group. The BMA may direct an insurer, for itself and in its capacity as designated insurer of the insurance group of which it is a member, (1) not to take on any new insurance business, (2) not to vary any insurance contract if the effect would be to increase the insurer's liabilities, (3) not to make certain investments, (4) to realize certain investments, (5) to maintain in, or transfer to the custody of, a specified bank, certain assets, (6) not to declare or pay any dividends or other distributions or to restrict the making of such payments, (7) to limit its premium income, (8) not to enter into specified transactions with any specified person or persons of a specified class, (9) to provide such written particulars relating to the financial circumstances of the insurer as the BMA thinks fit, (10) (as an individual insurer only and not in its capacity as designated insurer) to obtain the opinion of a loss reserve specialist and submit it to the BMA and/or (11) to remove a controller or officer.

The BMA has the power to assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda if it is satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities and that such cooperation is in the public interest. The grounds for disclosure by the BMA to a foreign regulatory authority without consent of the insurer are limited and the Insurance Act provides for sanctions for breach of the statutory duty of confidentiality.

Cancellation of Insurer's Registration

An insurer's registration may be cancelled by the BMA on certain grounds specified in the Insurance Act. Failure by the insurer to comply with its obligations under the Insurance Act or if, the BMA believes that the insurer has not been carrying on business in accordance with sound insurance principles, would be such grounds.

We are not currently subject to group supervision, but the BMA may exercise its authority to act as our group supervisor in the future.

Certain Other Bermuda Law Considerations

Corporate Bermuda Law Considerations

Although James River Group Holdings, Ltd. is incorporated in Bermuda, it is designated as a non-resident for Bermuda exchange control purposes by the BMA. Pursuant to its non-resident status, James River Group Holdings, Ltd. may engage in transactions in currencies other than the Bermuda dollar, and there are no restrictions on its ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to non-residents who are holders of its common shares in currencies other than the Bermuda dollar.

In accordance with Bermuda law, share certificates are issued only in the names of corporations, other separate legal entities or individuals. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, we are not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust. We will take no notice of any trust applicable to any of our common shares whether or not we have notice of such trust.

Each of James River Group Holdings, Ltd. and JRG Re is incorporated in Bermuda as an "exempted company." Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place of business in Bermuda. As a result, they are exempt from Bermuda laws restricting the percentage of share capital that may be held by non-Bermudians, but they may not participate in certain business transactions, including: (1) the acquisition or holding of land in Bermuda (except that required for their business and held by way of lease or tenancy for a term of not more than 50 years, or, with the consent of the Minister of Economic Development, that which is used to provide accommodations or recreational facilities for its officers and employees and is held by way of lease or tenancy for a term of not more than 21 years) without the express authorization of the Bermuda legislature; (2) the taking of mortgages on land in Bermuda to secure an amount in excess of BD$50,000 without the consent of the relevant Ministers; (3) the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government securities or (4) the carrying on of business of any kind in Bermuda, except in furtherance of their business carried on outside Bermuda or under license granted by the Minister of Economic Development. JRG Re is a licensed insurer in Bermuda, and so it may carry on activities from Bermuda that are related to and in support of its insurance business.

Each of James River Group Holdings, Ltd. and JRG Re will also need to comply with the provisions of the Companies Act regulating the payment of dividends and the making of distributions from contributed surplus. A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (1) the company is, or would after the payment be, unable to pay its liabilities as they become due or (2) the realizable value of the company's assets would thereby be less than the aggregate of its liabilities. In addition, certain provisions of the Insurance Act will limit our ability to pay dividends.

Under the Companies Act, where a Bermuda company issues shares at a premium (that is, for a price above the par value), whether for cash or otherwise, a sum equal to the aggregate amount or value of the premium on those shares must be transferred to an account called "the share premium account." The provisions of the Companies Act relating to the reduction of the share capital of a company apply as if the share premium account were paid-up share capital of that company, except for certain matters such as: (1) paying up unissued shares to be issued as fully paid bonus shares, (2) writing off preliminary expenses, commissions or offering a discount on any issue of our shares or (3) providing for the premiums payable on redemption of our shares. The paid-up share capital may not be reduced if, on the date the reduction is to be effected, there are reasonable grounds for believing that the company is, or after the reduction would be, unable to pay its liabilities as they become due. See "— Restrictions on Dividends and Distributions."

Exempted companies, such as James River Group Holdings, Ltd. and JRG Re must comply with Bermuda resident representation provisions under the Companies Act. We do not believe that such compliance will result in any material expense to us.

Securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 and the Exchange Control Act 1972 and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the BMA, pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA, in its policy dated June 1, 2005, provides that where any equity securities, which would include our common shares, of a Bermuda company are listed on an appointed stock exchange (the NASDAQ Stock Market is deemed to be an appointed stock exchange under Bermuda law), general permission is given for the issue and subsequent transfer of any securities of the company from and to a non-resident, for as long as any equity securities of the company remain so listed.

Notwithstanding the above general permission, we intend to apply for, and expect to receive, permission from the BMA to, subject to our common shares being listed on an appointed stock exchange (which includes the NASDAQ Stock Market), issue, grant, create, sell and transfer freely any of our shares, stock, bonds, notes (other than promissory notes), debentures, debenture stock, units under a unit trust scheme, shares in an oil royalty, options, warrants, coupons, rights and depository receipts to and among persons who are either resident or non-resident of Bermuda for exchange control purposes.

Neither the Registrar of Companies in Bermuda, the BMA nor any other regulatory body has approved or disapproved of the common shares offered hereby or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Bermuda Work Permit Considerations

Under Bermuda law, non-Bermudians (other than spouses of Bermudians and individuals holding permanent resident's certificates or working resident's certificates) may not engage in any gainful occupation in Bermuda without the appropriate governmental standard work permit.

Standard work permits can be obtained for a one-, two-, three-, four- or five-year period. Where a standard work permit is being applied for, it is a requirement that the job must be advertised for three days (within an eight-day period) in the local newspaper. Should no Bermudian (or spouse of a Bermudian or holder of a permanent resident's certificate or working resident's certificate) meet the minimum standards as stipulated in the advertisement, the employer may then apply for a standard work permit for the non-Bermudian. Employers must complete a Recruitment Disclosure Form and provide information, including the qualifications of all applicants. The Department of Immigration will compare the qualifications and experience of any Bermudian applicants (or spouse of a Bermudian or holder of a permanent resident's certificate or working resident's certificate) to that stipulated in the advertisement and to the non-Bermudian to be satisfied that the role could not have been filled by a Bermudian (or spouse of a Bermudian or holder of a permanent resident's certificate or working resident's certificate). In addition to the advertising, there are also many other documents that are required prior to the Department of Immigration making their decision.

If the position for which the standard work permit is being applied is that of a Chief Executive Officer or Senior Executive, the Minister of Home Affairs may, on occasion, waive the requirement to advertise.

If an employer wishes to change an employee's job title, provided that the job description, duties, remuneration and benefits remain unchanged, the employer does not need to advertise or obtain the permission of the Minister of Home Affairs to do this, but it must inform the Department of Immigration and pay the necessary fee after the change has occurred.

If an employer wishes to promote an employee currently on a work permit from his current job to another within the same business, the permission of the Minister of Home Affairs must first be obtained. The employer will need to provide evidence of internal recruitment efforts and consideration of internal Bermudian candidates.

A temporary work permit can take up to 10 working days to process and a standard work permit can take up to four weeks to process.

U.S. Insurance Regulation

State Regulation

Our U.S. insurance subsidiaries are subject to extensive regulation and supervision by their state of domicile, as well as those states in which they do business. The purpose of such regulation and supervision is primarily to provide safeguards for policyholders, rather than to protect the interests of shareholders. The insurance laws of the various states establish regulatory agencies with broad administrative powers, including the power to grant or revoke operating licenses and regulate trade practices, investments, premium rates, deposits of securities, the form and content of financial statements and insurance policies, dividend limitations, cancellation and non-renewal of policies, accounting practices and the maintenance of specified reserves and capital for the protection of policyholders.

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. In Ohio, the domiciliary state of James River Insurance, Falls Lake General and Falls Lake National, this limitation is the greater of statutory net income for the preceding calendar year or 10% of the statutory surplus at the end of the preceding calendar year, provided that such dividends may only be paid out of the earned surplus of each of the companies. In North Carolina, the domiciliary state of Stonewood Insurance, this limitation is the greater of statutory net income excluding realized capital gains for the preceding calendar year or 10% of the statutory surplus at the end of the preceding calendar year, provided that such dividends may only be paid out of unassigned surplus without obtaining regulatory approval. In addition, insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels and could refuse to permit the payment of dividends calculated under any applicable formula.

Premium rate regulation varies greatly among jurisdictions and lines of insurance. In most states in which our subsidiaries write insurance, premium rates for the various lines of insurance are subject to either prior approval or limited review upon implementation. States require rates for property-casualty insurance that are adequate, not excessive, and not unfairly discriminatory.

Our insurance subsidiaries are required to file quarterly and annual reports with the appropriate regulatory agency in its state of domicile and with the NAIC based on applicable statutory regulations, which differ from U.S. generally accepted accounting principles. Their business and accounts are subject to examination by such agencies at any time.

Many jurisdictions have laws and regulations that limit an insurer’s ability to withdraw from a particular market. For example, states may limit an insurer’s ability to cancel or non-renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of business from the states, except pursuant to a plan approved by the state insurance department. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict our ability to exit unprofitable marketplaces in a timely manner.

State laws governing insurance holding companies and insurance companies also impose standards on certain transactions between related companies, which include, among other requirements, that all transactions be fair and reasonable, that an insurer’s surplus as regards policyholders be reasonable and adequate in relation to its liabilities and that expenses and payments be allocated to the appropriate party in accordance with customary accounting practices. These transactions between related companies include transfers of assets, loans, reinsurance agreements, service agreements, certain dividend payments by the insurance companies and certain other material transactions. In 2012, the NAIC adopted the NAIC Amendments. The NAIC Amendments, when adopted by the various states, are designed to respond to perceived gaps in the regulation of insurance holding company systems in the United States. One of the major changes is a requirement that an insurance holding company system’s ultimate controlling person submit annually to its lead state insurance regulator an “enterprise risk report” that identifies activities, circumstances or events involving one or more affiliates of an insurer that, if not remedied properly, are likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. Other changes include requiring a controlling person to submit prior notice to its domiciliary insurance regulator of its divestiture of control, having detailed minimum requirements for cost sharing and management agreements between an insurer and its affiliates and expanding of the agreements between an insurer and its affiliates to be filed with its domiciliary insurance regulator. In addition, in 2012 the NAIC adopted the ORSA Model Act. The ORSA Model Act, when adopted by the various states, will require an insurance holding company system’s Chief Risk Officer to submit at least annually to its lead state insurance regulator the ORSA. The ORSA is a confidential internal assessment appropriate to the nature, scale and complexity of an insurer, conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer’s current business plan and the sufficiency of capital resources to support those risks.

The insurance holding company laws and regulations of the states in which our insurance companies are domiciled also generally require that before a person can acquire direct or indirect control, and in some cases prior to divesting its control, of an insurer domiciled in the state, prior written approval must be obtained from the insurer's domiciliary state insurance regulator. Pursuant to applicable laws and regulations, "control" over an insurer is generally presumed to exist if any person, directly or indirectly, owns, controls, holds the power to vote or holds proxies representing, 10 percent or more of the voting securities of that insurer. Indirect ownership includes ownership of the Company's common shares.

Under state insurance guaranty fund laws, insurance companies doing business in a state can be assessed for certain obligations of insolvent insurance companies to such insolvent companies' policyholders and claimants. Maximum assessments allowed in any one year generally vary between one percent and two percent of annual premiums written in that state, but it is possible that caps on such assessments could be raised if there are numerous or large insolvencies. In most states, guaranty fund assessments are recoverable either through future policy surcharges or offsets to state premium tax liabilities.

The admitted market is subject to more state regulation than the E&S market, particularly with regard to rate and form filing requirements, restrictions on the ability to exit lines of business, premium tax payments and membership in various state associations, such as guaranty funds. Some states have deregulated their commercial insurance markets. We cannot predict the effect that further deregulation would have on our business, financial condition or results of operations.

The state insurance regulators utilize a risk-based capital model to help assess the capital adequacy of insurance companies and identify insurers that are in, or are perceived as approaching, financial difficulty. This model establishes minimum capital needs based on the risks applicable to the operations of the individual insurer. The risk-based capital requirements for property-casualty insurance companies measure three major areas of risk: asset risk, credit risk and underwriting risk. Companies having less statutory surplus than required by the risk-based capital requirements are subject to varying degrees of regulatory scrutiny and intervention, depending on the severity of the inadequacy. At June 30, 2014, the Company's U.S.-based insurance subsidiaries had total adjusted statutory capital of $214.8 million, which is in excess of the minimum risk-based capital requirement.

From time to time, states consider and/or enact laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. States also consider and/or enact laws that impact the competitive environment and marketplace for property-casualty insurance.

Federal Regulation

The U.S. federal government generally has not directly regulated the insurance industry except for certain areas of the market, such as insurance for flood, nuclear and terrorism risks. However, the federal government has undertaken initiatives or considered legislation in several areas that may impact the insurance industry, including tort reform, corporate governance and the taxation of reinsurance companies. The Dodd-Frank Act established the Federal Insurance Office which is authorized to study, monitor and report to Congress on the insurance industry and to recommend that the FSOC designate an insurer as an entity posing risks to the U.S. financial stability in the event of the insurer's material financial distress or failure. In December 2013, the Federal Insurance Office issued a report on alternatives to modernize and improve the system of insurance regulation in the United States, including by increasing national uniformity through either a federal charter or effective action by the states. Changes to federal legislation and administrative policies in several areas, including changes in federal taxation, can also significantly impact the insurance industry and us.

MANAGEMENT

Directors and Executive Officers

The following table sets forth the name, age and position of individuals who currently serve as the directors and executive officers of James River Group Holdings, Ltd., including their ages as of October 15, 2014. We are actively recruiting additional independent directors, with particular focus on directors who are qualified to serve on our Audit Committee. As a result, we anticipate that our board of directors will be different from that set forth below at the time of the consummation of the offering. We will include the information for such board of directors in a subsequent filing of this registration statement. Information regarding our current directors' and executive officers' individual experience is set forth below.

Name	Age	Position
J. Adam Abram	58	Chairman of the Board and Chief Executive Officer
Robert P. Myron	45	Director, President and Chief Operating Officer
Bryan Martin	47	Director
Michael T. Oakes	49	Director
R. J. Pelosky, Jr.	55	Director
David Zwillinger	34	Director
Gregg T. Davis	56	Chief Financial Officer
Richard Schmitzer	58	President and Chief Executive Officer of Excess and Surplus Lines segment
Steven J. Hartman	49	President and Chief Executive Officer of the Specialty Admitted Insurance segment
Dennis Johnson	65	President and Chief Underwriting Officer of the Casualty Reinsurance segment

J. Adam Abram

Mr. Abram has served as Chief Executive Officer and Non-Executive Chairman of the Board since September 2014. Mr. Abram served as our Executive Chairman of the Board from October 2012 through September 2014, and before that, Non-Executive Chairman of the Board from December 2007 to September 2012. Mr. Abram also previously served as our Chief Executive Officer from December 2007 through March 2008. Prior to this, he served as the Chairman, President and Chief Executive Officer of James River Group from its inception in 2002 through 2007 and from March 2008 until October 2012 (during which time he periodically served in different roles at various operating units). Mr. Abram was also a founder of James River Group. Mr. Abram currently serves as lead independent director of the Yadkin Financial Corporation, a bank holding company ("Yadkin"), since July 2014 and, prior to that, as the Chairman of the Board of VantageSouth Bancshares, Inc., a bank holding company, and its subsidiary bank, VantageSouth Bank, from November 2011 until its acquisition by Yadkin in July 2014. He also served as Chairman of Piedmont Community Bank Holdings, Inc., a bank holding company ("Piedmont"), since he co-founded it in 2009 until it was also acquired by Yadkin in July 2014. Mr. Abram received his B.A. from Harvard University.

We believe Mr. Abram's qualifications to serve on our board of directors include his extensive experience as an executive officer and director in the insurance industry, experience as a founder of several financial services and other companies and his detailed knowledge of the Company gained from his service as Chief Executive Officer and Chairman of the Board of the Company.

Robert P. Myron

Mr. Myron has served as our President and Chief Operating Officer since September 2014 and has served as a director since December 2010. Mr. Myron served as our Chief Executive Officer from October 2012 to September 2014, and before that as our Chief Financial Officer from June 2010 until September 2012. Prior to that time, Mr. Myron served as Senior Vice President, Treasurer and Chief Risk

Officer of The Hanover Insurance Group, Inc., a property-casualty insurance company, from 2007 until 2010, and before that, as Executive Vice President and Chief Financial Officer of Argo Group International Holdings Ltd., an insurance and reinsurance company, from August 2007 to October 2007. Prior to that, Mr. Myron was Executive Vice President and Chief Financial Officer of PXRE Group, Ltd., a property reinsurer, from 2005 to August 2007. Prior to PXRE, Mr. Myron was the President of Select Reinsurance Ltd., a privately-held Bermuda-based property-casualty reinsurer, from 1999 to 2003. Mr. Myron received his B.S. in Accounting and his B.A. in American Studies from Babson College. He also holds the Associate in Reinsurance designation and is a Certified Public Accountant.

We believe Mr. Myron's qualifications to serve on our board of directors include his extensive experience in the financial industry, including 15 years of experience working in the property-casualty insurance and reinsurance industries and his detailed knowledge of the Company gained from his experience serving in different capacities as an executive officer of the Company.

Bryan Martin

Mr. Martin has served as one of our directors since December 2007. Mr. Martin is a managing director of D. E. Shaw & Co., L.P., a global investment and technology development firm, and head of the D. E. Shaw group's U.S. growth and buyout private equity unit. Prior to joining the D. E. Shaw group in 2005, Mr. Martin served as a partner at J.P. Morgan Partners, LLC, a private equity division of JPMorgan Chase & Co., from 2003 until 2005. Before that, he was a partner at the Beacon Group, LLC, a private equity, strategic advisory and wealth management partnership, and co-manager of Beacon Group Energy Investors II, LP. Mr. Martin began his career as an equity analyst at Fidelity Investments, a diversified financial services company. He received a B.A. in history from Yale University and an M.B.A. from Northwestern University.

We believe Mr. Martin's qualifications to serve on our board of directors include his experience in private equity and investment banking.

Michael T. Oakes

Mr. Oakes has served as one of our directors since December 2007. Mr. Oakes has served as the President of Conifer Group, Inc., a consulting company, since February 2011. Prior to this, Mr. Oakes served as Executive Vice President of the Company from June 2010 until his retirement in January 2011. From December 2007 through June 2010, Mr. Oakes served as our Chief Financial Officer, and from March 2008 through June 2010, he served as our Chief Executive Officer. From 2004 through 2007, he served as Chief Financial Officer of James River and from 1998 until 2004, Mr. Oakes was a Managing Director in the Insurance Investment Banking Group at Keefe, Bruyette & Woods, Inc., an investment banking firm based in New York. Mr. Oakes received a B.S. in business administration with a concentration in accounting from the University of North Carolina at Chapel Hill and an M.B.A. from Harvard Business School.

We believe Mr. Oakes's qualifications to serve on our board of directors include his broad range of management and investment banking experience, as well as his accounting background.

R. J. Pelosky, Jr.

Mr. Pelosky has served as one of our directors since March 2012. Mr. Pelosky has served as Principal of J2Z Advisory, LLC, an independent global asset allocation and portfolio strategy investment consulting firm, since January 2011. Prior to this, he was self-employed, managing private capital for several years through 2009. From June 1990 through December 2002, he served in various roles at Morgan Stanley, a financial services firm, most recently as a Managing Director and head of the Global Asset Allocation research group. Mr. Pelosky received his B.A. from Duke University and his M.A. from George Washington University.

We believe Mr. Pelosky's qualifications to serve on our board of directors include his 30 years of professional investment experience.

David Zwillinger

Mr. Zwillinger has served as one of our directors since December 2007. Mr. Zwillinger is a Senior Vice President of D. E. Shaw & Co., L.P. and a member of the D. E. Shaw group's U.S. growth and buyout private equity unit. Prior to joining the D. E. Shaw group in 2005, Mr. Zwillinger was an associate at J.P. Morgan Partners, LLC. Prior to that, he was a member of the mergers and acquisitions group at Merrill Lynch & Co., Inc., a global securities and financial services business. Mr. Zwillinger graduated from Rutgers College with a B.A. in economics and earned a B.S. in finance from Rutgers Business School.

We believe Mr. Zwillinger's qualifications to serve on our board of directors include his experience in private equity and investment banking.

Gregg T. Davis

Mr. Davis is our Chief Financial Officer and has served in this capacity since October 2012. In addition, Mr. Davis has served as Chief Financial Officer of James River Group since April 2006. Mr. Davis has been the Chief Financial Officer of various companies since 1992, including those run by Mr. Abram, excluding the period from 2002 to 2005, during which period he was the Chief Financial Officer and then Chief Executive Officer of a pharmaceutical informatics company. Mr. Davis graduated from Fordham University with a degree in accounting. He is a member of the American Institute of Certified Public Accountants and is an alumnus of Ernst & Young LLP (New York), a registered public accounting firm.

Richard Schmitzer

Mr. Schmitzer has served as the President and Chief Executive Officer and a director of our subsidiaries in our Excess and Surplus Lines segment since March 2010. He joined the James River Insurance Group in July 2009 as Senior Vice President and Chief Underwriting Officer. Prior to that, Mr. Schmitzer served nineteen years at the Scottsdale Insurance Company, a subsidiary of Nationwide Mutual, where he served in a variety of underwriting and underwriting management roles, most recently as Vice President of Brokerage, Professional Liability and Programs. Mr. Schmitzer received his B.S. in Business Administration from Central Michigan University.

Steven J. Hartman

Mr. Hartman has served as President and Chief Executive Officer of our Specialty Admitted Insurance segment since joining the Falls Lake Insurance group in May 2012. Prior to this, he served as Senior Vice President of IAT Group, a marketing, underwriting and claims office for a group of property-casualty insurance companies, from August 2011 to May 2012. Prior to that, Mr. Hartman served as Director at Arch Reinsurance Company, a specialty casualty underwriter, from June 2002 to May 2011. Mr. Hartman served as Senior Vice President at Gerling Global Reinsurance Corporation of America from 1998 to 2002. Before that, Mr. Hartman served as Senior Vice President and Chief Underwriting Officer and a member of the board of directors of Constitution Reinsurance Company from 1997 until its acquisition by Gerling Global Reinsurance Corporation of America, and prior to that, as Vice President of Transatlantic Reinsurance Company from 1992 to 1997. Mr. Hartman received his B.A. from Wabash College.

Dennis Johnson

Mr. Johnson has served as President and Chief Underwriting Officer of JRG Re, our subsidiary engaged in the casualty reinsurance business, since January 2012. Prior to this, Mr. Johnson was employed by QBE Reinsurance Corp., the reinsurance division of QBE Insurance Group, from 2007 through 2012, having last served as Vice President and Casualty Treaty Manager. Prior to that, Mr. Johnson served as Vice President and Casualty Treaty Manager at Great Lakes American Reinsurance Company from 1991 to 1997. Prior to that, Mr. Johnson served as Assistant Vice President at National Reinsurance Corporation. Mr. Johnson received his M.B.A. in Finance from Long Island University.

Messrs. Martin and Zwillinger were elected directors pursuant to the D. E. Shaw Affiliates' right to designate directors for election under the Second Amended and Restated Investor Shareholders Agreement, dated as of April 8, 2009 (the "Shareholders Agreement"). For additional information regarding the Shareholders Agreement, see "Certain Relationships and Related Party Transactions — Related Party Transactions — Shareholders Agreement."

Corporate Governance

Board Composition

Our board of directors currently consists of six members as of the date of the filing of this registration statement of which this prospectus is part. Our board of directors selects our Chief Executive Officer, our Chief Operating Officer and our Chief Financial Officer, who are charged with the conduct of our business. After selecting the senior management team, our board of directors acts as an advisor to senior management and ultimately monitors its performance.

Director Independence

Prior to the consummation of this offering, our board of directors will consist of • persons, and we will have:

- a majority of our board of directors consist of independent directors as defined in the NASDAQ Stock Market rules;
- an Audit Committee consisting of independent directors as defined in the NASDAQ Stock Market rules and Rule 10A-3 of the Exchange Act;
- a Compensation Committee consisting of independent directors as defined in the NASDAQ Stock Market rules and also satisfying the definitions of "non-employee" directors within the meaning of Rule 16b-3(b)(3) under the Exchange Act and "outside" directors within the meaning of Section 162(m)(4)(c)(i) of the Code; and
- a Nominating and Corporate Governance Committee consisting of independent directors as defined in the NASDAQ Stock Market rules.

We have reviewed the independence of our current directors using the NASDAQ Stock Market independence standards and, based on this review, we have determined that • are independent within the meaning of the NASDAQ Stock Market listing standards. We are actively recruiting additional independent directors, with particular focus on directors who are qualified to serve on our Audit Committee.

Committees of Our Board of Directors

Our board of directors has established five standing committees to assist it in carrying out its responsibilities: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, the Compliance Committee and the Investment Committee. Each of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee operates under its own written charter adopted by our board of directors, which charters will be amended prior to the consummation of the offering to comply with the applicable rules and regulations of the SEC and the NASDAQ Stock Market. Prior to the consummation of this offering, the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee charters will be available without charge on the investor relations portion of our website, the contents of which are not a part, and shall not be deemed to be a part, of this prospectus. The membership of each committee upon consummation of this offering, and the function of each of the committees, are described below.

Audit Committee

Upon consummation of this offering, our Audit Committee will consist of • (Chairperson), •, and •. • has been identified by our board of directors as an "audit committee financial expert" as that term is defined Item 407(d)(5) of Regulation S-K. The Audit Committee assists our board of directors in fulfilling its oversight responsibilities relating to:

- the integrity of our financial statements and our financial reporting process;
- internal and external auditing and the independent registered public accounting firm's qualifications and independence;

- the performance of an internal audit function and our independent registered public accounting firm;
- the integrity of our systems of internal accounting and financial controls; and
- our compliance with legal and regulatory requirements.

In so doing, the Audit Committee is responsible for maintaining free and open communication between the committee, the independent registered public accounting firm and our management. In this role, the Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of our Company and has the power to retain outside counsel or other experts for this purpose.

The Audit Committee has direct responsibility for the appointment, compensation, retention and oversight of our independent registered public accounting firm. The Audit Committee meets in executive session with the independent registered public accounting firm at least quarterly.

The Audit Committee will be responsible for approving all transactions with related persons. Annually, the Audit Committee reviews and approves or ratifies a summary of transactions with related persons as prepared by management. To the extent any new transactions may arise during the course of the year, management discusses such transactions with the Audit Committee. All transactions with related persons in 2013 were approved or ratified by the Audit Committee.

Compensation Committee

Upon consummation of this offering, the members of the Compensation Committee will consist of • (Chairperson), •, and •. The Compensation Committee assists our board of directors with reviewing the performance of our management in achieving corporate goals and objectives and assuring that our executives are compensated effectively in a manner consistent with our strategy, competitive practice and the requirements of the appropriate regulatory bodies. Toward that end, the Compensation Committee, among other responsibilities, makes recommendations to our board of directors regarding director and executive officer compensation, equity-based compensation plans and executive benefit plans. The Compensation Committee also administers the Company's incentive plans.

Nominating and Corporate Governance Committee

Upon consummation of this offering, the members of the Nominating and Corporate Governance Committee will consist of • (Chairperson), •, and •. Among other responsibilities, the Nominating and Corporate Governance Committee identifies individuals qualified to become board members, recommend to the board of directors the director nominees for the next annual meeting of shareholders and recommend to the board of directors individuals from time to time to fill vacancies on the board of directors.

The Nominating and Corporate Governance Committee will have the responsibility for, among things, identifying and recommending candidates to the board of directors for election to our board of directors, reviewing the composition of the board of directors and its committees, developing and recommending to the board of directors corporate governance guidelines that are applicable to us and overseeing board of directors evaluations.

Compliance Committee

The members of our Compliance Committee are Mr. Martin (Chairperson) and Mr. Myron. The Compliance Committee oversees our compliance with Bermuda reinsurance regulations applicable to JRG Re and compliance with our Code of Conduct. Effective upon the completion of this offering, the Compliance Committee will be combined with the Nominating and Corporate Governance Committee.

Investment Committee

The members of our Investment Committee are Mr. Oakes (Chairperson) and Messrs. Myron and Pelosky. The investment committee establishes and oversees the implementation of our overall investment policy.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee is or has been our officer or employee. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or Compensation Committee.

Code of Conduct

We have a Code of Conduct applicable to our directors, officers and employees that complies with the requirements of applicable rules and regulations of the SEC and the NASDAQ Stock Market. This code is designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting to an appropriate person or persons identified in the Code of Business Conduct and Ethics of violations of the Code of Business Conduct and Ethics; and
- accountability for adherence to the Code of Conduct.

Upon completion of this offering, our Code of Conduct will be available on the investor relations portion of our website.

Director Compensation

Information concerning the compensation of our directors will be provided in an amendment to this registration statement.

EXECUTIVE COMPENSATION

The following table sets forth all compensation earned in the year ended December 31, 2013 by Robert P. Myron, our Chief Executive Officer during 2013, •, our •, and •, our • (collectively, the "Named Executive Officers").

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Share Awards	Option Awards	All Other Compensation	Total
		($)	($)	($)	($)	($)	($)
Robert P. Myron, President and Former Chief Executive Officer[1]							

[1] Mr. Myron served as President and Chief Executive Officer until September 2014 at which point he transitioned to President and Chief Operating Officer.

Narrative Disclosure to Summary Compensation Table

Named Executive Officer Employment Agreements

Information concerning employment agreements with our Named Executive Officers will be provided in an amendment to this registration statement.

Outstanding Equity Awards at Fiscal Year-End 2013

		Option Awards[1]					Share Awards	
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Shares that have not Vested	Market Value of Shares or Units of Share that have not Vested ($)
Robert P. Myron								

Equity Incentive Plans

Amended and Restated James River Group Holdings, Ltd. Equity Incentive Plan

Our board of directors adopted, and our shareholders approved, our Amended and Restated Equity Incentive Plan in 2009 (the "2009 Plan"). The 2009 Plan provides for the grant of restricted shares, incentive and non-qualified options, share appreciation rights and deferred share units to executives, officers, or other employees of ours and our subsidiaries, as well as non-employee directors. There are 80,630 Class B common shares authorized for issuance under the Plan. As of June 30, 2014, there were options to acquire 43,225 Class B common shares outstanding and 37,405 Class B common shares remaining available for issuance under the Plan.

Our board of directors and our shareholders have each approved, a modification of the 2009 Plan that would be effective concurrently with the completion of the offering contemplated by this prospectus. The amendment provides that (1) all options outstanding on the date of completion of this offering will remain outstanding in accordance with their terms, other than adjustments to reflect the Recapitalization and

(2) no further equity based grants will be made under the plan, but the unallocated awards will be converted into a cash bonus pool. Options outstanding at the completion of the offering will not be exercisable within six months from the date of consummation of the offering. Additionally, the cash bonus pool based on the unallocated awards will be allocated pro rata to the persons holding outstanding options based on their relative option holdings. The amount of the bonus pool will be equal to the difference between the public offering price of the common shares in this offering and the weighted average strike price of the outstanding options and will be paid in two installments in December 2015 and 2016, subject in the case of a participant to continued employment. We estimate that the cash bonus pool will be approximately $• million based upon the midpoint of the price range set forth on the cover of this prospectus.

James River Group Holdings, Ltd. 2014 Long-Term Incentive Plan

We intend to propose for adoption by our board of directors and for approval by our shareholders the 2014 Long-Term Incentive Plan (the "2014 LTIP"). The 2014 LTIP would become effective immediately prior to the date the offering contemplated by this prospectus is consummated. The purposes of the 2014 LTIP will be to (1) enable the Company and its affiliates to attract and retain individuals who will contribute to the Company's long range success, (2) motivate key personnel to produce a superior return to the shareholders of the Company and its affiliates by offering such individuals an opportunity to realize share appreciation, facilitating share ownership, and rewarding them for achieving a high level of corporate performance and (3) promote the success of the Company's business. The following is a brief summary of the material terms of the 2014 LTIP.

Authorized Shares

We intend to reserve • common shares for issuance under the 2014 LTIP, of which no more than • common shares may be granted as incentive share options. The following will remain available for issuance as awards under the 2014 LTIP and will not be applied to the above share limit: (1) dividends or dividend equivalents paid in cash in connection with outstanding awards, (2) shares subject to an award under the 2014 LTIP which award is forfeited, cancelled, terminated, expires or lapses for any reason and (3) shares and any awards that are granted through the settlement, assumption, or substitution of outstanding awards previously granted, or through obligations to grant future awards, as a result of a merger, consolidation, or acquisition of the employing company with or by the Company. If an award is to be settled in cash, the number of shares on which the award is based will not count toward the above share limits.

Eligibility and Administration

All full-time and part-time employees (including officers and directors who are employees), non-employee directors and consultants and advisors (except with respect to grants of incentive share options) of the Company and its affiliates will be eligible to participate in the 2014 LTIP at the discretion of the Plan Committee (as defined below).

The Compensation Committee or such other committee as may be appointed by our board of directors (the "Plan Committee") will administer and grant awards under the 2014 LTIP. Subject to the terms of the 2014 LTIP, the Plan Committee's charter, NASDAQ rules and applicable laws, the Plan Committee may select the participants who will receive awards, the types of awards they will receive and their terms and conditions, and will have the authority to make all other determinations necessary or advisable for the administration of the 2014 LTIP.

Awards

General. The Plan Committee will have the discretion to award share options, share appreciation rights, restricted shares, performance shares, restricted shares, restricted share units and other awards.

Options. Incentive share options, intended to qualify for special tax treatment in accordance with the Code, and non-qualified share options, may be granted for such number of shares as the Plan Committee determines. The Plan Committee will be authorized to set the terms of an option. Incentive share options may only be granted to employees. The purchase price of the option will be set forth in the award but may not be less than 100% of the fair market value of a share on the grant date.

Share Appreciation Rights. Share appreciation rights will entitle the participant, subject to the terms and conditions of the award, to all or a portion of the excess of the fair market value of a specified number of shares on the exercise date over a specified price, which will not be less than 100% of the fair market value of the shares on the grant date. Each share appreciation right may be exercisable in whole or in part according to the terms and conditions set forth in the award. The maximum term of a share appreciation right granted under the 2014 LTIP will be ten years. Except as otherwise provided in the award, upon exercise of a share appreciation right, the participant will receive cash, shares or a combination of cash and shares (as determined by the Plan Committee if not otherwise specified in the award) as promptly as practicable after exercise.

Performance Shares. Performance shares will entitle the participant to future payments based upon the achievement of performance targets established in writing by the Plan Committee. The award may establish that a portion of the maximum amount of an award may be paid for performance that exceeds the minimum target but falls below the maximum target and may provide for the timing of payment. The Plan Committee will determine whether payment shall be made in cash or shares, or a combination of cash and shares.

Restricted Shares and Restricted Share Units. Restricted shares may be granted in the form of shares registered in the name of the participant but held by the Company until the restrictions have lapsed. Restricted share units are units representing a value equal to the same number of shares. Subject to conditions and restrictions as the Plan Committee may establish in the award, during any period that an award of restricted shares or restricted share units will be restricted, (1) recipients of restricted share awards may exercise full voting rights with respect to such shares and will be entitled to all dividends and other distributions paid with respect to such shares while they are so restricted and (2) recipients of restricted share unit awards will have no dividend rights with respect to the shares subject to such restricted share units, other than as the Plan Committee so provides, and will have no voting rights. Any dividends may be paid currently or may be credited to a recipient's account and may be subject to such restrictions and conditions as the Plan Committee may establish.

Other Forms of Award

The Plan Committee may from time to time grant other awards under the 2014 LTIP, including, without limitation, cash bonus awards, securities convertible into common shares and phantom securities. The terms and conditions of such awards will be determined by the Plan Committee, acting within its discretion under the 2014 LTIP.

Performance-Based Awards. If the Plan Committee determines at the time an award is granted to a participant that the participant is, or is likely to be as of the end of the tax year in which the Company would claim a tax deduction in connection with the award, a covered employee within the meaning of Section 162(m) of the Code, the Plan Committee may provide that performance-based provisions apply to the award. The Plan Committee may provide, in its discretion, that an award granted to any other participant is subject to performance-based provisions. Awards under the 2014 LTIP may be made subject to the achievement of performance criteria, which shall be performance goals established by the Plan Committee relating to one or more business criteria. The performance criteria available to the Plan Committee for establishing performance goals may include, without limitation: (1) revenue or revenue growth, (2) index comparisons, (3) earnings or net income (before or after taxes), (4) operating margin or operating expense, (5) peer company comparisons, (6) productivity, (7) profit margin, (8) return on revenue, (9) sales growth, (10) return on assets, (11) share price, (12) earnings per share, (13) cash flow, (14) underwriting profit, (15) market share, (16) costs, (17) debt to equity ratio, (18) net revenue or net revenue growth, (19) gross revenue, (20) total segment profit, (21) EBITDA, (22) adjusted diluted earnings per share, (23) gross profit, (24) gross profit growth, (25) adjusted gross profit, (26) adjusted operating profit, (27) earnings or earnings per share before income tax (profit before taxes), (28) net earnings or net earnings per share (profit after tax), (29) compound annual growth in earnings per share, (30) operating income or net operating income, (31) combined ratio or loss ratio, (32) total or compound shareholder return, (33) return on tangible equity, (34) gross written premiums, (35) return on invested capital, (36) book value or growth in book value, (37) growth in tangible equity per share, (38) pre-tax and pre-interest expense return on average invested capital, which may be expressed on a current value basis, or

(39) sales growth, (40) marketing, (41) operating or (42) workplan goals. The Plan Committee may designate additional business criteria on which the performance awards may be based or adjust, modify or amend the above criteria. The Plan Committee will determine, at its discretion, whether performance criteria have been attained and whether a performance-based award should be paid to a participant.

Award Agreements. Awards under the 2014 LTIP will be evidenced by award agreements that provide additional terms, conditions, restrictions or limitations regarding the award, as determined by the Plan Committee in its sole discretion.

Transferability

Generally, any awards made under the 2014 LTIP may not be sold, assigned, transferred or exchanged, except as otherwise permitted by the Plan Committee. Additionally, an option or share appreciation right may only be exercised by the participant during his or her lifetime, except as otherwise permitted by the Plan Committee.

Capital Change Adjustments

In the event of a dissolution or liquidation of the Company, a sale of all or substantially all of its assets or a merger or consolidation of the Company with or into any other corporation (regardless of whether the Company is the surviving corporation), divestiture, distribution of assets to shareholders (other than ordinary cash dividends), reorganization, recapitalization and other similar types of capital changes that affect the Company’s common shares, appropriate adjustments to the awards under the 2014 LTIP will be made by the Plan Committee.

Change in Control

Unless otherwise provided in an award agreement, in the event of a “change in control” (as defined below), a person that is terminated without “cause” or resigns for “good reason” within 12 months of the change in control transaction will have (1) all options or share appreciation rights held by such person become immediately exercisable if not then fully exercisable, (2) the period of restriction on all restricted shares expires and such awards vest immediately and (3) any other vesting criteria or performance goals deemed achieved at 100% target levels, in each case as of the date of termination of the person’s employment. Additionally, in the event of a change in control, the Plan Committee may, to the extent the Plan Committee determines it is permitted under Code Section 409A, cancel any outstanding award and pay to the holders thereof the value of the award, in cash or common shares, based upon the price per common share to be received by other shareholders of the Company, or provide for the assumption of or issuance of substitute awards.

A “change in control” will be defined as (1) the purchase or other acquisition by any person or entity of beneficial ownership of 50% or more of either the then outstanding common shares or the then outstanding voting securities entitled to vote generally in the election of directors, (2) the consummation of a merger or consolidation involving the Company such that persons who were the shareholders of the Company immediately prior to such change in control transaction do not immediately thereafter own 50% of the outstanding common shares or voting securities or (3) a liquidation or dissolution of the Company.

Forfeiture and Clawback

The Plan Committee may specify in an award agreement applicable to an award under the 2014 LTIP that the recipient’s rights, payments and benefits with respect to an award will be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions of an award. Additionally, any award granted under the 2014 LTIP which is subject to recovery under any law, government regulation, stock exchange listing requirement, or Company policy, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement, or any policy adopted by the Company.

Amendment, Modification and Termination

Subject to the terms of the 2014 LTIP, our board of directors may at any time amend, modify or suspend the 2014 LTIP, and the Plan Committee may at any time alter or amend any or all awards under the

2014 LTIP to the extent permitted by law. Any alterations or amendments may be made unilaterally by the Plan Committee, subject to the provisions of the 2014 LTIP, unless such amendments are deemed by the Plan Committee to be materially adverse to the participants and are not required as a matter of law. Amendments will be subject to approval of the shareholders of the Company only as required by law, or if the amendment increases the total number of shares available under the 2014 LTIP, except as adjusted for specified changes in capitalization. Unless sooner terminated, the 2014 LTIP will automatically terminate on the tenth anniversary of its effective date. No awards shall be granted pursuant to the 2014 LTIP after such termination or expiration, but outstanding awards may extend beyond that date.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Policies and Procedures for Related Person Transactions

Prior to the consummation of this offering, we intend to adopt a related person transactions policy pursuant to which our executive officers, directors and principal shareholders, including their immediate family members, will not be permitted to enter into a related person transaction with us without the consent of our Audit Committee, another independent committee of our board or the full board. Any request for us to enter into a transaction with an executive officer, director, principal shareholder or any of such persons' immediate family members, in which the amount involved exceeds $120,000, will be required to be presented to our Audit Committee for review, consideration and approval. All of our directors, executive officers and employees will be required to report to our Audit Committee any such related person transaction. In approving or rejecting the proposed transaction, our Audit Committee will take into account, among other factors it deems appropriate, whether the proposed related person transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances, the extent of the related person's interest in the transaction and, if applicable, the impact on a director's independence. Under the policy, if we should discover related person transactions that have not been approved, our Audit Committee will be notified and will determine the appropriate action, including ratification, rescission or amendment of the transaction.

Related Party Transactions

Shareholders Agreement

We are party to the Shareholders Agreement with the D. E. Shaw Affiliates, Goldman Sachs, J. Adam Abram, our Chief Executive Officer and Chairman, Gregg Davis, our Chief Financial Officer, Michael Oakes, a member of our board of directors, and each of the other holders of our outstanding common shares (collectively, the "Investors"), which agreement provides for, among other things, designation of directors for election, supermajority shareholder approval for certain actions of the Company, restrictions on the transfer of equity securities of the Company, preemptive rights and certain registration rights. The parties to the Shareholders Agreement have agreed to terminate such agreement upon the consummation of the offering contemplated by this prospectus, except that the provisions regarding registration rights shall be continued in substance pursuant to a registration rights agreement described below.

Offering Agreement

We are party to an offering agreement with the D. E. Shaw Affiliates, Goldman Sachs, and Messrs. Abram, Davis and Oakes (the "Offering Agreement"), which sets forth the understanding between the Company and the selling shareholders with respect to the filing of the registration statement of which this prospectus forms a part, payment of expenses, indemnification, selection of underwriters and certain other matters relating to this offering. As of the date of this prospectus, we have incurred approximately $• in expenses of the selling shareholders incurred in connection with this offering.

Registration Rights Agreement

We will enter into a registration rights agreement with the Investors which will be effective upon the consummation of the offering contemplated by this prospectus. The registration rights agreement will provide the Investors with certain rights for the registration of their common shares following the consummation of the offering contemplated by this prospectus, a summary of which follows.

Demand Registration

Pursuant to the registration rights agreement, at any time following the date that is six months after this offering, holders of an aggregate of 20% or more of our outstanding voting securities (the "Requisite Holders") may request the Company to register some or all of such parties' securities under the Securities Act (a "Demand Registration"). The D. E. Shaw Affiliates, collectively, and the Goldman Sachs entities, acting together, are each additionally entitled to one Demand Registration, provided that the requesting holder owns at least 5% of our outstanding voting securities at the time of its demand. Promptly after receiving a Registration Demand, we will give written notice of such request to all other Investors and will use commercially reasonable efforts to register all securities requested to be registered in accordance with the provisions of the registration rights agreement. Notwithstanding the foregoing, unless agreed by our board of directors, the Company will not be required to register securities for any Investor requesting registration unless (1) the proceeds expected to be received upon the sale of the shares being registered equals or exceeds $25 million and (2) at least six months have passed since the effective date of another registration statement that was filed pursuant to a Demand Registration.

Short Form Registration

Following the consummation of the offering contemplated by this prospectus, we will use commercially reasonable efforts to qualify for registration on Form S-3, or if the company qualifies as a well-known seasoned issuer, Form S-3ASR, (a "Short-Form Registration"), and if requested by the Requisite Holders, and available to us, the Short-Form Registration shall be a "shelf" registration statement providing for the registration of, and the sale on a continuous or delayed basis of, the unregistered securities of those holders requesting registration. Following the consummation of the offering contemplated by this prospectus, the Requisite Holders may request at any time an unlimited number of Short-Form Registrations, which registrations will not count against the limits on Demand Registrations, provided that we shall not be required to register securities for any Investor unless (1) the value of the securities held by the Requisite Holders to be included in the registration statement is at least $25 million or such lower amount as agreed by the other Investors and (2) at least 90 days have passed since the effective date of another registration statement that was filed pursuant to a Demand Registration. Promptly after receiving a request for a Short-Form Registration, we will give written notice of such request to all other Investors and will use commercially reasonable efforts to register all securities requested to be registered in accordance with the provisions of the registration rights agreement.

At any time that a shelf registration statement covering registrable securities is effective, Requisite Holders may deliver a take-down notice stating that such Requisite Holders intend to effect an offering of all or part of the securities included on the shelf registration statement. Any number of take-down notices may be made by Requisite Holders, and the D. E. Shaw Affiliates, collectively, and the Goldman Sachs entities, collectively, are each additionally entitled to deliver any number of take-down notices with respect to take-down offerings that are not underwritten. The D. E. Shaw Affiliates, collectively, and the Goldman Sachs entities, collectively, are each additionally entitled to one take-down notice with respect to underwritten take-down offerings, provided that the requesting holder owns at least 5% of our outstanding voting securities at the time of the take-down notice. No take-down notice may be delivered within 30 days after the effective date of any registration statement filed pursuant to the registration rights agreement, other than a Form S-3ASR. Promptly after receiving a take-down notice, we will give written notice of such request to all other Investors and will use commercially reasonable efforts to register all securities requested to be included in the offering in accordance with the provisions of the registration rights agreement. We will not be required to undertake an underwritten offering unless the proceeds from the securities to be sold in such offering is expected to equal or exceed $100 million.

Selection of Underwriters

If the requesting holders in a demand registration intend that the offering covered by their registration request be an underwritten offering, then the managing underwriter to administer the offering shall generally be selected by holders of a majority of the registrable securities covered by such request, subject to our prior written consent, which is not to be unreasonably withheld or delayed.

Piggyback Rights

Whenever we propose to register any of our securities under the Securities Act, other than a registration described in the preceding paragraphs, and excluding specified other types of registrations (including registrations of securities for employee benefit plans or in connection with a business acquisition), we will give prompt written notice to all Investors of our intention to effect such a registration and, subject to exception, our Investors may notify us that they wish to register securities held by them in the registration statement to be filed (a “Piggyback Registration”), and subject to the limitation described below, if an Investor notifies us in writing that such Investor wishes to include securities in the registration statement within 5 business days of our notice, we will include such securities.

If the proposed sale of securities under a Demand Registration or with respect to a Piggyback Registration is to be underwritten, then if we receive advice from the underwriter that the number of securities to be included in the registration statement will adversely affect the marketability of the offering, then the number of shares to be included in the registration statement shall be limited.

Indemnification, Expenses and Underwriting

We will indemnify the Investors and their affiliates for certain liabilities that may arise under the Securities Act.

To the extent permitted by applicable law we will pay all expenses incurred in connection with a Demand Registration, Short-Form Registration or Piggyback Registration, including, the cost of one U.S. counsel, but excluding underwriting discounts, selling commissions and transfer taxes applicable to the sale of shares in the offering.

Share Repurchase

In April 2013, we repurchased all of the outstanding Class A common shares owned by Sunlight Capital Ventures, LLC and Sunlight Capital Partners II, LLC (together the “Sunlight Investors”) which shareholders owned approximately 17.5% of our outstanding Class A common shares in the aggregate. The purchase price for the shares was approximately $92.3 million, with $73.8 million of the purchase price paid in cash and the remaining $18.5 million paid with promissory notes. The principal amounts and accrued interest on the notes were paid in full in June 2013. The interest rate on the notes was 2.5% per annum.

Indemnification Agreements with the D. E. Shaw Affiliates, Goldman Sachs and the Sunlight Investors

James River Group Holdings, Ltd. and our subsidiary James River Group entered into an indemnification agreement with each of (1) the D. E. Shaw Affiliates, (2) the Goldman Sachs Group, Inc. and (3) the Sunlight Investors (the “Indemnification Agreements”). Pursuant to the terms of the Indemnification Agreements, we have agreed to indemnify each of the above investors and their respective affiliates, members and shareholders (collectively, the “Indemnitees”) from:

(1) all claims, obligations, liabilities and actions arising under the securities laws as a result of, among other things, (a) our acquisition of James River Group in December 2007 and related transactions, (b) any offering of securities and (c) regulatory filings, including periodic filings with the SEC; and

(2) to the fullest extent permitted by applicable law, (a) an Indemnitee’s service as a director or officer of the Company or service at its request in another capacity, (b) any breach or alleged breach by an Indemnitee of his or her fiduciary duty as a shareholder, director or an officer of the Company or (c) any payment by the relevant investor or indemnified person with respect to liabilities arising under clauses (a) and (b), except where a court of competent jurisdiction has rendered a final determination that the liabilities were incurred by reason of such Indemnities fraud or willful misconduct.

Director and Officer Indemnification Agreements

We intend to enter into indemnification agreements to indemnify our directors and executive officers. Pursuant to these agreements we will indemnify our directors and executive officers to the fullest extent permitted by applicable Bermuda law against all expenses, including attorneys’ fees, judgments, fines and settlement amounts incurred by any person indemnified under the agreement in actions or proceedings, including actions by us or in our right, arising out of such person’s services as our director or executive officer, any of our subsidiaries or any other company or enterprise to which the person provided services at our request.

Corporate Opportunities

Except for our officers, directors (other than as described in this sentence), managers or employees, our bye-laws will provide that no shareholder nor any of its affiliates, or any of its or their respective directors, officers, employees, agents, general or limited partners, managers, members, or shareholders, in any case whether or not one of our directors or officers, will have any duty to communicate or present any investment or business opportunity or prospective transaction, agreement, arrangement, or other economic advantage to us. In addition, to the fullest extent permitted by law, such persons may engage in businesses competitive with ours. In our bye-laws we will explicitly renounce any interest of the company in such opportunities and any expectation that such opportunities will be offered to us.

Investments with Affiliates of the D. E. Shaw Affiliates

Our directors, Bryan Martin and David Zwillinger, are Managing Director and Senior Vice President, respectively, of D. E. Shaw & Co., L.P., the investment advisor of, and an affiliate of, the D. E. Shaw Affiliates. The D. E. Shaw Affiliates are collectively our largest shareholders, owning approximately 72.6% of our outstanding shares in the aggregate. We have made several investments in entities affiliated with the D. E. Shaw Affiliates, which are set forth below.

1. In 2011, we made a $6,500,000 investment in D. E. Shaw Renewable Investments Power County, L.L.C., a Delaware limited liability company (“Power County”) that is an affiliate of the D. E. Shaw Affiliates. We sold this investment in March 2014 to unaffiliated third parties. Messrs. Martin and Zwillinger are also investors in Power County and also have an economic interest in its performance.
2. In 2011, we made a $10,000,000 investment in bonds due 2018 issued by First Wind Capital, LLC, a Delaware limited liability company (“First Wind Capital”) engaging in wind energy projects. In April 2014, we invested an additional $1.9 million in bonds issued by First Wind Capital. First Wind Capital is a subsidiary of First Wind Holdings, LLC (“First Wind Holdco”). An affiliate of the D. E. Shaw Affiliates owns approximately 47% of First Wind Holdings, LLC. Messrs. Martin and Zwillinger are directors of First Wind Holdco and also have an economic interest in its performance.
3. In 2012, we made an investment of $10,000,000 in DESRI II, L.L.C., a Delaware limited liability company (“DESRI II”), engaging in solar energy projects. DESRI II is an affiliate of the D. E. Shaw Affiliates. Messrs. Martin and Zwillinger are investors in DESRI II and also have an economic interest in its performance. Mr. Abram is also an investor in DESRI II. In 2014, DESRI II returned $360,000 of capital to us.
4. In 2013, we made an investment of $4,825,000 in DESRI IV, L.L.C. (“DESRI IV”), a Delaware limited liability company, which was formed to acquire Kawailoa Wind, LLC, a Delaware limited liability company that owns and operates a wind energy project. DESRI IV is an affiliate of the D. E. Shaw Affiliates. Messrs. Martin and Zwillinger are investors in DESRI IV and also have an economic interest in its performance. Mr. Abram and his family are also investors in DESRI IV.
5. In 2013, we made an initial investment of $5,200,000 in DESRI V, L.L.C., a Delaware limited liability company (“DESRI V”), engaging in solar energy projects. In May 2014, we invested an additional $2,800,000 in DESRI V. DESRI V is an affiliate of the D. E. Shaw Affiliates. Messrs. Martin and Zwillinger are investors in DESRI V and have an economic interest in its performance.
6. In 2013, we purchased a note for $4,950,000 due in 2020 issued by Northeast Wind Capital II, LLC, a Delaware limited liability company and a subsidiary of First Wind Holdco.

We may consider making additional investments with affiliates of the D. E. Shaw Affiliates from time to time.

Additional Transactions

Mr. Abram owns all of the outstanding membership interests of Standiford Bluffs, LLC (“Standiford”), which leases airplanes to the Company. Total fees paid by us for lease of planes from

Standiford were approximately $228,000 in 2013. We have paid $451,000 to Standiford through June 30, 2014, of which $300,000 related to air travel overage costs.

We invested an aggregate of $5,600,000 in Piedmont. Mr. Abram was the Chairman of and an investor in Piedmont. In July 2014, Piedmont merged into Yadkin and we received shares of Yadkin as a result of such transaction. Upon the occurrence of the merger, Mr. Abram became a director of Yadkin.

In 2013, we subleased office space in Raleigh, North Carolina, from Piedmont for an annual rent of approximately $108,000. In July 2014, we extended the sublease through 2019. We will pay approximately $120,000 for use of the office space during 2014, with annual increases in the rent charged each year until the end of the sublease term. Yadkin assumed the original lease upon its merger with Piedmont. Mr. Abram is a director of Yadkin, and formerly the Chairman of the Board and an investor in Piedmont. The sublease is on the same terms as Yadkin's lease with the third-party landlord.

In September 2013, James River Group purchased $4,500,000 of privately placed subordinated debt of VantageSouth, due August 2023. Mr. Abram served as the chairman of the board of VantageSouth, and its majority investor was Piedmont (of whom Mr. Abram was an investor and chairman of the board) until its acquisition by Yadkin in July 2014 (at which time Mr. Abram became a director of Yadkin). This debt was assumed by Yadkin upon its merger with VantageSouth.

On June 5, 2013, we closed on a three-year $125 million senior revolving credit facility which was comprised of a $62.5 million secured revolving facility and a $62.5 million unsecured revolving facility. KeyBank National Association serves as the Administrative Agent on the credit facility. On September 24, 2014, we closed on an amendment to the credit facility, which among other things, increased the size of the unsecured revolving facility to $112.5 million. VantageSouth Bank was one of the lenders in the original credit facility and on the closing date of the credit facility, issued a loan to the Company in the amount of $4 million. This amount was subsequently increased to $6 million on the closing date of the amendment to the credit facility.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of our Class A common shares and Class B common shares as of October 15, 2014, by:

- each person, or group of persons, who is known to beneficially own more than 5% of our Class A common shares or Class B common shares;
- each of our directors;
- each of the named executive officers;
- all of our directors and executive officers as a group; and
- other selling shareholders.

The table also sets forth pro-forma information regarding the ownership of our common shares following (1) the Recapitalization and (2) the completion of the offering, assuming that the underwriters' overallotment option is exercised.

The amounts and percentages owned are reported on the basis of the SEC's rules governing the determination of beneficial ownership of securities. The SEC's rules generally attribute beneficial ownership of securities to each person who possesses, either solely or shared with others, the voting power or investment power, which includes the power to dispose of those securities. The rules also treat as issued and outstanding all shares that a person would receive upon exercise of options held by that person that are immediately exercisable or exercisable within 60 days of September 15, 2014. These shares are deemed to be outstanding and to be beneficially owned by the person holding those options for the purpose of computing the number of shares beneficially owned and the percentage ownership of that person, but they are not treated as issued and outstanding for the purpose of computing the percentage ownership of any other person. Under these rules, one or more persons may be a deemed beneficial owner of the same securities and a person may be deemed a beneficial owner of securities to which such person has no economic interest. Unless otherwise indicated, the persons or entities identified in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws.

Options to Acquire Class B Common Shares

As of September 15, 2014, no Class B common shares were outstanding and options to acquire 58,300 Class B common shares in the aggregate were outstanding. Pursuant to the Company's Second Amended and Restated Bye-laws, which will remain in effect until immediately prior to the completion of this offering, the holders of Class A common and Class B common shares vote together on all matters for which a vote of shareholders is required or permitted, except as required by law. In any such vote, each holder of Class B common shares shall be entitled to one vote per share, and each holder of Class A common shares shall be entitled to the number of votes per share equal to the number necessary such that the holders of the Class A common shares would hold an equivalent of 90% of the fully diluted Class B common shares, if a conversion were to occur.

Irrevocable Proxies Granted by the D. E. Shaw Affiliates

The D. E. Shaw Affiliates have granted irrevocable proxies to vote 174,620 Class A common shares in the aggregate, representing approximately 31% of the outstanding Class A common shares. As result of granting such proxies, the D. E. Shaw Affiliates only have the right to vote approximately 42% of the total number of Class A common shares outstanding in the aggregate. Proxies were granted by the D. E. Shaw Affiliates to each of Messrs. Abram, Davis, Myron and Oakes. Copies of the proxies are on file with the Company. The number of Class A common shares of the D. E. Shaw Affiliates that each of the other parties has the power to vote pursuant to the irrevocable proxies, as well as the aggregate number of Class A common shares subject to the proxies, is determined based upon a formula set forth in the proxies. As of September 15, 2014, each of Messrs. Abram, Davis, Myron and Oakes has the power to vote 43,655 Class A common shares owned by the D. E. Shaw Affiliates. Pursuant to the terms of the proxies, each of the proxies will automatically terminate upon the D. E. Shaw Affiliates ceasing to own, in the aggregate, in excess of 42% of the voting power of our outstanding voting securities.

As explained above, under the SEC's rules governing the determination of beneficial ownership, each of Messrs. Abram, Davis, Myron and Oakes is deemed to beneficially own the 43,655 Class A common shares owned by the D. E. Shaw Affiliates as a result of the power to vote such shares, and therefore, such number of Class A common shares is included in the number of Class A common shares indicated as beneficially owned by each of them in the table below. Additionally, because each of the D. E. Shaw Affiliates retains the power to dispose of the Class A common shares that are subject to the irrevocable proxies, the aggregate number of Class A common shares subject to the proxies is also indicated as beneficially owned by them in the table below.

The information provided in the table below with respect to each principal shareholder has been obtained from that shareholder. See "Management — Directors and Executive Officers" for professional biographies of the directors and executive officers, including their relationships with certain beneficial owners of Class A common shares listed in the table below.

	Class A Common Shares Beneficially Owned Prior to Offering[2]		Class B Common Shares Beneficially Owned Prior to the Offering[4]		Common Shares Offered by this Prospectus	Common Shares Beneficially Owned After the Offering Assuming the Underwriters' Option is Exercised in Full	
Beneficial Owner[1]	**Number of Shares**	**Percentage of Class[3]**	**Number of Shares**	**Percentage of Class[5]**	**Number of Shares**	**Number of Shares**	**Percentage of Class**
5% Shareholders							
The D. E. Shaw Affiliates[6]	414,360	72.6%					
Goldman Sachs[7]	150,000	26.3%					
Directors and Executive Officers							
J. Adam Abram[8]	47,678	8.4%					
Robert P. Myron[9]	43,655	7.6%					
Bryan Martin[10]	414,360	72.6%					
Michael T. Oakes[11]	44,652	7.8%					
R. J. Pelosky, Jr.	—	*					
David Zwillinger[12]	414,360	72.6%					
Gregg T. Davis[13]	43,934	7.7%					
Steven J. Hartman	—	*					
Dennis Johnson	—	*					
Richard Schmitzer	—	*					
Directors and Executive Officers as a group (9 persons)[14]	179,919	31.5%					
Other selling shareholders							

* Represents beneficial ownership of less than 1%.

(1) The address of each beneficial owner listed in the table above under "Directors and Executive Officers" is c/o James River Group Holdings, Ltd., 32 Victoria Street, Hamilton, Bermuda HM 12.

(2) Total beneficial ownership is determined in accordance with the rules of the SEC.

(3) Based on an aggregate of 570,807 Class A common shares issued and outstanding as of September 15, 2014.

(4) Represents options to acquire Class B common shares that are vested or will vest within 60 days of •, 2014.

(5) The percentage of class is based upon • options vested or that will vest within 60 days of •, 2014.

(6) Includes 72,099 Class A common shares held directly by D. E. Shaw CF-SP Franklin, L.L.C.; 204,141 Class A common shares held directly by D. E. Shaw CH-SP Franklin, L.L.C. and 138,120 Class A common shares held directly by D. E. Shaw Oculus Portfolios, L.L.C. (collectively, the "Subject Shares"). Each of the D. E. Shaw Affiliates has the power to dispose of the Subject Shares directly owned by it. The D. E. Shaw Affiliates retain voting power over 239,739 Class A common shares in the aggregate (the "Voting Shares"). The D. E. Shaw Affiliates have granted irrevocable voting proxies to each of Messrs. Abram, Myron, Oakes and Davis with respect to 174,620 Class A Common Shares in the aggregate. The number of Class A common shares that each of the aforementioned parties has the power to vote pursuant to the proxy granted to such party is indicated in the footnote below applicable to such party. D. E. Shaw & Co., L.P., as investment adviser of each of D. E. Shaw CF-SP Franklin, L.L.C.; D. E. Shaw CH-SP Franklin, L.L.C.; and D. E. Shaw Oculus Portfolios, L.L.C., may be deemed to have the shared power to vote or direct the vote of the Voting Shares, and the shared power to dispose or direct the disposition of the Subject Shares.
As general partner of D. E. Shaw & Co., L.P., D. E. Shaw & Co., Inc. may be deemed to have the shared power to vote or to direct the vote of the Voting Shares and the shared power to dispose or direct the disposition of the Subject Shares. Neither D. E. Shaw & Co., L.P. nor D. E. Shaw & Co., Inc. owns any Class A common shares directly, and each such entity disclaims beneficial ownership of the Subject Shares except to the extent of any pecuniary interest therein. David E. Shaw does not own any Class A common shares directly. By virtue of David E. Shaw's position as President and sole stockholder of D. E. Shaw & Co., Inc., which is the general partner of D. E. Shaw & Co., L.P., which in turn is the investment adviser of each of D. E. Shaw CF-SP Franklin, L.L.C.; D. E. Shaw CH-SP Franklin, L.L.C.; and D. E. Shaw Oculus Portfolios, L.L.C., David E. Shaw may be deemed to have the shared power to vote or direct the vote of the Voting Shares and the shared power to dispose or direct the disposition of the Subject Shares. David E. Shaw disclaims beneficial ownership of the Subject Shares except to the extent of any pecuniary interest therein. Messrs. Martin and Zwillinger, directors of the Company, are each officers of D. E. Shaw & Co., L.P. and thus may be deemed to have the shared power to vote or to direct the vote of the Voting Shares and the shared power to dispose or direct the disposition of the Subject Shares. Messrs. Martin and Zwillinger disclaim beneficial ownership of the Subject Shares, except to the extent of each such person's pecuniary interest therein. The address of the D. E. Shaw Affiliates is 1166 Avenue of the Americas, Sixth Floor, New York, New York 10036.

Based solely upon information provided to the Company by each of the D. E. Shaw Affiliates, none of such parties is a broker-dealer, but each of such parties (a) has an affiliate that is a broker-dealer, (b) purchased securities of the Company in the ordinary course of business, and (c) at the time of the purchase of the securities now proposed to be resold, had no agreements or understandings, directly or indirectly, with any person to distribute such securities.

(7) Includes 109,608.0357 Class A common shares held directly by The Goldman Sachs Group, Inc. (over which The Goldman Sach Group, Inc. has sole dispositive and voting power) and 40,391.96432 Class A common shares beneficially owned by Goldman Sachs JRVR Investors Offshore, L.P. ("JRVR Investors"). Each of GS JRVR Offshore Advisors, Inc., the general partner of JRVR Investors, and GSAM Gen-Par, L.L.C., the sole director of GS JRVR Offshore Advisors, Inc., may be deemed to have the shared power to vote or direct the vote, and dispose or direct the disposition of the Class A common shares held directly by JRVR Investors. The Goldman Sachs Group, Inc. disclaims beneficial ownership of any common shares beneficially owned by JRVR Investors. The address of each of the Goldman Sachs entities, GS JRVR Offshore Advisors, Inc. and GSAM Gen-Par, L.L.C. is 200 West Street, New York, New York 10282.

Based solely upon information provided to the Company by Goldman Sachs, none of such parties is a broker-dealer, but each of such parties (a) has an affiliate that is a broker-dealer, (b) purchased securities of the Company in the ordinary course of business, and (c) at the time of the purchase of the securities now proposed to be resold, had no agreements or understandings, directly or indirectly, with any person to distribute such securities.

(8) Mr. Abram has dispositive power over 4,023 Class A common shares beneficially owned by him and voting power over 47,678 Class A common shares beneficially owned by him. Mr. Abram has voting power over 43,655 Class A common shares pursuant to an irrevocable proxy granted by the D. E. Shaw Affiliates.

(9) Mr. Myron has voting power over 43,655 Class A common shares beneficially owned by him pursuant to an irrevocable proxy granted by the D. E. Shaw Affiliates.

(10) Includes shares beneficially owned by the D. E. Shaw Affiliates. See footnote 6 above. Mr. Martin is a Managing Director of D. E. Shaw & Co., L.P. and may be deemed to be the beneficial owner of shares beneficially owned by the D. E. Shaw Affiliates, but disclaims such beneficial ownership (except as to any pecuniary interest therein) pursuant to rules under the Exchange Act.

(11) Mr. Oakes has dispositive power over 997 Class A common shares beneficially owned by him and voting power over 44,652 Class A common shares beneficially owned by him. Mr. Oakes has voting power over 43,655 Class A common shares pursuant to an irrevocable proxy granted by the D. E. Shaw Affiliates.

(12) Includes shares beneficially owned by the D. E. Shaw Affiliates. See footnote 6 above. Mr. Zwillinger is a Senior Vice President of D. E. Shaw & Co., L.P. and may be deemed to be the beneficial owner of shares beneficially owned by the D. E. Shaw Affiliates, but disclaims such beneficial ownership (except as to any pecuniary interest therein) pursuant to rules under the Exchange Act.

(13) Mr. Davis has dispositive power over 279 Class A common shares beneficially owned by him and voting power over 43,934 Class A common shares beneficially owned by him. Mr. Davis has voting power over 43,655 Class A common shares pursuant to an irrevocable proxy granted by the D. E. Shaw Affiliates.

(14) Excludes shares held by the D. E. Shaw Affiliates that may be deemed to be beneficially owned by Messrs. Martin and Zwillinger, each of whom disclaims beneficial ownership of such shares, except to the extent of each such person's pecuniary interest therein.

DESCRIPTION OF SHARE CAPITAL

General

We are an exempted company incorporated under the laws of Bermuda. We are registered with the Registrar of Companies in Bermuda under registration number 40141. We were incorporated on May 30, 2007 under the name Franklin Holdings (Bermuda), Ltd. On September 18, 2014 we changed our name to James River Group Holdings, Ltd. Our principal executive office is located at 32 Victoria Street, Hamilton, Bermuda. Our agent for service of process in the United States in connection with this offering is Corporation Service Company.

The following is a description of our share capital as it will be in effect upon the consummation of this offering and is a summary, qualified in its entirety by reference to the third amended and restated bye-laws to be adopted by our shareholders prior to the consummation of this offering (the "bye-laws"), the form of which will be filed as an exhibit to the registration statement of which this prospectus forms a part, and by applicable law.

Share Capital

Upon the closing of this offering, our authorized share capital will consist of • common shares, par value $• per share, and • preferred shares, par value $• per share. We will issue all shares of our share capital in uncertificated form. The following descriptions of our share capital, memorandum of association and bye-laws are intended as summaries only and are qualified in their entirety by reference to our memorandum of association and bye-laws, as they will become effective upon the completion of this offering and as filed as exhibits to the registration statement, of which this prospectus forms a part, and to applicable Bermuda law.

Preferred Shares

Pursuant to Bermuda law and our bye-laws, our board of directors by resolution may establish one or more series of preferred shares having such number of shares, designations, dividend rates, relative voting rights, conversion or exchange rights, redemption rights, liquidation rights and other relative participation, optional or other special rights, qualifications, limitations or restrictions as may be fixed by the board without any further shareholder approval. Such rights, preferences, powers and limitations as may be established could have the effect of discouraging an attempt to obtain control of the Company.

Common Shares

Common shares have no pre-emptive rights or other rights to subscribe for additional shares, and no rights of redemption, conversion or exchange. Under certain circumstances and subject to the provisions of Bermuda law and our bye-laws, we may be required to make an offer to repurchase shares held by members. All shares sold pursuant to this offering will be, when issued, fully paid and non-assessable.

Dividend Policy

The board may, subject to Bermuda law and our bye-laws, declare a dividend to be paid to our members as of a record date determined by the board, in proportion to the number of shares held by such holder, subject to any rights of holders of preferred shares. No unpaid dividend shall bear any interest.

Voting Rights

In general, and subject to the adjustments described below, shareholders will have one vote for each common share held by them and will be entitled to vote, on a non-cumulative basis, at all meetings of members. Under our bye-laws, if, and so long as, the votes conferred by the "Controlled Shares" (as defined below) of any person would otherwise cause such person (or any other person) to be treated as a "9.5% Shareholder" (as defined below) with respect to any matter (including, without limitation, election of directors), the votes conferred by the Controlled Shares owned by shareholders of such person's "Controlled Group" (as defined below) will be reduced (and will be automatically reduced in the future) by whatever amount is necessary so that after any such reduction the votes conferred by the Controlled Shares of such person will not result in any other person being treated as a 9.5% Shareholder with respect to the vote on such matter. These reductions will be made pursuant to formulas provided in our bye-laws, as applied by the board within its discretion. Under these provisions certain shareholders may have their voting rights limited to less than one vote per share, while other shareholders may have voting rights in excess of one vote per share. Any person who would be a 9.5% Shareholder as of the end of the business day that the Offering is consummated will be exempt from these voting restrictions. Thus, the D. E. Shaw Affiliates will not be subject to these provisions.

"Controlled Shares" means, in reference to any person, all shares that such person is deemed to own directly, indirectly (within the meaning of Section 958(a) of the Code) or, in the case of any U.S. person, constructively (within the meaning of Section 958(b) of the Code); "Controlled Group" means, with respect to any person, all shares directly owned by such person and all shares directly owned by each other member any of whose shares are included in the Controlled Shares of such person; "9.5% Shareholder" means a U.S. person (other than a 9.5% Excluded Person) that (a) owns (within the meaning of Section 958(a) of the Code) any shares; and (b) owns, is deemed to own, or constructively owns Controlled Shares which confer votes in excess of 9.5% of the votes conferred by all of the issued and outstanding shares; "9.5% Excluded Person" means any person who would, immediately after the consummation of the offering contemplated by this prospectus, be a 9.5% Shareholder pursuant to the definition of 9.5% Shareholder.

In addition, our bye-laws will provide that the board may determine that certain shares, shall not carry voting rights or shall have reduced voting rights to the extent that the board reasonably determines, by the affirmative vote of a majority of the directors, that it is necessary to do so to avoid any adverse tax consequences or materially adverse legal or regulatory treatment to us, any of our subsidiaries or any shareholder or its affiliates, provided that the Board will use reasonable efforts to ensure equal treatment to similarly situated members to the extent possible under the circumstances. Any person who would be a 9.5% Shareholder as of the end of the business day that the Offering is consummated will be exempt from these voting restrictions. Thus, the D. E. Shaw Affiliates will not be subject to these provisions.

Our bye-laws will authorize us to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be adjusted as described above. If, after a reasonable cure period, a member fails to respond to a request by us for information or submits incomplete or inaccurate information in response to a request, the board may eliminate the shareholder's voting rights. A member will be required to notify us in the event it acquires actual knowledge that it or one of its investors is the actual, deemed or constructive owner of 9.5% or more of our controlled shares.

Before the date of this prospectus, there has been no public market for our common shares.

Certain Bye-laws Provisions

The provisions of our bye-laws may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that you might consider in your best interest, including an attempt that might result in your receipt of a premium over the market price for your shares. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to first negotiate with our board of directors, which could result in an improvement of such persons' terms.

Number of Directors

Our bye-laws will provide that the board shall have not less than • directors or such number in excess thereof as our board of directors may determine. Also, our bye-laws will provide that for so long as the D. E. Shaw Affiliates collectively hold shares representing at least (1) 25% of the outstanding common shares, the D. E. Shaw Affiliates shall have the right to designate two directors to the board of directors and (2) 10% (but less than 25%) of the outstanding common shares, the D. E. Shaw Affiliates shall have the right to designate one director to the board of directors.

Classified Board of Directors

Upon completion of this offering, in accordance with the terms of our bye-laws, our board will be divided into three classes, class I, class II and class III, with members of each class serving staggered three-year terms. Our bye-laws will further provide that the authorized number of directors may be changed only by resolution of the board. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. Our classified board of directors could have the effect of delaying or discouraging an acquisition of us or a change in our management.

Removal of Directors

Our directors may be removed only for cause by the affirmative vote of the holders of at least a 50% of our voting shares. Any vacancy on our board, including a vacancy resulting from an enlargement of our board, may be filled only by vote of a majority of our directors then in office. So long as the D. E. Shaw Affiliates, collectively, hold the number of outstanding common shares required to designate a director at an annual meeting, the D. E. Shaw Affiliates may designate the replacement of any removed director that was designated by the D. E. Shaw Affiliates.

Shareholder Action by Written Consent

Our bye-laws will provide that shareholder action may be taken at an annual meeting or special meeting of shareholders. Shareholder action may also be taken by written consent in lieu of a meeting for so long as the D. E. Shaw Affiliates, collectively, hold no less than 25% of the outstanding common shares and the D. E. Shaw Affiliates have signed the written consent. Failure to satisfy any of the requirements for a shareholder meeting or the written consent could delay, prevent or invalidate shareholder action. At such time as the D. E. Shaw Affiliates no longer own, collectively, at least 25% of the outstanding common shares, the right to shareholder action by written consent will be eliminated to the fullest extent permitted under Bermuda law.

Shareholder Advance Notice Procedure

Our bye-laws will establish an advance notice procedure for shareholders to make nominations of candidates for election as directors or to bring other business before an annual meeting of our shareholders. The bye-laws will provide that any shareholder wishing to nominate persons for election as directors at, or bring other business before, an annual meeting must deliver to our secretary a written notice of the shareholder's intention to do so. These provisions may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed. We expect that these provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company. To be timely, the shareholder's notice must be delivered to or mailed and received by us not less than 90 days nor more than 120 days before the anniversary date of the preceding annual meeting, except that if the annual meeting is set for a date that is not within 25 days before or after such anniversary date, we must receive the notice not later than 120 days prior to such annual general meeting and not later than the later of 70 days prior to the date of the general meeting or the close of business on the tenth day following the earlier of the date on which notice of the annual general meeting was posted to shareholders or the date on which public disclosure of the date of the annual general meeting was made. The notice must include the following information:

- the name and address of the shareholder who intends to make the nomination and the name and address of the person or persons to be nominated or the nature of the business to be proposed;
- a representation that the shareholder is a holder of record of our share capital entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons or to introduce the business specified in the notice;
- if applicable, a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons, naming such person or persons, pursuant to which the nomination is to be made by the shareholder;
- such other information regarding each nominee or each matter of business to be proposed by such shareholder as would be required to be included in a proxy statement filed under the SEC's proxy rules if the nominee had been nominated, or intended to be nominated, or the matter had been proposed, or intended to be proposed, by the board of directors;

- if applicable, the consent of each nominee to serve as a director if elected; and such other information that the board of directors may request in its discretion; and
- such other information that the board of directors may request in its discretion.

Right to Repurchase Our Common Shares in the Event of Adverse Tax Consequences

Under our bye-laws and subject to the law of the Bermuda, we will have the option, but not the obligation, to purchase all or part of the shares of the Company held by a shareholder, other than any shareholder that owns more than 9.5% of the total voting power of our common shares as of the consummation of the offering contemplated by this prospectus, at fair market value (as determined by the average closing sales prices of the shares on certain exchanges, or if there is no sales price or quotation available, by an investment advisor selected by our board of directors and reasonably approved by the shareholder whose shares are being purchased) to the extent that the board of directors determines that such shareholder's ownership of such common shares may result in an adverse tax consequence for the Company or any of its subsidiaries or any shareholder (or any direct or indirect owner of such shareholder); provided that the board of directors will use reasonable efforts to exercise such discretion equally among similarly situated shareholders. The D. E. Shaw Affiliates will not be subject to this provision.

Amendments to Memorandum of Association and Bye-laws

Amendments to our bye-laws will require an affirmative vote of the majority of our board and a majority of the outstanding shares then entitled to vote at any annual or special meeting of shareholders. Amendments to our memorandum of association will require an affirmative vote of the majority of our board and 66.67% of the outstanding shares then entitled to vote at any annual or special meeting of shareholders. Our bye-laws will also provide that specified provisions of our bye-laws may not be amended, altered or repealed unless the amendment is approved by the affirmative vote of the holders of at least 66.67% of the issued and outstanding shares then entitled to vote at any annual or special meeting of shareholders, including the provisions governing voting, the election of directors, our classified board, director removal and amendments to our bye-laws and memorandum of association. In addition, so long as the D. E. Shaw Affiliates hold at least 20% of the outstanding common shares, no amendment to the memorandum of association or bye-laws which would have an adverse effect on the D. E. Shaw Affiliates may be made without consent of the D. E. Shaw Affiliates.

These provisions make it more difficult for any person to remove or amend any provisions in our memorandum of association and bye-laws that may have an anti-takeover effect.

Certain D. E. Shaw Affiliate Rights

For so long as the D. E. Shaw Affiliates hold at least 20% of the outstanding shares of the company, until the third anniversary of the consummation of the offering, the approval of a D. E. Shaw Affiliates designated director will be required for (1) us to sell all or substantially all of our assets, merge, consolidate or enter into another similar business combination transaction, subject to certain limited exceptions involving among other things related party transactions or proposed related party transactions and (2) the removal, termination or replacement of our chief executive officer, chief operating officer or our chief financial officer. In addition, during such three year period, so long as the D. E. Shaw Affiliates hold 20% of the outstanding shares of the company, subject to applicable listing requirements, a director designated by the D. E. Shaw Affiliates will be entitled to serve as chair of our board's nominating and corporate governance committee and a director designated by the D. E. Shaw Affiliates will also have the right to attend meetings of any committee of our board.

Meetings of Shareholders

Our annual general meeting will be held each year. A special general meeting will be held when, in the judgment of the Chairman, any two directors, any director and our secretary or the board, such a meeting is necessary. In addition, upon receiving a requisition from holders of at least 25% of our voting shares, the board shall convene a special general meeting. At least two or more persons representing more than 50% of our aggregate voting power must be present to constitute a quorum for the transaction of business at a general meeting, provided that if we shall at any time have only one member, one member present in person or by proxy shall form a quorum for the transaction of business at any general meeting held during such time. No shareholder may participate in any general meeting during which the shareholder (or shareholder's representative) is physically present in the United States. As determined according to certain adjustments of voting power specified in our bye-laws (See "— Common Shares — Voting Rights"), questions proposed for consideration by the shareholders will be decided by the affirmative vote of the majority of the votes cast.

Market Listing

We intend to apply to list our common shares on the NASDAQ Stock Market under the symbol "JRVR." The listing will be subject to approval of our application.

Transfer Agent and Registrar

Upon the completion of this offering, the transfer agent and registrar for our common shares will be •.

COMPARISON OF SHAREHOLDER RIGHTS

Differences in Corporate Law

You should be aware that the Companies Act, which applies to us, differs in certain material respects from laws generally applicable to U.S. companies incorporated in the State of Delaware and their shareholders. The following is a summary of certain significant differences between the Companies Act (including modifications adopted pursuant to our bye-laws) and Bermuda common law applicable to us and our shareholders and the provisions of the Delaware General Corporation Law applicable to U.S. companies organized under the laws of Delaware and their shareholders.

Duties of Directors

The Companies Act authorizes the directors of a company, subject to its bye-laws, to exercise all powers of the company except those that are required by the Companies Act or the company's bye-laws to be exercised by the shareholders of the company. Our bye-laws provide that our business is to be managed and conducted by our board. At common law, members of a board of directors owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company and exercise their powers and fulfill the duties of their office honestly. This duty includes the following essential elements:

- a duty to act in good faith in the best interests of the company;
- a duty not to make a personal profit from opportunities that arise from the office of director;
- a duty to avoid conflicts of interest; and
- a duty to exercise powers for the purpose for which such powers were intended.

The Companies Act imposes a duty on directors and officers of a Bermuda company:

- to act honestly and in good faith with a view to the best interests of the company; and
- to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Companies Act also imposes various duties on directors and officers of a company with respect to certain matters of management and administration of the company.

Under Bermuda law, directors and officers generally owe fiduciary duties to the company itself, not to the company's individual shareholders or members, creditors, or any class of either shareholders, members or creditors. Our shareholders may not have a direct cause of action against our directors.

Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the company. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the company and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction and that the transaction was of fair value to the company.

Interested Directors

Bermuda law and our bye-laws provide that if a director has an interest in a material contract or proposed material contract with us or any of our subsidiaries or has a material interest in any person that is a party to such a contract, the director must disclose the nature of that interest at the first opportunity either at a meeting of directors or in writing to the directors. Our bye-laws provide that, after a director has made such a declaration of interest, he is allowed to be counted for purposes of determining whether a quorum is present and to vote on a transaction in which he has an interest, unless disqualified from doing so by the chairman of the relevant board meeting.

Under Delaware law, such transaction would not be voidable if (1) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors; (2) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote on the matter or (3) the transaction is fair as to the company as of the time it is authorized, approved or ratified. Under Delaware law, such interested director could be held liable for a transaction in which such director derived an improper personal benefit.

Voting Rights and Quorum Requirements

Under Bermuda law, the voting rights of our shareholders are regulated by our bye-laws and, in certain circumstances, the Companies Act. Generally, except as otherwise provided in the bye-laws or the Companies Act, any action or resolution requiring approval of the shareholders may be passed by a simple majority of votes cast, except for the election of directors which requires only a plurality of the votes cast.

Any individual who is a shareholder of common shares of our company and who is present at a meeting may vote in person, as may any corporate shareholder that is represented by a duly authorized representative at a meeting of shareholders. Our bye-laws also permit attendance at general meetings by proxy, provided the instrument appointing the proxy is in the form specified in the bye-laws or such other form as the board may determine. Under our bye-laws, each holder of common shares is entitled to one vote per common share held, except in cases where voting rights are reduced as described under "Risk Factors — Risks Related to Our Common Shares and This Offering — Our bye-laws and provisions of Bermuda law may impede or discourage a change of control transaction, which could deprive our investors of the opportunity to receive a premium for their shares."

Under Delaware law, unless otherwise provided in a company's certificate of incorporation, each shareholder is entitled to one vote for each share of stock held by the shareholder. Delaware law provides that unless otherwise provided in a company's certificate of incorporation or bylaws, a majority of the shares entitled to vote, present in person or represented by proxy, constitutes a quorum at a meeting of shareholders. In matters other than the election of directors, with the exception of special voting requirements related to extraordinary transactions, and unless otherwise provided in a company's certificate of incorporation or bylaws, the affirmative vote of a majority of shares present in person or represented by proxy and entitled to vote at a meeting in which a quorum is present is required for shareholder action, and the affirmative vote of a plurality of shares present in person or represented by proxy and entitled to vote at the meeting is required for the election of directors.

Amalgamations, Mergers and Similar Arrangements

The amalgamation or merger of a Bermuda company with another company or corporation (other than certain affiliated companies) requires the amalgamation or merger agreement to be approved by the company's board of directors and by its shareholders. Unless the company's bye-laws provide otherwise, the approval of 75% of the shareholders voting at such meeting is required to approve the amalgamation or merger agreement, and the quorum for such meeting must be two persons holding or representing more than one-third of the issued shares of the company. Our bye-laws will provide that during the three year period following the completion of the offering contemplated by this prospectus, so long as the D. E. Shaw Affiliates hold more than 20% of our outstanding common shares, a director designated by the D. E. Shaw Affiliates must approve any merger, amalgamation or similar arrangement, subject to certain limited exceptions.

Under Bermuda law, in the event of an amalgamation or merger of a Bermuda company with another company or corporation, a shareholder of the Bermuda company who did not vote in favor of the amalgamation or merger and is not satisfied that fair value has been offered for such shareholder's shares may, within one month of notice of the shareholders meeting, apply to the Supreme Court of Bermuda to appraise the fair value of those shares.

Under Delaware law, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and a majority of the issued and outstanding shares entitled to vote on such transaction. A shareholder of a company participating in certain merger and consolidation transactions may, under certain circumstances, be entitled to appraisal rights, such as having a court to determine the fair value of the stock or requiring the company to pay such value in cash. However, such appraisal right is not available to shareholders if the stock received in such transaction is listed on a national securities exchange, including the NASDAQ Stock Market.

Takeovers

An acquiring party is generally able to acquire compulsorily the common shares of minority holders of a company in the following ways:

- By a procedure under the Companies Act known as a "scheme of arrangement." A scheme of arrangement could be effected by obtaining the agreement of the company and of holders of common shares, representing in the aggregate a majority in number and at least 75% in value of common shares shareholders present and voting at a court ordered meeting held to consider the scheme of arrangement. The scheme of arrangement must then be sanctioned by the Bermuda Supreme Court. If a scheme of arrangement receives all necessary agreements and sanctions, upon the filing of the court order with the Registrar of Companies in Bermuda, all holders of common shares could be compelled to sell their shares under the terms of the scheme of arrangement.
- By acquiring pursuant to a tender offer 90% of the shares or class of shares not already owned by, or by a nominee for, the acquiring party (the offeror), or any of its subsidiaries. If an offeror has, within four months after the making of an offer for all the shares or class of shares not owned by, or by a nominee for, the offeror, or any of its subsidiaries, obtained the approval of the holders of 90% or more of all the shares to which the offer relates, the offeror may, at any time within two months beginning with the date on which the approval was obtained, by notice compulsorily acquire the shares of any non-tendering shareholder on the same terms as the original offer unless the Supreme Court of Bermuda (on application made within a one-month period from the date of the offeror's notice of its intention to acquire such shares) orders otherwise.
- Where the acquiring party or parties hold not less than 95% of the shares or a class of shares of the company, by acquiring, pursuant to a notice given to the remaining shareholders or class of shareholders, the shares of such remaining shareholders or class of shareholders. When this notice is given, the acquiring party is entitled and bound to acquire the shares of the remaining shareholders on the terms set out in the notice, unless a remaining shareholder, within one month of receiving such notice, applies to the Supreme Court of Bermuda for an appraisal of the value of their shares. This provision only applies where the acquiring party offers the same terms to all holders of shares whose shares are being acquired.

Delaware law provides that a parent corporation, by resolution of its board of directors and without any shareholder vote, may merge with any subsidiary of which it owns at least 90% of each class of its capital stock. Upon any such merger, and in the event the parent corporation does not own all of the stock of the subsidiary, dissenting shareholders of the subsidiary are entitled to certain appraisal rights. Delaware law also provides, subject to certain exceptions, that if a person acquires 15% of voting stock of a company, the person is an "interested shareholder" and may not engage in "business combinations" with the company for a period of three years from the time the person acquired 15% or more of voting stock.

Shareholders' Suits

Class actions and derivative actions are generally not available to shareholders under Bermuda law. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong to the company where the act complained of is alleged to be beyond the corporate power of the company or illegal, or would result in the violation of the company's memorandum of association or bye-laws.

Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

When the affairs of a company are being conducted in a manner which is oppressive or prejudicial to the interests of some part of the shareholders, one or more shareholders may apply to the Supreme Court of Bermuda, which may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders by other shareholders or by the company.

Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court generally has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

Indemnification of Directors and Officers

Section 98 of the Companies Act provides generally that a Bermuda company may indemnify its directors, officers and auditors against any liability which by virtue of any rule of law would otherwise be imposed on them in respect of any negligence, default, breach of duty or breach of trust, except in cases where such liability arises from fraud or dishonesty of which such director, officer or auditor may be guilty in relation to the company. Section 98 further provides that a Bermuda company may indemnify its directors, officers and auditors against any liability incurred by them in defending any proceedings, whether civil or criminal, in which judgment is awarded in their favor or in which they are acquitted or granted relief by the Supreme Court of Bermuda pursuant to section 281 of the Companies Act. Section 98 of the Companies Act further provides that a company may advance moneys to an officer or auditor for the costs, charges and expenses incurred by the officer or auditor in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them.

We have adopted provisions in our bye-laws that provide that we shall indemnify our officers and directors. Section 98A of the Companies Act permits us to purchase and maintain insurance for the benefit of any officer or director in respect of any loss or liability attaching to him in respect of any negligence, default, breach of duty or breach of trust, whether or not we may otherwise indemnify such officer or director. We have purchased and maintain a directors' and officers' liability policy for this purpose.

Under Delaware law, a corporation may include in its certificate of incorporation a provision that, subject to the limitations described below, eliminates or limits director liability to the corporation or its shareholders for monetary damages for breaches of their fiduciary duty of care. Under Delaware law, a director's liability cannot be eliminated or limited for (1) breaches of the duty of loyalty, (2) acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (3) the payment of unlawful dividends or expenditure of funds for unlawful stock purchases or redemptions or (4) transactions from which such director derived an improper personal benefit.

Delaware law provides that a corporation may indemnify a director, officer, employee or agent of the corporation against any liability or expenses incurred in any civil, criminal, administrative or investigative proceeding if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal proceeding, had no reasonable cause to believe their conduct was unlawful, except that in any action brought by or in the right of the corporation, such indemnification may be made only for expenses (not judgments or amounts paid in settlement) and may not be made even for expenses if the officer, director or other person is adjudged liable to the corporation (unless otherwise determined by the court). In addition, under Delaware law, to the extent that a director or officer of a corporation has been successful on the merits or otherwise in defense of any proceeding referred to above, he or she must be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by that party. Furthermore, under Delaware law, a corporation is permitted to maintain directors' and officers' insurance.

Special Meetings of Shareholders

Under our bye-laws, a special general meeting will be held when, in the judgment of the Chairman, any two directors or, any director and our secretary or the board, decide such a meeting is necessary. In addition, upon receiving a requisition from holders of at least 25% of our voting shares, the board shall convene a special general meeting.

Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or bylaws to call a special meeting of shareholders.

Notice of Shareholder Meetings

Bermuda law requires that shareholders be given at least five days' advance notice of any general meeting. Under Delaware law, a company is generally required to give written notice of any meeting not less than 10 days nor more than 60 days before the date of the meeting to each shareholder entitled to vote at the meeting.

Dividends and other Distributions

Under Bermuda law, a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (1) the company is, or would after the payment be, unable to pay its liabilities as they become due or (2) the realizable value of the company's assets would thereby be less than its liabilities. "Contributed surplus" is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

Under Delaware law, subject to any restrictions contained in the company's certificate of incorporation, a company may pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Delaware law also provides that dividends may not be paid out of net profits if, after the payment of the dividend, capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets.

Inspection of Corporate Records

Members of the general public have the right to inspect our public documents available at the office of the Registrar of Companies in Bermuda and our registered office in Bermuda, which will include our memorandum of association (including its objects and powers) and certain alterations to our memorandum of association. Our shareholders have the additional right to inspect our bye-laws, minutes of general meetings and audited financial statements, which must be presented to the annual general meeting of shareholders.

The register of members of a company is also open to inspection by shareholders and members of the general public without charge. The register of members is required to be open for inspection for not less than two hours in any business day (subject to the ability of a company to close the register of members for not more than 30 days in a year). A company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside of Bermuda. A company is required to keep at its registered office a register of directors and officers which is also open to inspection by shareholders and members of the general public. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records.

Delaware law requires that a company, within 10 days before a meeting of shareholders, prepare and make available a complete list of shareholders entitled to vote at the meeting. This list must be open to the examination of any shareholder for any purpose relating to the meeting for a period of at least 10 days prior to the meeting during ordinary business hours and at the principal place of business of the company. Delaware law also permits a shareholder to inspect the company's books and records if the shareholder can establish that he or she is a shareholder of the company, the shareholder has complied with Delaware law with respect to the form and manner of making demand for inspection of corporate records and the inspection by the shareholder is for a proper purpose.

Shareholder Proposals

Under Bermuda law, shareholder(s) may, as set forth below and at their own expense (unless the company otherwise resolves), require the company to: (1) give notice to all shareholders entitled to receive notice of the annual general meeting of any resolution that the shareholder(s) may properly move at the next annual general meeting and/or (2) circulate to all shareholders entitled to receive notice of any general meeting a statement in respect of any matter referred to in any proposed resolution or any business to be conducted at such general meeting. The number of shareholders necessary for such a requisition is either: (1) any number of shareholders representing not less than 5% of the total voting rights of all shareholders entitled to vote at the meeting to which the requisition relates or (2) not less than 100 shareholders. Any such rights are subject to the "advance notice" provision in the bye-laws, as described under "Description of Share Capital — Certain Bye-Laws Provisions — Shareholder Advance Notice Procedure."

Delaware law does not include a provision restricting the manner in which nominations for directors may be made by shareholders or the manner in which business may be brought before a meeting, although restrictions may be included in a Delaware corporation's certificate of incorporation or bylaws.

Amendment of Memorandum of Association/Certificate of Incorporation

Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders of which due notice has been given. Certain amendments to the memorandum of association may require approval of the Bermuda Minister of Finance, who may grant or withhold approval at his or her discretion.

Under Bermuda law, the holders of an aggregate of not less than 20% in par value of a company's issued and outstanding share capital have the right to apply to the Bermuda courts for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda court. An application for an annulment of an amendment of the memorandum of association must be made within 21 days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of persons entitled to make the application by one or more of their designees as such holders may appoint in writing for such purpose. No application may be made by the shareholders voting in favor of the amendment.

Under Delaware law, amendment of the certificate of incorporation, which is the equivalent of a memorandum of association, of a company must be made by a resolution of the board of directors setting forth the amendment, declaring its advisability, and either calling a special meeting of the shareholders entitled to vote or directing that the proposed amendment be considered at the next annual meeting of the shareholders. Delaware law requires that, unless a greater percentage is provided for in the certificate of incorporation, a majority of the outstanding voting power of the corporation is required to approve the amendment of the certificate of incorporation at the shareholders' meeting. If the amendment would alter the number of authorized shares or par value or otherwise adversely affect the powers, preferences or special rights of any class of a company's stock, the holders of the issued and outstanding shares of such affected class, regardless of whether such holders are entitled to vote by the certificate of incorporation, are entitled to vote as a class upon the proposed amendment. However, the number of authorized shares of any class may be increased or decreased, to the extent not falling below the number of shares then outstanding, by the affirmative vote of the holders of a majority of the stock entitled to vote, if so provided in the company's original certificate of incorporation, in any amendment thereto which created such class or classes of stock or which was adopted prior to the issuance of any shares of such class or classes of stock, or in any amendment thereto which was authorized by a resolution or resolutions adopted by the affirmative vote of the holders of a majority of such class or classes of stock.

Amendment of Bye-laws

Our bye-laws will provide that the bye-laws may only be amended upon a resolution approved by the board and a resolution approved by the shareholders of the Company. Following this offering, certain amendments related to voting, the election of directors, board classification, removal of directors and amendments to the bye-laws and memorandum of association will require an affirmative vote of not less than 66.67% of the directors then in office and a resolution of the shareholders, including the affirmative vote of not less than 66.67% of the votes attaching to all shares outstanding. In addition, no amendment to our memorandum of association and bye-laws which would have an adverse effect on the D. E. Shaw Affiliates may be made without the D. E. Shaw Affiliates' consent, so long as the D. E. Shaw Affiliates hold at least 20% of the outstanding common shares.

Under Delaware law, unless the certificate of incorporation or bylaws provide for a different vote, holders of a majority of the voting power of a corporation and, if so provided in the certificate of incorporation, the directors of the corporation have the power to adopt, amend and repeal the bylaws of a corporation.

Dissolution

Under Bermuda law, a solvent company may be wound up by way of a shareholders' voluntary liquidation. Prior to the company entering liquidation, a majority of the directors shall each make a statutory declaration, which states that the directors have made a full enquiry into the affairs of the company and have formed the opinion that the company will be able to pay its debts within a period of 12 months of the commencement of the winding up and must file the statutory declaration with the Bermuda Registrar of Companies. The general meeting will be convened primarily for the purposes of passing a resolution that the company be wound up voluntarily and appointing a liquidator. The winding up of the company is deemed to commence at the time of the passing of the resolution.

Under Delaware law, a corporation may voluntarily dissolve (1) if a majority of the board of directors adopts a resolution to that effect and the holders of a majority of the issued and outstanding shares entitled to vote thereon vote for such dissolution or (2) if all shareholders entitled to vote thereon consent in writing to such dissolution.

SHARES ELIGIBLE FOR FUTURE SALE

Immediately prior to this offering, there was no public market for our common shares. Sales of substantial amounts of our common shares in the public market could adversely affect prevailing market prices of our common shares. Some of our common shares will not be available for sale for a certain period of time after this offering because they are subject to contractual and legal restrictions on resale some of which are described below. Sales of substantial amounts of common shares in the public market after these restrictions lapse, or the perception that these sales could occur, could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Sales of Restricted Securities

After this offering, no Class A common shares will be outstanding and • of our common shares will be issued and outstanding. Of these shares, all of the common shares sold in this offering will be freely tradable without restriction under the Securities Act, unless purchased by our "affiliates," as that term is defined in Rule 144 under the Securities Act. The remaining common shares that will be issued and outstanding after this offering are "restricted securities" within the meaning of Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if they are registered under the Securities Act or are sold pursuant to an exemption from registration under Rule 144 or Rule 701 under the Securities Act, which are summarized below. Subject to the lock-up agreements described below, common shares held by our affiliates that are not restricted securities or that have been owned for more than one year may be sold subject to compliance with Rule 144 of the Securities Act without regard to the prescribed one-year holding period under Rule 144.

Lock-up Agreements

We, the selling shareholders, and most of our other shareholders, including all of our directors and executive officers, have or will have signed lock-up agreements under which the signatory agreed not to offer, sell, contract to sell, pledge, or otherwise dispose of, or to enter into any hedging transaction with respect to, any of our ordinary shares or any securities convertible into or exercisable or exchangeable for our ordinary shares for a period of 180 days commencing on the date of this prospectus, subject to certain exceptions. See "Underwriting."

Rule 144

In general, under Rule 144, beginning 90 days after the date of this prospectus, a person who is not our affiliate and has not been our affiliate at any time during the preceding three months will be entitled to sell any of our common shares that such person has beneficially owned for at least six months, including the holding period of any prior owner other than one of our affiliates, without regard to volume limitations. Sales of our common shares by any such person would be subject to the availability of current public information about us if the shares to be sold were beneficially owned by such person for less than one year.

In addition, under Rule 144, a person may sell common shares acquired from us immediately upon the closing of this offering, without regard to volume limitations or the availability of public information about us, if:

- the person is not our affiliate and has not been our affiliate at any time during the preceding three months; and
- the person has beneficially owned the common shares to be sold for at least one year, including the holding period of any prior owner other than one of our affiliates.

Investors party to the Offering Agreement have agreed not to effect any sale or distribution or to request registration of any securities within 10 days prior and 180 days following the effective date of the registration statement of which this prospectus forms a part; however, common shares held by persons other than our affiliates will be eligible for sale under Rule 144 immediately upon the end of such lock-up period.

Beginning 90 days after the date of this prospectus, and subject to the lock up agreements described above, our affiliates who have beneficially owned our common shares for at least six months, including the holding period of any prior owner other than one of our affiliates, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of our common shares then issued and outstanding, which will equal approximately • shares immediately after this offering; and
- the average weekly trading volume in our common shares on the NASDAQ Stock Market during the four calendar weeks preceding the date of filing of a Notice of Proposed Sale of Securities Pursuant to Rule 144 with respect to the sale.

Sales under Rule 144 by our affiliates are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Any of our employees, officers or directors who acquired common shares under a written compensatory plan or contract may be entitled to sell them in reliance on Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell these shares in reliance on Rule 144 without complying with the holding period, public information, volume limitation or notice provisions of Rule 144. All holders of Rule 701 common shares are required to wait until 90 days after the date of this prospectus before selling those shares. However, all common shares issued under Rule 701 are subject to lock-up agreements and will only become eligible for sale when the 180-day lock-up agreements expire.

Equity Incentive Plans

As of June 30, 2014, we had outstanding options to purchase 43,225 Class B common shares, of which options to purchase 33,365 Class B common shares were vested. As of June 30, 2014, 37,405 additional Class B common shares were available for future issuance under our equity incentive plans. The Class B common shares underlying the outstanding options will be converted to common shares as part of the Recapitalization. Additionally, if adopted by our board of directors and approved by our shareholders, we will have • common shares available for issuance under our 2014 LTIP upon the consummation of the offering contemplated by this prospectus. Following this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act to register all of the common shares issuable upon exercise of outstanding options as well as all common shares reserved for future issuance under our equity plans. See “Executive Compensation — Equity Incentive Plans” for additional information regarding these plans. Common shares issued under any S-8 registration statement will be available for sale in the public market, subject to the Rule 144 provisions applicable to affiliates, and subject to any vesting restrictions and lock-up agreements applicable to these shares.

Registration Rights

The holders of our currently issued and outstanding common shares will be entitled to certain rights with respect to the registration of their common shares under the Securities Act following the offering pursuant to a registration rights agreement that we will enter into with our shareholders, which agreement will be effective upon the consummation of the offering contemplated by this prospectus. For a description of these registration rights, see “Certain Relationships and Related Party Transactions — Related Party Transactions — Registration Rights Agreement.” If these shares are registered, they will be freely tradable without restriction under the Securities Act unless acquired by us or one of our affiliates.

TAX CONSIDERATIONS

Bermuda Tax Considerations

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by us or by our shareholders in respect of our common shares. We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 31, 2035, be applicable to us or to any of our operations or to our common shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda.

U.S. Federal Income Tax Considerations

The following discussion summarizes certain U.S. federal income tax considerations relating to the Company and its subsidiaries (the "Group") and to buying, holding and selling common shares of the Company sold in this offering. The legal conclusions as to matters of U.S. federal income tax law included in this discussion are, subject to the limitations, qualifications and assumptions set forth below, the opinion of our tax counsel, Bryan Cave LLP. This discussion is based on the Code, applicable Treasury regulations promulgated under the Code (the "Regulations"), court decisions, administrative interpretations and the Bermuda Treaty, all as currently in effect. Court decisions and administrative interpretations are not necessarily binding on the IRS. The Code, Regulations, administrative interpretations, court decisions and the Bermuda Treaty are subject to change, possibly with retroactive effect. Future legislative, judicial or administrative changes could affect the information, beliefs and conclusions in this summary. No advance ruling has been or will be sought from the IRS regarding any matter discussed in this prospectus. Unless otherwise expressly provided herein, the tax consequences under U.S. state and local tax laws and foreign tax laws are not addressed. This discussion is not a complete analysis of all of the tax considerations that may be relevant to the decision to acquire our common shares.

Unless otherwise expressly stated herein, this discussion only addresses U.S. federal income tax considerations relevant to a "U.S. person" (as defined below) who holds our common shares as "capital assets" within the meaning of Section 1221 of the Code (a "U.S. Holder"). Unless otherwise expressly stated herein, references to our common shares refer only to the common shares issued in this offering. Unless otherwise noted, this discussion does not address aspects of U.S. federal income taxation that may be relevant to a shareholder that is subject to special rules such as:

- an investor that is not a citizen or resident of the United States;
- a financial institution or insurance company;
- a mutual fund;
- a tax-exempt organization;
- a broker or dealer in securities or foreign currencies;
- an investor that holds common shares not issued in this offering;
- a trader in securities that elects to apply a mark to market method of tax accounting; or
- a shareholder that holds our common shares as part of a hedge, appreciated financial position, straddle, conversion or other risk reduction transaction.

For the purposes of this discussion, a "U.S. person" means an investor who beneficially owns one or more of our common shares and who is:

- an individual citizen or resident of the United States;

- a corporation or other entity treated as a corporation for U.S. federal income tax purposes that was created or organized in the United States or under the laws of the United States or of any political subdivision thereof;
- an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- any trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and (2) one or more U.S. persons have the authority to control all substantial decisions of the trust.

If a partnership holds our common shares, the tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Prospective investors that are partnerships or partners in a partnership are strongly urged to consult their own tax advisors regarding the particular consequences of owning our common shares.

U.S. Federal Income Taxation of the Company and JRG Re

The Company and JRG Re are foreign corporations for U.S. federal income tax purposes, and the Group believes that the activities of the Company and/or JRG Re (the “Bermuda Companies”), as contemplated, will not constitute being engaged in the conduct of a trade or business within the United States, although there can be no assurance the IRS will not successfully assert that the Bermuda Companies are engaged in the conduct of a trade or business within the United States. Because the Company believes that the Bermuda Companies will not be engaged in the conduct of a trade or business within the United States, the Company does not expect the Bermuda Companies to be subject to U.S. federal income tax, except as described below.

The determination as to whether the Bermuda Companies are engaged in the conduct of a trade or business within the United States is factual in nature and must be made annually. Neither the Code nor the applicable Regulations provide a general definition of what constitutes being engaged in the conduct of a trade or business within the United States, and the limited case law on the subject does not provide definitive guidance. The case law that exists generally provides that a foreign corporation will be treated as engaged in the conduct of a trade or business within the United States if it regularly and continuously carries out business activities in the United States.

If the Bermuda Companies were deemed to be engaged in the conduct of a trade or business within the United States, such entities generally would become subject to U.S. federal income tax on their taxable income treated as “effectively connected” to such trade or business and such income would be taxed at regular corporate rates. In addition, the Bermuda Companies would become subject to U.S. branch profits tax on their earnings and profits that are both “effectively connected” with their trade or business in the United States, with certain adjustments, and deemed repatriated out of the United States. The highest marginal U.S. federal income tax rates currently are 35% for a corporation’s effectively connected income and 30% for the “branch profits” tax. The U.S. federal income tax liability of the Bermuda Companies would generally be computed in the same manner that applies to the income of a U.S. corporation, except that deductions and credits would generally only be available for tax years where U.S. income tax returns were filed. If the Bermuda Companies were deemed to be engaged in the conduct of a trade or business within the United States, the such entities may be subject to penalties if they fail to file tax returns.

The United States and Bermuda currently are parties to the Bermuda Treaty, which relates to the taxation of insurance enterprises. If the Bermuda Companies are entitled to the benefits under the Bermuda Treaty, the Bermuda Companies would not be subject to U.S. federal income tax on any income found to be effectively connected with the conduct of a trade or business within the United States unless that trade or business is conducted through a permanent establishment in the United States. Whether business is being conducted in the United States through a permanent establishment is an inherently factual determination. The Bermuda Companies intend to conduct their activities in such a manner as to minimize the risk that they will be considered as having a permanent establishment in the United States, although there can be no assurance that it will achieve this result. An insurance enterprise resident in Bermuda generally will be entitled to the benefits of the Bermuda Treaty if (1) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the United States or Bermuda or U.S. citizens and (2) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities of, persons who are neither residents of either the United States or Bermuda nor U.S. citizens (the "Bermuda Treaty Benefits Test"). It is not certain whether the Bermuda Companies will be entitled to the benefits under the Bermuda Treaty because we cannot predict whether ownership of the Company's common shares will be such as to satisfy the Bermuda Treaty Benefits Test.

Even if the Bermuda Companies are not engaged in the conduct of a trade or business within the United States, they will be subject to U.S. federal income tax on certain fixed or determinable annual or periodic gains, profits and income, such as dividends and certain interest on investments, if any, from sources within the United States. Generally, this tax is imposed by withholding 30% of the payments, or deemed payments, to the Bermuda Companies that are subject to this tax, and is eliminated with respect to certain types of U.S. source income, such as interest on certain debt instruments. If the Bermuda Companies are treated as engaged in the conduct of a trade or business within the United States, the 30% withholding tax only applies to payments that are not effectively connected with such trade or business. In addition, dividends paid by our U.S. subsidiaries to us may be subject to the same withholding tax, which, if applicable, may adversely affect our ability to deploy our capital in a tax efficient manner.

The United States imposes an excise tax on insurance and reinsurance premiums paid to the Bermuda Companies with respect to insureds located in the United States at a rate of (1) 4 cents for each dollar (or fractional part thereof) of the premiums paid for direct casualty insurance and indemnity bond premiums and (2) 1 cent for each dollar (or fractional part thereof) of the premiums paid for reinsurance premiums and for direct insurance premiums for life, sickness and accident policies and annuity contracts. It is the position of the IRS that such tax applies each time such a U.S. risk is insured, reinsured or retroceded (even if the relevant agreement is between two non-U.S. entities). The District Court for the District of Columbia recently held that this excise tax (often referred to as the FET) does not apply to retrocession contracts; the IRS has appealed this decision.

U.S. Federal Taxation of Dividends

Subject to the discussion below regarding passive foreign investment companies, controlled foreign corporations and related person insurance income, cash distributions paid with respect to common shares of the Company will constitute ordinary dividend income to a U.S. Holder to the extent paid out of current or accumulated earnings and profits, and U.S. Holders generally will be subject to U.S. federal income tax upon receipt of such dividends. Dividends paid to certain non-corporate U.S. Holders (including individuals) generally will be taxable at a maximum rate of 20% if the dividends constitute "qualified dividend income" and the U.S. Holder holds the shares for more than 60 days out of the 121-day period that begins 60 days before the ex-dividend date and meets certain other requirements.

Any dividends paid on common shares of the Company generally will constitute "qualified dividend income" if the common shares are readily tradable on an established securities market in the United States. Dividends paid on common shares of the Company generally will not be eligible for the dividends received deduction.

Certain U.S. Holders that are individuals, estates or trusts are subject to an additional tax at the rate of 3.8% on all or a portion of their "net investment income," which may include all or a portion of their income arising from a distribution with respect to our common shares and gain upon the sale, exchange or other disposition of such shares.

To the extent distributions on common shares of the Company are made that exceed the current and accumulated earnings and profits of the Company, U.S. Holders will be treated as having received a return of their tax basis in their common shares, and any amount distributed by the Company in excess of a U.S. Holder's tax basis generally will be treated as gain from the sale of a capital asset.

Prospective investors are strongly urged to consult with their own tax advisors regarding the taxation of any dividends on common shares of the Company.

Passive Foreign Investment Companies

In general, a foreign corporation is treated as a PFIC if 75% or more of its gross income constitutes "passive income" (as defined below) or 50% or more of its assets produce, or are held for the production of, passive income.

In determining whether a company will be treated as a PFIC, it is treated as if it directly owned its proportionate share of the assets and received its proportionate share of the income of any other corporation of which it is a 25% or greater shareholder (by value).

For purposes of the PFIC tests, “passive income” generally includes interest, dividends, annuities and other investment income. The PFIC rules contain an express exception for income that is derived in the active conduct of an insurance business by a corporation predominantly engaged in an insurance business (the “Insurance Company Exception”). The PFIC provisions also contain a look-through rule under which a foreign corporation shall be treated, for purposes of determining whether it is a PFIC, as if it “received directly its proportionate share of the income. . .” and as if it “held its proportionate share of the assets . . .” of any other corporation in which it owns at least 25% of the value of the stock.

The Insurance Company Exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income. However, there is very little authority as to what constitutes the active conduct of an insurance business or being predominantly engaged in such business. In particular, there is uncertainty as to what constitutes the appropriate levels of financial reserves and risk transfer with respect to an insurance contract, and the appropriate level of insurance business activity with respect to an insurance company. Therefore, income derived by the Bermuda Companies could be considered passive income derived outside of the active conduct of an insurance business if it is earned from investments that are attributable to financial reserves in excess of the reasonable needs of the Group’s insurance business or from non-traditional insurance activities that do not contain sufficient risk transfer, or if the Group were found not to be predominantly engaged in an active insurance business under U.S. tax principles. Under the look-through rule, the Company should be deemed to own its proportionate share of the assets and to have received its proportionate share of the income of its direct and indirect subsidiaries for purposes of the 75% test and the 50% test.

The Group believes that its financial reserves will be consistent with industry standards and will not be in excess of the reasonable needs of the Group’s insurance business. The Group also believes that it will be actively engaged in insurance activities that involve sufficient transfer of risk. Accordingly, we believe that the Company has not been and should not be treated as a PFIC. However, there can be no assurance that the IRS will agree with the Group’s position and will not assert that the Group does not qualify for the Insurance Company Exception in any year, or that, if the IRS were to make such an assertion, that the IRS’ position would not ultimately be sustained by the courts. Moreover, our expectation with respect to any taxable year will be based on the amount of risk that we expect to underwrite during that year.

Generally, U.S. Holders of a PFIC are required to file an annual information report with respect to any PFICs in which they own a direct or indirect interest on IRS Form 8621. Prospective investors are strongly urged to consult with their own tax advisors to determine their particular filing obligations.

Classification of the Company and JRG Re as Controlled Foreign Corporations

Each “U.S. 10% Shareholder” (as defined below) that owns, directly or indirectly through foreign entities, stock of a foreign corporation on the last day of the tax year and such foreign corporation is a CFC for an uninterrupted period of 30 days or more during any taxable year is required to include in its gross income for U.S. federal income tax purposes as ordinary income its pro rata share of the CFC’s “subpart F income” (as defined below) for such year. A U.S. 10% Shareholder is a U.S. person who owns (directly, indirectly through foreign entities or constructively) 10% or more of the total combined voting power of all classes of stock of a foreign corporation.

Subpart F income generally includes passive investment income, such as interest, dividends, and certain rent and royalties, and certain insurance income, including underwriting and investment income that is attributable to the issuing or reinsuring of any insurance or annuity contract, and that, absent an exception, generally would be taxed under the insurance company provisions of the Code if such income were the income of a U.S. insurance company.

Immediately following the initial public offering of our common shares, the Company and JRG Re will each be a CFC. Furthermore, the Group expects that all of the income of the Bermuda Companies will be subpart F income. Subpart F income inclusion generally is applicable to U.S. 10% Shareholders that have a direct or indirect ownership interest in a CFC on the last day of the taxable year of the CFC. The subpart F income inclusion is required even if the subpart F income is not distributed. In addition, U.S. 10% Shareholders of a CFC may be deemed to receive taxable distributions to the extent the CFC increases the amount of its earnings that are invested in certain specified types of U.S. property. Under regulations, an inclusion of subpart F income by a U.S. 10% shareholder will not be treated as a dividend for purposes of calculating the 3.8% tax on "net investment income" described above under "—U.S. Federal Taxation of Dividends." However, actual distributions with respect to such income, which as previously taxed income will not be subject to U.S. federal income tax, will be treated as dividends for purposes of calculating net investment income and this 3.8% tax. In general, a foreign corporation is treated as a CFC only if its U.S. 10% Shareholders collectively own more than 50% of the total combined voting power of all class of stock entitled to vote or the total value of the corporation's stock. However, for purposes of taking into account subpart F insurance income, a foreign corporation generally will be treated as a CFC if more than 25% of the total combined voting power or total value of its stock is owned by U.S. 10% Shareholders.

The Company's bye-laws provide voting limitations designed to reduce the risk that shareholders who acquire shares in this offering or in the secondary market from being treated as U.S. 10% Shareholders of a CFC. These voting limitations will not apply to our existing shareholders who beneficially own in excess of 10% of our Class A common shares prior to the offering and 10% of our common shares immediately following the offering. However, because of the complexity of the attribution rules contained in the Code and the uncertainty of the effectiveness of these voting limitations, there can be no assurance that these voting limitations will prevent shareholders who acquire shares in this offering or in the secondary market from being treated as U.S. 10% Shareholders of a CFC.

If the Bermuda Companies are CFCs, the rules relating to PFICs generally would not apply to a U.S. Holder that is a U.S. 10% Shareholder. However, certain subpart F income may be taxable at higher rates than if such income were taxable income of a PFIC with respect to which a valid QEF election has been made.

Potential investors are strongly urged to consult their own tax advisors to determine whether their ownership of our common shares will cause them to become a U.S. 10% Shareholder and the impact of such a classification.

Related Person Insurance Income

A different definition of CFC is applicable in the case of a foreign corporation which earns related person insurance income ("RPII"). RPII is subpart F insurance income of a foreign corporation attributable to insurance policies or reinsurance contracts where the person that is directly or indirectly insured or reinsured is a U.S. person who owns, directly or indirectly through foreign entities, any amount of stock in such foreign corporation (an "RPII Shareholder") or a "related person" (as defined below) to such RPII Shareholder. Generally, for purposes of the RPII rules, a related person is someone who controls or is controlled by a RPII Shareholder or someone who is controlled by the same person or persons which control the RPII Shareholder. Control is defined as ownership of more than 50% of either the value or voting power of the stock of a person after applying certain constructive ownership rules.

For purposes of taking into account RPII, and subject to the exceptions described below, the Bermuda Companies will be treated as CFCs if U.S. persons collectively own, directly or indirectly, 25% or more of the total combined voting power or value of its stock on any day during a taxable year. If a Bermuda Company is a CFC for an uninterrupted period of at least 30 days during any taxable year under the special RPII rules, a U.S. Holder that owns our common shares on the last day of any such taxable year must include in gross income for U.S. federal income tax purposes such U.S. Holder's allocable share of RPII of such Bermuda Company for the entire taxable year, subject to certain modifications.

RPII Exceptions

The RPII rules do not apply to the Bermuda Companies if: (1) direct and indirect insureds and persons related to such insureds, whether or not U.S. persons, own, or are treated at all times during the taxable year as owning, directly or indirectly through foreign entities, less than 20% of the voting power and less than 20% of the value of the stock of such Bermuda Company or (2) such Bermuda Company's RPII, determined on a gross basis, is less than 20% of such Bermuda Company's gross insurance income for such taxable year.

The Company does not believe that the 20% gross income threshold has been met or will be met. However, if a Bermuda Company's RPII, determined on a gross basis, is 20% or more of such Bermuda Company's gross insurance income for such taxable year, a U.S. Holder that owns any common shares on the last day of the Bermuda Companies' taxable year will be required to include such U.S. Holder's allocable share of such Bermuda Company's RPII for the entire taxable year in such U.S. Holder's gross income for U.S. federal income tax purposes.

Computation of RPII

In order to determine how much RPII, if any, the Bermuda Companies have earned in each taxable year, the Group intends to obtain and rely upon information from the Company's major shareholders and the Bermuda Companies' ceding companies to determine whether any of the ceding companies or the direct and indirect insureds or persons related to such insureds are direct or indirect U.S. shareholders. We likely will not be able to determine whether any of the underlying insureds of its ceding companies are RPII Shareholders or related persons to such shareholders. Accordingly, the Group may not be able to determine accurately: whether the Bermuda Companies qualify for any RPII exception; or what the gross amount of RPII earned by the Bermuda Companies in a given taxable year would be. The Group will take reasonable steps that it believes to be advisable to obtain the necessary information to determine the availability of the RPII exceptions and the amount of insurance income that is RPII. However, there can be no assurance that the Group will be able to obtain all necessary information to make the determinations.

Apportionment of RPII to U.S. Persons

If the Bermuda Companies earn RPII, a shareholder that is a U.S. person may be apportioned more RPII than such shareholder's proportionate share of such RPII under the apportionment rules prescribed by the Code. If the Bermuda Companies have RPII and the Company makes a distribution of RPII to a U.S. Holder with respect to such U.S. Holder's common shares, the distribution will not be taxable to the extent such RPII has been allocated to and included in such U.S. Holder's gross income for the taxable year in which the distribution was paid or for any prior year.

Uncertainty as to Application of the CFC and RPII Rules

The courts have not interpreted the RPII provisions and there are no definitive Regulations interpreting the RPII provisions, although proposed Regulations have existed since 1991. It is unclear whether the IRS will adopt the proposed Regulations or what changes or clarifications might ultimately be made to the proposed Regulations. Additionally, considerable uncertainty exists regarding the CFC rules pertaining to insurance. Any changes to the proposed and final Regulations governing CFCs and RPII, or any interpretation or application of the CFC and RPII rules by the IRS, the courts or otherwise, might have retroactive effect. Accordingly, the meaning and application of the CFC insurance and RPII provisions are uncertain. Finally, there can be no assurance that any amounts of subpart F insurance income or RPII inclusions reported by the Group to a U.S. Holder will not be subject to adjustment based upon subsequent IRS examination. Prospective investors are strongly urged to consult their own tax advisors as to the effects of these uncertainties and as to the effects that the CFC insurance and RPII provisions may have on them and on their investment in our common shares.

Basis Adjustments

A U.S. Holder's tax basis in its common shares will be increased by the amount of any subpart F income that such U.S. Holder includes in income under either the RPII or non-RPII CFC rules. Similarly, a U.S. Holder's tax basis in its common shares will be reduced by the amount of distributions of subpart F income that are excluded from income.

Information Reporting

Under certain circumstances, U.S. 10% Shareholders and RPII Shareholders of a CFC that own shares directly or indirectly through a foreign entity may be required to file IRS Form 5471. Furthermore, U.S. persons that directly or indirectly acquire 10% or more of the value of the shares of a foreign corporation may be required to file IRS Form 5471 in certain circumstances even if the entity is not a CFC.

Accordingly, if the Bermuda Companies' gross RPII for a taxable year constitutes 20% or more of its gross insurance income for the period, and the 20% ownership exception described above does not apply, any U.S. person treated as owning, directly or indirectly, any of the Bermuda Companies' common shares on the last day of the Bermuda Companies' taxable year will be subject to the RPII rules and will be required to file IRS Form 5471. In addition, a U.S. Holder that owns, directly or indirectly, more than 10% of the vote or value of the Company's outstanding common shares at any time during the Company's taxable year will be required in certain circumstances to file IRS Form 5471 even if the Bermuda Companies are not CFCs. In addition, a U.S. person that transfers more than $100,000 in a 12-month period to a foreign corporation is required to file IRS Form 926 with the transferor's U.S. federal income tax return for the year of the transfer. Failure to file IRS Form 5471 and Form 926 may result in penalties. A U.S. Holder may also have to file Form 8938 with respect to such U.S. Holder's common shares, as discussed below under "Disclosure Requirements for Specified Foreign Financial Assets."

Tax-Exempt Shareholders

A tax-exempt entity that owns (directly, indirectly through a non-U.S. entity or constructively) any shares of stock in a CFC is generally required to treat as unrelated business taxable income ("UBTI") the portion of any amount of subpart F insurance income included in such tax-exempt entity's gross income under the CFC and RPII rules discussed above if such insurance income would be treated as UBTI if derived directly by such tax-exempt shareholder.

If the Bermuda Companies were treated as CFCs for a taxable year, then any tax-exempt entity treated as a U.S. 10% Shareholder would be required to treat a portion of the Group's subpart F insurance income as UBTI. Moreover, if JRG Re's gross RPII were to equal or exceed 20% of its gross insurance income and the 20% ownership exception for RPII did not apply, then tax-exempt entities owning common shares of the Company would be required to treat a portion of the Group's subpart F income as UBTI even if such tax-exempt entities were not treated as U.S. 10% Shareholders. Additionally, a tax-exempt entity that is treated as a U.S. 10% Shareholder or a RPII Shareholder must file IRS Form 5471 in the circumstances described above.

Potential investors that are tax-exempt entities are strongly urged to consult their own tax advisors as to the potential impact of the subpart F insurance income and UBTI provisions of the Code.

Dispositions of Our Shares

Generally, the difference between a U.S. Holder's basis in its shares and the amount realized on the sale, exchange or other disposition of its shares will be includible in gross income as capital gain or loss, subject to the relevant discussion in this summary relating to the potential application of the CFC and PFIC rules. If a U.S. Holder's holding period for its shares is more than one year, any gain will generally be subject to U.S. federal income tax at the rates applicable to long-term capital gain, subject to the PFIC provisions discussed above.

Under Section 1248 of the Code, any gain from the sale or exchange by a U.S. 10% Shareholder of shares in a CFC may be treated as a dividend to the extent of the CFC's earnings and profits during the period that the shareholder held the shares, subject to certain adjustments. If gain from the sale or exchange of our common shares is recharacterized as dividend income under Section 1248 of the Code, the gain may be treated as "qualified dividend income" to non-corporate taxpayers and eligible for a reduced 20% rate of taxation, subject to the public trading and holding period requirements and PFIC provisions discussed above. Section 1248 also applies to the sale or exchange of shares by a U.S. person in a foreign corporation that earns RPII and is characterized as a CFC under the RPII rules if the foreign corporation would be taxed as an insurance company if it were a U.S. corporation. Such dividend treatment applies to a U.S. person subject to the RPII rules regardless of whether such U.S. person is a U.S. 10% Shareholder or whether the CFC meets either one of the first two RPII exceptions described above (*i.e.*, the 20% ownership exception and the RPII 20% gross income exception). The proposed Regulations do not specifically address whether Section 1248 of the Code applies when an upper tier foreign corporation does not earn RPII directly and does not have U.S. 10% Shareholders but such foreign corporation has an insurance company subsidiary that is a CFC for purposes of requiring U.S. persons to take RPII into account.

The Company believes that it would be reasonable for a U.S. Holder to take the position that Section 1248 of the Code should not apply to dispositions of our common shares because of the voting limitations contained in the Company's bye-laws and the Company will not be directly engaged in the insurance business. However, there can be no assurance that the IRS will interpret the proposed Regulations in this manner or that the Treasury Department will not amend such Regulations, or issue other Regulations, to provide that Section 1248 of the Code applies to dispositions of our common shares.

Potential investors are strongly urged to consult their own tax advisors regarding the application of these provisions to the disposition of our common shares.

Foreign Tax Credit

The Group's subpart F insurance income inclusions and dividends generally will constitute income from sources outside the United States and generally will be categorized as "passive" income for foreign tax credit limitation purposes. If, however, 50% or more (by vote or value) of the Company's common shares are treated as being owned by U.S. persons, the amount of dividends constituting income from sources outside the United States may be limited to the amount attributable to the Bermuda Companies' income from sources outside the United States. This foreign source limitation also applies to any gain from the sale of our common shares that is treated as a dividend under Section 1248 of the Code. Thus, it may not be possible for U.S. Holders to utilize excess foreign tax credits to reduce U.S. tax on such income. The rules relating to U.S. foreign tax credits are very complex, and potential investors are strongly urged to consult their own tax advisors regarding the application of such rules.

Disclosure Requirements for Specified Foreign Financial Assets

Individual U.S. Holders (and certain U.S. entities specified in IRS guidance) who, during any taxable year, hold any interest in any "specified foreign financial asset" generally will be required to file with their U.S. federal income tax returns a statement setting forth certain information if the aggregate value of all such assets exceeds $50,000 on IRS Form 8938. "Specified foreign financial asset" generally includes any financial account maintained with a non-U.S. financial institution and may also include our common shares if they are not held in an account maintained with a U.S. financial institution. Substantial penalties may be imposed, and the period of limitations on assessment and collection of U.S. federal income taxes may be extended, in the event of a failure to comply. U.S. Holders should consult their own tax advisors as to the possible application to them of this filing requirement.

Information Reporting and Backup Withholding

Paying agents and custodians located in the United States will be required to comply with certain IRS information reporting requirements with respect to payments of dividends, if any, on our common shares payable to shareholders of the Company or to paying agents or custodians located within the United States. In addition, a holder may be subject to backup withholding at the rate of 28% with respect to dividends paid by such persons unless such holder either (1) is a corporation, a non-U.S. person or comes within certain other exempt categories and, when required, demonstrates this fact or (2) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Sales of our common shares through brokers by certain holders also may be subject to backup withholding, subject to certain exceptions. Backup withholding tax is not an additional tax and may be credited against a holder's regular U.S. federal income tax liability.

Foreign Account Tax Compliance

FATCA generally imposes a 30% withholding tax regime with respect to (1) certain U.S. source income (including interest and dividends) and gross proceeds from any sale or other disposition after December 31, 2016, of property that can produce U.S. source interest or dividends ("withholdable payments") and (2) "passthru payments" (generally, withholdable payments and payments that are attributable to withholdable payments) made by FFIs. As a general matter, FATCA was designed to require U.S. persons' direct and indirect ownership of certain non-U.S. accounts and non-U.S. entities to be reported to the IRS. The application of the FATCA withholding rules were phased in beginning July 1, 2014, with withholding on foreign passthru payments made by FFIs taking effect no earlier than 2017.

The Bermuda government has signed a "Model 2" IGA with the United States. If the Bermuda Companies are treated as FFIs for the purposes of FATCA, under the Model 2 IGA, the Bermuda Companies will be directed to 'register' with the IRS and enabled to comply with the requirements of FATCA, including due diligence, reporting and withholding. Assuming registration and compliance pursuant to a Model 2 IGAL, an FFI would be treated as FATCA compliant and not subject to withholding.

Under the regulations implementing FATCA, a foreign insurance company (or foreign holding company of an insurance company) that issues or is obligated to make payments with respect to a cash value insurance or annuity contracts is a foreign financial institution. Insurance companies that issue only property-casualty insurance contracts, or that only issue life insurance contracts lacking cash value (or that provide for limited cash value) generally would not be considered FFIs under the final regulations. However, a holding company may be treated as an FFI if it is formed in connection with or availed of by a collective investment vehicle, mutual fund, exchange traded fund, hedge fund, venture capital fund, leveraged buyout fund, or any similar investment vehicle established with an investment strategy of investing, reinvesting, or trading in financial assets. Moreover, a company may be treated as an FFI if its gross income is primarily attributable to investing, reinvesting, or trading in financial assets and the entity is managed by an FFI, or the entity functions or holds itself out as an investment vehicle established with an investment strategy of investing, reinvesting, or trading in financial assets. There can be no certainty as to whether the Bermuda Companies will be treated as a "foreign financial institution" under FATCA. Even if the Bermuda Companies are not treated as FFIs, then depending on whether common shares of the Company are treated as "regularly traded on one or more established securities markets" under the FATCA rules and whether the income and assets of the Bermuda Companies meet the requirements for the treatment of the Bermuda Companies as an "active NFFE," withholdable payments to the Bermuda Companies may be subject to a 30% withholding tax unless the Bermuda Companies provide information regarding its U.S. direct or indirect owners.

UNDERWRITING

We, the selling shareholders and the underwriters named below have entered into an underwriting agreement with respect to the common shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of common shares indicated in the following table. Keefe, Bruyette & Woods, Inc., UBS Securities LLC and FBR Capital Markets & Co. are the representatives of the underwriters.

Underwriters	Number of Common Shares
Keefe, Bruyette & Woods, Inc.	
UBS Securities LLC	
FBR Capital Markets & Co.	
BMO Capital Markets Corp.	
KeyBanc Capital Markets Inc.	
SunTrust Robinson Humphrey, Inc.	
Scotia Capital (USA) Inc.	
Total	

The underwriters are committed to take and pay for all of the common shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

Over-Allotment Option

The underwriters have an option to buy up to an additional • common shares from the selling shareholders to cover sales by the underwriters of a greater number of shares than the total number set forth in the table above. They may exercise that option for 30 days. If any common shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

Underwriting Discount and Offering Expenses

The following tables show the per share and total underwriting discounts and commissions to be paid to the underwriters by the selling shareholders. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	Without Exercise of Option to Purchase Additional Common Shares	With Full Exercise of Option to Purchase Additional Common Shares
Per share	$	$
Total paid by selling shareholders	$	$

Common shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any common shares sold by the underwriters to securities dealers may be sold at a discount of up to $• per share from the initial public offering price. After the initial offering of the shares, the representatives may change the offering price and the other selling terms. The offering of the common shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

At our request the underwriters have reserved • common shares in the aggregate for sale in the offering to Messrs. Abram, Myron and Davis.

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discount, will be approximately $• million, and will be paid by us. We have agreed to reimburse the underwriters for expenses relating to clearance of this offering with FINRA.

Indemnification and Contribution

We have agreed to indemnify the underwriters and persons who control the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make for these liabilities.

Lock-Up Agreements

We, our executive officers and directors and our controlling shareholders, including the selling shareholders, have agreed to enter into lock-up agreements with the underwriters. Under these agreements, we and each of these persons may not, without the prior written approval of the representatives, subject to limited exceptions,

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any of our common shares or any securities convertible into or exchangeable or exercisable for our common shares, whether now owned or hereafter acquired or with respect to which such person has or hereafter acquires the power of disposition, or file any registration statement under the Securities Act, with respect to any of the foregoing; or
- enter into any swap, hedge or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of our common shares, whether any such swap, hedge or transaction is to be settled by delivery of common shares or other securities, in cash or otherwise.

These restrictions will be in effect for a period of 180 days after the date of the underwriting agreement. At any time and without public notice, the representatives may, in its sole discretion, release all or some of the securities from these lock-up agreements.

These restrictions also apply to securities convertible into or exchangeable or exercisable for or repayable with common shares to the same extent as they apply to our common shares. They also apply to common shares owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

Price Stabilization and Short Positions

To facilitate the offering of our common shares, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common shares, including:

- stabilizing transactions;
- short sales; and
- purchases to cover positions created by short sales.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common shares while this offering is in progress. These transactions may also include making short sales of our common shares, which involve the sale by the underwriters of a greater number of common shares than they are required to purchase in this offering. Short sales may be “covered short sales,” which are short positions in an amount not greater than the underwriters’ over-allotment option referred to above, or may be “naked short sales,” which are short positions in excess of that amount.

The underwriters may close out any covered short position either by exercising their over-allotment option, in whole or in part, or by purchasing common shares in the open market. In making this determination, the underwriters will consider, among other things, the price of common shares available for purchase in the open market compared to the price at which they may purchase common shares through the over-allotment option. The underwriters must close out any naked short position by purchasing common shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common shares in the open market that could adversely affect investors who purchased in this offering.

As a result of these activities, the price of our common shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time without notice. The underwriters may carry out these transactions on the NASDAQ Stock Exchange, in the over-the-counter market or otherwise.

Electronic Distribution

A prospectus in electronic format may be made available by e-mail or on the websites or through online services maintained by one or more of the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus in electronic format, the information on the underwriters' websites and any information contained on any other website maintained by any of the underwriters is not part of this prospectus, has not been approved and/or endorsed by the underwriters or us and should not be relied upon by investors.

Affiliations

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment advisory, investment research, principal investment, hedging, financing, loan referrals, valuation and brokerage activities. From time to time, the underwriters and/or their respective affiliates have directly and indirectly engaged, and may in the future engage, in various financial advisory, investment banking loan referrals and commercial banking services with us and our affiliates, for which they received or paid, or may receive or pay, customary compensation, fees and expense reimbursement. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and those investment and securities activities may involve securities and/or instruments of ours. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of those securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in those securities and instruments.

Disclosure of any material relationships between any of the underwriters and the Company will be provided in an amendment to this Registration Statement.

Other Considerations

It is expected that delivery of our common shares will be made against payment therefor on or about the date specified on the cover page of this prospectus. Under Rule 15c6-1 promulgated under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise.

Selling Restrictions

Other than in the United States, no action has been taken by us, the selling shareholders or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each, a Relevant Member State, each underwriter has represented and agreed that with effect from and, including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the Relevant Implementation Date, it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the common shares offered hereby which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and, including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- to legal entities that are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors, as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances which do not require the publication by us of a prospectus under Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "an offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State; and "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

Each underwriter has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the "FSMA")) received by it in connection with the issue or sale of the common shares offered hereby in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the common shares offered hereby in, from or otherwise involving the United Kingdom.

NASDAQ Stock Market Listing

We intend to apply to list our common shares on the NASDAQ Stock Market under the symbol "JRVR." The listing will be subject to approval of our application.

There has been no public market for our common shares prior to this offering. We, the selling shareholders and the representatives of the underwriters negotiated the initial public offering price. In determining the initial public offering price, we, the selling shareholders and the representatives of the underwriters considered a number of factors in addition to prevailing market conditions, including:

- the information set forth in this prospectus and otherwise available to the representatives of the underwriters;
- the history of and prospects for our industry;
- an assessment of our management;
- our proposed operations;
- our projected results of operations;
- the projected trend of our operating results;
- our earnings prospects;
- our dividend policy and the anticipated amount of dividends, if any, to be paid to shareholders;
- the general condition of the securities markets at the time of this offering;
- the recent market prices of, and demand for, publicly traded shares of common stock of generally comparable companies; and
- other factors deemed relevant by the representatives of the underwriters, the selling shareholders and us.

We, the selling shareholders and the representatives of the underwriters considered these and other relevant factors in relation to the price of similar securities of generally comparable companies. None of ourselves, the selling shareholders nor the underwriters can assure investors that an active trading market will develop for our common shares, or that the common shares will trade in the public market at or above the initial public offering price.

LEGAL MATTERS

Certain legal matters relating to this offering will be passed upon for us by Conyers Dill & Pearman Limited, Hamilton, Bermuda and by Bryan Cave LLP, New York, New York. Certain matters will be passed upon for the underwriters by Willkie Farr & Gallagher LLP, New York, New York.

EXPERTS

The consolidated financial statements of James River Group Holdings, Ltd. at December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013 (including the financial statement schedules listed under the caption "Audited Consolidated Financial Statements" in the index to the financial statements on page F-1), appearing in this prospectus and Registration Statement, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

ENFORCEMENT OF CIVIL LIABILITIES UNDER U.S. FEDERAL SECURITIES LAWS

We are a Bermuda company. In addition, certain of our directors and officers as well as certain of the experts named in this prospectus, reside outside the United States, and all or a substantial portion of our assets and their assets are located outside the United States. Therefore, it may be difficult for investors to effect service of process within the United States upon those persons or to recover against us or those persons on judgments of courts in the United States, including judgments based on civil liabilities provisions of the U.S. federal securities laws.

We have been advised by Conyers Dill & Pearman Limited, our Bermuda counsel, that the United States and Bermuda do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. We also have been advised by Conyers Dill & Pearman Limited that there is doubt as to whether the courts of Bermuda would enforce (1) judgments of U.S. courts based on the civil liability provisions of the U.S. federal securities laws obtained in actions against us or our directors and officers and (2) original actions brought in Bermuda against us or our officers and directors based solely upon the U.S. federal securities laws. A Bermuda court may, however, impose civil liability on us or our directors or officers in a suit brought in the Supreme Court of Bermuda provided that the facts alleged constitute or give rise to a cause of action under Bermuda law. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under the U.S. federal securities laws, would not be allowed in Bermuda courts to the extent that they are contrary to public policy.

GLOSSARY OF INDUSTRY AND OTHER TERMS

Accident year

Means, with respect to losses, the calendar year during which the loss events related to such losses occurred and, with respect to premiums, the calendar year during which such premiums were earned.

Acquisition expenses

Means the aggregate expenses incurred by a company that relate directly to acquiring business, including commissions and underwriting expenses.

Admitted insurer

Means an insurer that has received a license or certificate of authority from a state regulatory authority to transact an insurance business in that state.

BMA

Means the Bermuda Monetary Authority.

Broker

Means an intermediary who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered, between (1) a policyholder and a primary insurer, on behalf of the insured party, (2) a primary insurer and reinsurer, on behalf of the primary insurer or (3) a reinsurer and a retrocessionaire, on behalf of the reinsurer.

BSCR

Means the Bermuda Solvency Capital Requirements.

CAGR

Means compounded annual growth rate.

Capacity

Means the percentage of surplus, or the dollar amount of exposure, that an insurer or reinsurer is willing or able to place at risk. Capacity may apply to a single risk, a program, a line of business or an entire book of business. Capacity may be constrained by legal restrictions, corporate restrictions, or indirect financial restrictions such as capital adequacy requirements.

Case reserves

Means loss reserves, established with respect to specific, individual reported claims.

Casualty reinsurance

Means reinsurance that is primarily concerned with the losses caused by injuries to third parties and their property (in other words, parties other than the policyholder) and the legal liability imposed on the policyholder resulting therefrom. Also referred to as liability reinsurance. It includes, but is not limited to workers' compensation, automobile liability and general liability.

Catastrophe

Means a severe loss, typically involving multiple claimants. Common catastrophe perils include earthquakes, hurricanes, tsunamis, hailstorms, severe winter weather, floods, fires, tornados, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability.

Cede; cedent; ceding company

Means when a party reinsures some or all of its liability with another, it "cedes" business and is referred to as the "ceding company" or "cedent."

CFC

Means a controlled foreign corporation.

Claim	Means a request by an insured or reinsured for indemnification by an insurance or reinsurance company for loss incurred from an insured peril or event.
Claims-made policy	Means an insurance policy that provides coverage to the insured only for claims first asserted during the term of the policy and reported to the insurer during a reporting period specified in the policy.
Code	Means the U.S. Internal Revenue Code of 1986, as amended
Combined ratio	Means the sum of the loss ratio and the expense ratio. A combined ratio that is less than 100% generally indicates an underwriting profit. A combined ratio that is greater than 100% generally indicates an underwriting loss.
Commercial lines	Means the various kinds of insurance that are written for businesses such as property, workers’ compensation and crop.
Commission	Means the fee paid to an agent, broker, intermediary or program administrator for placing insurance or reinsurance, which is generally a percentage of the premium.
Companies Act	Means the Bermuda Companies Act 1981.
Direct insurance	Means insurance sold by an insurer that contracts with the insured, as distinguished from reinsurance.
ECR	Means enhanced capital requirement.
Earned premiums	Means the portion of premiums earned during or prior to a given period that was actually recognized as income during such period.
Excess and surplus lines (E&S)	Means lines of insurance which are generally unavailable from admitted insurers due to perceived risk related to the insured’s business and which, consequently, are placed by surplus lines agents or brokers with insurers that are not admitted in the subject jurisdiction.
Excess of loss reinsurance	Means reinsurance that indemnifies the reinsured against that portion of losses and loss adjustment expenses incurred on the underlying policies in excess of a specified dollar or percentage loss ratio amount. Also known as non-proportional reinsurance.
Exclusions	Means a listing of specific types of coverage or loss that are not covered by a given treaty or contract.
Expense ratio	Means financial ratio calculated by dividing general and administrative expenses by net premiums earned.
Facultative reinsurance	Means reinsurance obtained on a case-by-case basis for all or part of the liability associated with a single risk, exposure, or policy.
FASB	Means the Financial Accounting Standards Board.
FATCA	Means the U.S. Foreign Account Tax Compliance Act.
FET	Means U.S. federal insurance excise tax.
FFIs	Means foreign financial institutions.

Financial strength rating	Means the opinions of rating agencies regarding the financial ability of an insurance or reinsurance company to meet its financial obligations under its policies.
Frequency	Means the number of claims occurring during a given coverage period.
Fronting	Means the issuance of insurance policies for another insurance company or a capital pool that may not have the licenses or rating to serve its desired market and ceding all or a substantial part of the risk to that insurance company or capital pool.
FSMA	Means the U.K. Financial Services and Markets Act 2000.
FSOC	Means the U.S. Financial Stability Oversight Council, which was established by the Dodd-Frank Act.
GAAP	Means accounting principles generally accepted in the United States.
Gross written premiums	Means total premiums for insurance written, or assumed reinsurance, during a given period.
Hard market	Means the portion of the market cycle of the property-casualty insurance industry characterized by constricted industry capital and underwriting capacity, increasing premium rates and, typically, enhanced underwriting performance.
Incurred but not reported (IBNR)	Means reserves for estimated loss and loss adjustment expenses that have been incurred by insureds and reinsureds but not yet reported to the insurer or reinsurer, including unknown future developments on loss and loss adjustment expenses which are known to the insurer or reinsurer.
IGAs	Means intergovernmental agreements entered into under the FATCA regime.
Line of business	Means insurance line of business such as fire, auto, liability and workers' compensation.
Long tail	Means a term used to describe certain types of third-party liability exposures (e.g., malpractice, products, workers' compensation, errors and omissions) where the incidence of loss and the determination of damages are frequently subject to delays that extend beyond the term the insurance or reinsurance was in force. An example would be asbestos liability, where the manifestation of the disease and determination of liability does not occur until years later.
Loss adjustment expenses (LAE)	Means the expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs. Also known as claim adjustment expenses.
Loss development	Means increases or decreases in losses and LAE, whether paid or reserved, over a given period of time.

Loss reserves

Means reserves established by insurers and reinsurers to reflect the estimated cost of claims payments and the related expenses, including allocated LAE, that the insurer will ultimately be required to pay with respect to insurance it has written.

Losses occurring

Means contracts that cover claims arising from loss events that occur during the term of the contract, although not necessarily reported during the term of the contract.

Loss ratio

Means the financial ratio calculated by dividing net losses and loss expenses by net premiums earned.

NAIC

Means the National Association of Insurance Commissioners, a voluntary organization of state insurance officials that promulgates model laws regulating the insurance industry, values securities owned by insurers, develops and modifies insurer financial reporting and insurer performance criteria and performs other services with respect to the insurance industry.

Net earned premiums

Means the portion of net premiums written during or prior to a given period that was actually recognized as income during such period.

Net written premiums

Means gross written premiums for a given period less premiums ceded to reinsurers and retrocessionaires during such period.

Occurrence-based policy

Means an insurance policy that provides coverage to the insured for liabilities arising from events occurring during the term of policy, irrespective of when a claim is actually made.

P&C

Means property-casualty.

Personal lines

Means types of insurance or reinsurance written for individuals or families, rather than for businesses.

PFIC

Means passive foreign investment company as defined in Section 1297(a) of the Code.

PML

Means probable maximum loss.

Premiums; written, earned and unearned

Means premiums represent the cost of insurance that is paid by the cedent or insurer to the insurer or the reinsurer. Written represents the complete amount of premiums received, and earned represents the amount recognized as income. Unearned is the difference between written and earned premiums.

Primary insurer

Means an insurance company that issues insurance policies to the public generally or to certain non-insurance entities.

Property catastrophe reinsurance

Means property catastrophe reinsurance contracts are typically “all risk” in nature, meaning that they protect against losses from earthquakes and hurricanes, as well as other natural and man-made catastrophes such as tornados, fires, winter storms and floods (where the contract specifically provides for coverage). Losses on these contracts typically stem from direct property damage and business interruption.

Property lines

Means types of insurance or reinsurance that provide coverage to a person with an insurable interest in tangible property for that person's property loss, damage or loss of use caused by an insured peril.

Property reinsurance

Means reinsurance that is primarily concerned with financial loss arising out of property loss, damage or loss of use caused by an insured peril.

Proportional reinsurance/Pro rata reinsurance

Means reinsurance whereby the reinsurer shares losses in the same proportion as its shares of premiums and policy amounts.

Quota share reinsurance

Means reinsurance arrangement in which the insurer, or cedent, automatically transfers, and the reinsurer accepts, a stated proportion of every risk within a defined type of business written by the insurer. For this, the reinsurer receives an equal proportion of the premiums. The ceding insurer receives a commission, based on the amount of the premiums ceded, which is intended to reimburse the insurer for the costs of writing and administering the business. The reinsurer is dependent on the ceding company's ability in underwriting, pricing and claims administration.

Reinstatement premiums

Means the premiums charged for the restoration of the reinsurance limit of an excess of loss contract to its full amount after payment by the reinsurer of losses as a result of an occurrence.

Reinsurance

Means an arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, commonly referred to as the ceding company or cedent, for all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies. Reinsurance does not legally discharge the primary insurer from its liability with respect to its obligations to the insured.

Retention

Means the specific amount of loss that the ceding company retains above which the reinsurance limit applies.

Retrocession; retrocessional coverage

Means a transaction whereby a reinsurer cedes to another reinsurer, commonly referred to as the retrocessionaire, all or part of the reinsurance that the first reinsurer has assumed. Retrocessional reinsurance does not legally discharge the ceding reinsurer from its liability with respect to its obligations to the reinsured.

RPII

Means related person insurance income, as defined in Section 953(c)(2) of the Code.

Short tail

Means an insurance product where the ultimate losses are typically known and settled quickly, usually within a few years.

Soft market

Means the portion of the market cycle of the property-casualty insurance industry characterized by heightened premium rate competition among insurers, increased underwriting capacity and, typically, depressed underwriting performance.

Specialty lines

Means lines of insurance and reinsurance that provide coverage for risks that are often unusual or difficult to place and do not fit the underwriting criteria of standard commercial products carriers.

Statutory principles practices (SAP)

Means those accounting principles and practices which provide the framework for the preparation of insurance company financial statements, and the recording of transactions, in accordance with the rules and procedures adopted by regulatory authorities, generally emphasizing solvency considerations rather than a going-concern concept of accounting. The principal differences between SAP and GAAP as they relate to the financial statements of the Company's insurance subsidiaries are (1) policy acquisition costs are expensed as incurred under SAP, whereas they are deferred and amortized under GAAP, (2) certain assets are not admitted for purposes of determining surplus under SAP, (3) the classification and carrying amounts of investments in certain securities are different under SAP and GAAP and (4) the criteria for providing asset valuation allowances and the methodologies used to determine the amount thereof are different under SAP and GAAP. See Note 20 to the Notes to the Audited Consolidated Financial Statements included elsewhere in this prospectus.

Submission

Means an unprocessed application for (1) reinsurance coverage forwarded to a reinsurer by a prospective ceding insurer or by a broker or intermediary on behalf of such prospective ceding insurer or (2) retrocessional coverage forwarded to a retrocessionaire by a prospective ceding reinsurer or by a broker or intermediary on behalf of such prospective ceding reinsurer.

Tangible equity or tangible book value

Means shareholders' equity less goodwill and intangible assets.

TNC

Means transportation network companies.

Treaty reinsurance

Means the reinsurance of a specified type or category of risks defined in a reinsurance agreement (the "treaty") between the primary insurer or other reinsured and a reinsurer. Typically, in treaty reinsurance, the primary insurer or reinsured is obligated to offer and the reinsurer is obligated to accept a specified portion of all of that type or category of risk originally written by the primary insurer or reinsured. A treaty is generally valid for a period of one year and contains common contract terms along with a specific risk definition, data on limit and retention, and provisions for premiums and duration.

Underwriter

Means an employee of an insurance or reinsurance company who examines, accepts or rejects risks and classifies accepted risks in order to charge an appropriate premium for each accepted risk.

Underwriting

Means the insurer's or reinsurer's process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to accept all or part of the coverage requested and determining the applicable premiums.

Underwriting profit (loss)

Means the sum of net premiums earned, minus net losses and loss and loss adjustment expense, acquisition costs, general and administrative expenses, plus other underwriting fee income.

Unearned premium

Means the portion of premiums written that is allocable to the unexpired portion of the policy term.

Unit of exposure

Means a measure that is used to associate the premiums charged with respect to a policy with a factor that relates directly to the exposures covered by the policy. Examples include: per $100 of property value, per square foot area of a building, per $100 or $1,000 of payroll, and per specified dollar amount of admissions or gross receipts.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement, of which this prospectus is a part, on Form S-1 with the SEC relating to this offering. This prospectus does not contain all of the information in the registration statement and the exhibits to the registration statement. References in this prospectus to any of our contracts, agreements or other documents are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contracts, agreements or other documents. You may read and copy the registration statement, of which this prospectus is a part, the related exhibits and other material we file with the SEC at the SEC's public reference room, which is located at 100 F Street, Room 1580, N.E., Washington, D.C. 20549. You can also request copies of those documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. The SEC also maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file with the SEC. The website address is http://www.sec.gov. You may access the registration statement, of which this prospectus is a part, on the SEC's website.

Upon the effectiveness of the registration statement, we will be subject to the informational requirements of the Exchange Act, and, in accordance with the Exchange Act, will file reports, proxy and information statements and other information with the SEC. Such annual, quarterly and special reports, proxy and information statements and other information can be inspected and copied at the location set forth above or on the SEC's website.

INDEX TO FINANCIAL STATEMENTS

	Page
Unaudited Interim Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets as of June 30, 2014 (unaudited) and December 31, 2013 (audited)	F-2
Condensed Consolidated Statements of Income and Comprehensive Income for the Six Months Ended June 30, 2014 and 2013 (unaudited)	F-4
Condensed Consolidated Statements of Changes in Shareholders' Equity for the Six Months Ended June 30, 2014 and 2013 (unaudited)	F-5
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013 (unaudited)	F-6
Notes to Condensed Consolidated Financial Statements (unaudited)	F-7
Audited Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	F-26
Consolidated Balance Sheets as of December 31, 2013 and 2012	F-27
Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011	F-29
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2013, 2012 and 2011	F-30
Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011	F-31
Notes to Consolidated Financial Statements	F-32
Schedule I — Summary of Investments Other than Investments in Related Parties	F-73
Schedule II — Condensed Financial Information of Registrant — Parent Company Only	F-74
Schedule III — Supplementary Insurance Information	F-78
Schedule IV — Reinsurance	F-79
Schedule V — Valuation and Qualifying Accounts	F-80
Schedule VI — Supplementary Information Concerning Property-Casualty Insurance Operations	F-81

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	June 30, 2014	December 31, 2013
	(Unaudited)	
	(in thousands)	
Assets		
Invested assets:		
Fixed maturity securities:		
Available-for-sale, at fair value (amortized cost: 2014 – $726,779; 2013 – $654,836)	$ 745,771	$ 663,118
Trading, at fair value (amortized cost: 2014 – $14,050; 2013 – $17,189)	14,190	17,306
Equity securities available-for-sale, at fair value (cost: 2014 – $57,896; 2013 – $67,129)	62,026	66,807
Bank loan participations held-for-investment, at amortized cost, net of allowance	224,186	197,659
Short-term investments	129,929	71,518
Other invested assets	40,985	42,066
Total invested assets	1,217,087	1,058,474
Cash and cash equivalents	59,059	158,604
Accrued investment income	6,891	7,156
Premiums receivable and agents' balances, net	151,351	135,889
Reinsurance recoverable on unpaid losses	121,634	119,467
Reinsurance recoverable on paid losses	3,057	1,010
Prepaid reinsurance premiums	27,387	23,737
Deferred policy acquisition costs	52,378	46,204
Intangible assets, net	40,424	40,722
Goodwill	181,831	181,831
Other assets	36,873	33,699
Total assets	$ 1,897,972	$ 1,806,793

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (continued)

	June 30, 2014	December 31, 2013
	(Unaudited)	
	(in thousands, except share amounts)	
Liabilities and Shareholders' Equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 683,573	$ 646,452
Unearned premiums	249,632	218,532
Payables to reinsurers	16,724	29,364
Senior debt	58,000	58,000
Junior subordinated debt	104,055	104,055
Accrued expenses	13,415	14,535
Other liabilities	40,715	34,365
Total liabilities	1,166,114	1,105,303
Commitments and contingent liabilities		
Shareholders' equity:		
Class A Common Shares – 2014 and 2013: $0.01 par value; 1,200,000 shares authorized; 570,807 shares issued and outstanding	6	6
Class B Common Shares – 2014 and 2013: $0.01 par value; 2,800,000 shares authorized; no shares issued and outstanding	—	—
Preferred Shares – 2014 and 2013: $0.01 par value; 2,500,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	627,860	627,647
Retained earnings	85,287	66,636
Accumulated other comprehensive income	18,705	7,201
Total shareholders' equity	731,858	701,490
Total liabilities and shareholders' equity	$ 1,897,972	$ 1,806,793

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Revenues:		
Gross written premiums	$ 244,201	$ 165,021
Ceded written premiums	(30,419)	(17,966)
Net written premiums	213,782	147,055
Change in net unearned premiums	(27,714)	15,798
Net earned premiums	186,068	162,853
Net investment income	23,193	25,534
Net realized investment (losses) gains	(3,711)	12,514
Other income	941	103
Total revenues	206,491	201,004
Expenses:		
Losses and loss adjustment expenses	117,450	105,859
Other operating expenses	64,857	57,528
Other expenses	389	534
Interest expense	3,104	3,626
Amortization of intangible assets	298	1,278
Total expenses	186,098	168,825
Income before taxes	20,393	32,179
U.S. federal income tax expense	1,742	4,043
Net income	$ 18,651	$ 28,136
Other comprehensive income (loss):		
Net unrealized gains (losses), net of taxes of $3,658 in 2014 and $(6,508) in 2013	11,504	(32,205)
Total comprehensive income (loss)	$ 30,155	$ (4,069)
Earnings per share:		
Basic	$ 32.67	$ 43.44
Diluted	$ 32.40	$ 43.44
Weighted-average common shares outstanding:		
Basic	570,807	647,672
Diluted	575,686	647,672

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

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

	Class A Common Shares	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	JRGH Shareholders’ Equity	Non-Controlling Interest	Total Shareholders’ Equity
	($ in thousands, except share amounts)						
Balances at December 31, 2012	$ 7	$ 738,020	$ (701)	$ 46,446	$ 783,772	$ 268	$ 784,040
Net income	—	—	28,136	—	28,136	—	28,136
Other comprehensive loss	—	—	—	(32,205)	(32,205)	—	(32,205)
Class A common shares repurchase	(1)	(110,759)	—	—	(110,760)	—	(110,760)
Repurchase of non-controlling interest	—	(321)	—	—	(321)	(208)	(529)
Compensation expense under share incentive plan	—	343	—	—	343	—	343
Balances at June 30, 2013	$ 6	$ 627,283	$ 27,435	$ 14,241	$ 668,965	$ 60	$ 669,025
Balances at December 31, 2013	$ 6	$ 627,647	$ 66,636	$ 7,201	$ 701,490	$ —	$ 701,490
Net income	—	—	18,651	—	18,651	—	18,651
Other comprehensive income	—	—	—	11,504	11,504	—	11,504
Compensation expense under share incentive plan	—	213	—	—	213	—	213
Balances at June 30, 2014	$ 6	$ 627,860	$ 85,287	$ 18,705	$ 731,858	$ —	$ 731,858

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Operating activities		
Net cash provided by operating activities	$ 48,379	$ 44,699
Investing activities		
Securities available-for-sale:		
Purchases – fixed maturity securities	(106,002)	(157,799)
Sales – fixed maturity securities	9,981	162,384
Maturities and calls – fixed maturity securities	22,188	43,496
Purchases – equity securities	(8,133)	(16,207)
Sales – equity securities	16,612	1,127
Bank loan participations:		
Purchases	(140,835)	(144,652)
Sales	77,732	71,703
Maturities	37,251	67,583
Other invested asset purchases	(4,800)	(6,425)
Other invested asset returns of capital	—	108
Other invested asset disposals	5,866	—
Short-term investments, net	(58,411)	7,595
Securities receivable or payable	1,127	(19,494)
Purchases of property and equipment	(185)	(136)
Net cash (used in) provided by investing activities	(147,609)	9,283
Financing activities		
Senior debt issuances	—	43,000
Senior debt repayments	—	(20,000)
Debt issue costs paid	—	(649)
Common share repurchases	—	(110,760)
Repayments of financing obligations net of proceeds	(315)	(270)
Subsidiary common share repurchases	—	(529)
Net cash used in financing activities	(315)	(89,208)
Change in cash and cash equivalents	(99,545)	(35,226)
Cash and cash equivalents at beginning of period	158,604	95,794
Cash and cash equivalents at end of period	$ 59,059	$ 60,568
Supplemental information		
Interest paid	$ 3,283	$ 4,235

See accompanying notes.

1. Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements and notes have been prepared in accordance with United States ("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 James River Group Holdings, Ltd. ("JRG Holdings" or the "Company") and its subsidiaries from their respective dates of inception or acquisition, as applicable. Readers are urged to review the Company's 2013 audited consolidated financial statements 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, 2013 was derived from the Company's audited annual consolidated financial statements.

Significant 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.

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 (1) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses or 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 $33.2 million and $34.3 million as of June 30, 2014 and December 31, 2013, respectively, representing the Company's maximum exposure to loss.

Prospective Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies in all industries. The guidance applies to all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of

1. Accounting Policies (continued)

nonfinancial assets, unless those contracts are within the scope of other standards, such as insurance contracts. Under this guidance, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 becomes effective for the Company during the first quarter of 2017 and must be applied retrospectively. The Company is currently evaluating ASU No. 2014-09 to determine the potential impact that adopting this standard will have on its consolidated financial statements.

2. Investments

The Company's available-for-sale investments are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2014				
Fixed maturity securities:				
State and municipal	$ 86,823	$ 6,998	$ (30)	$ 93,791
Residential mortgage-backed	123,639	2,763	(2,694)	123,708
Corporate	250,275	9,332	(1,517)	258,090
Commercial mortgage and asset-backed	106,171	2,973	(31)	109,113
Obligations of U.S. government corporations and agencies	102,536	1,778	(551)	103,763
U.S. Treasury securities and obligations guaranteed by the U.S. government	55,310	354	(218)	55,446
Redeemable preferred stock	2,025	—	(165)	1,860
Total fixed maturity securities	726,779	24,198	(5,206)	745,771
Equity securities	57,896	4,981	(851)	62,026
Total investments available-for-sale	$ 784,675	$ 29,179	$ (6,057)	$ 807,797

2. Investments (continued)

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
December 31, 2013				
Fixed maturity securities:				
State and municipal	$ 74,678	$ 3,903	$ (2,435)	$ 76,146
Residential mortgage-backed	101,352	2,119	(4,902)	98,569
Corporate	245,139	8,576	(2,198)	251,517
Commercial mortgage and asset-backed	81,054	3,000	(89)	83,965
Obligations of U.S. government corporations and agencies	104,153	1,944	(1,136)	104,961
U.S. Treasury securities and obligations guaranteed by the U.S. government	46,435	339	(463)	46,311
Redeemable preferred stock	2,025	—	(376)	1,649
Total fixed maturity securities	654,836	19,881	(11,599)	663,118
Equity securities	67,129	2,140	(2,462)	66,807
Total investments available-for-sale	$ 721,965	$ 22,021	$ (14,061)	$ 729,925

The amortized cost and fair value of available-for-sale investments in fixed maturity securities at June 30, 2014 are summarized, by contractual maturity, as follows:

	Amortized Cost	Fair Value
	(in thousands)	
One year or less	$ 39,065	$ 39,644
After one year through five years	286,382	290,957
After five years through ten years	68,500	72,863
After ten years	100,997	107,626
	494,944	511,090
Residential mortgage-backed	123,639	123,708
Commercial mortgage and asset-backed	106,171	109,113
Redeemable preferred stock	2,025	1,860
Total	$ 726,779	$ 745,771

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

2. Investments (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
			(in thousands)			
June 30, 2014						
Fixed maturity securities:						
State and municipal	$ 4,528	$ (12)	$ 3,505	$ (18)	$ 8,033	$ (30)
Residential mortgage-backed	9,801	(58)	52,574	(2,636)	62,375	(2,694)
Corporate	22,841	(454)	21,140	(1,063)	43,981	(1,517)
Commercial mortgage and asset-backed	19,395	(25)	1,137	(6)	20,532	(31)
Obligations of U.S. government corporations and agencies	1,244	—	48,211	(551)	49,455	(551)
U.S. Treasury securities and obligations guaranteed by the U.S. government	6,993	(19)	22,096	(199)	29,089	(218)
Redeemable preferred stock	—	—	1,860	(165)	1,860	(165)
Total fixed maturity securities	64,802	(568)	150,523	(4,638)	215,325	(5,206)
Equity securities	7,742	(399)	5,014	(452)	12,756	(851)
Total investments available-for-sale	$ 72,544	$ (967)	$ 155,537	$ (5,090)	$ 228,081	$ (6,057)
December 31, 2013						
Fixed maturity securities:						
State and municipal	$ 12,913	$ (780)	$ 3,129	$ (1,655)	$ 16,042	$ (2,435)
Residential mortgage-backed	46,210	(3,087)	16,783	(1,815)	62,993	(4,902)
Corporate	45,624	(1,692)	1,924	(506)	47,548	(2,198)
Commercial mortgage and asset-backed	39,497	(89)	—	—	39,497	(89)
Obligations of U.S. government corporations and agencies	51,686	(1,136)	—	—	51,686	(1,136)
U.S. Treasury securities and obligations guaranteed by the U.S. government	31,219	(463)	—	—	31,219	(463)
Redeemable preferred stock	1,649	(376)	—	—	1,649	(376)
Total fixed maturity securities	228,798	(7,623)	21,836	(3,976)	250,634	(11,599)
Equity securities	26,339	(2,462)	—	—	26,339	(2,462)
Total investments available-for-sale	$ 255,137	$ (10,085)	$ 21,836	$ (3,976)	$ 276,973	$ (14,061)

As of June 30, 2014, the Company held securities of 41 issuers that were in an unrealized loss position with a total fair value of $228.1 million and gross unrealized losses of $6.1 million. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment.

2. Investments (continued)

The majority of the unrealized losses on fixed maturity securities are interest rate related. At June 30, 2014, 85.1% of the Company's fixed maturity security portfolio was rated "A-" or better 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 June 30, 2014 had an aggregate fair value of $40.8 million and an aggregate net unrealized gain of $638,000.

The Company holds two municipal bonds issued by the Commonwealth of Puerto Rico. Such bonds are backed by future sales tax revenues in Puerto Rico. Puerto Rico's weak economic conditions and heavy debt burden, combined with the passage of new legislation that allows public corporations to defer or reduce payments on outstanding debt, has heightened the risk of default on the bonds. Management concluded that the bonds, which have been downgraded to below investment grade, were other than temporarily impaired at June 30, 2014. The Company recognized impairment losses of $1.4 million on the bonds for the six months ended June 30, 2014.

Management concluded that none of the other fixed maturity securities with an unrealized loss at June 30, 2014 experienced an other-than-temporary impairment and that none of the fixed maturity securities with an unrealized loss at December 31, 2013 experienced an other-than-temporary impairment. Management does not intend to sell available-for-sale securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs. Management also concluded that none of the equity securities with an unrealized loss at June 30, 2014 experienced an other-than-temporary impairment. Management concluded that one of the equity securities with an unrealized loss at December 31, 2013 experienced an other-than-temporary impairment, and accordingly, the Company recorded an impairment loss of $804,000 in 2013. Management concluded that the remaining equity securities with an unrealized loss at December 31, 2013 had not experienced an other-than-temporary impairment. Management has evaluated the near-term prospects of these equity securities in relation to the severity and duration of the impairment, and management has the ability and intent to hold these securities until a recovery of their fair value.

At June 30, 2014, the Company holds participations in two loans issued by companies that produce and supply power to Puerto Rico through power purchase agreements with Puerto Rico Electric Power Authority ("PREPA"), a public corporation and governmental agency of the Commonwealth of Puerto Rico. PREPA's credit strength and ability to make timely payments has been impacted by the economic conditions in Puerto Rico, thus raising doubt about the companies' ability to meet the debt obligations held by the Company. Management concluded that the loans were impaired at June 30, 2014 and recorded losses of $963,000 to establish an allowance for credit losses on the loans. After recording this impairment, these loans have a carrying value of $9.2 million at June 30, 2014 and unpaid principal of $10.8 million.

At December 31, 2013, investments in bank loan participations considered impaired were $246,000, net of the related allowance for credit losses on such bank loan participations of $242,000. The unpaid principal balance on these bank loan participations was $488,000 at December 31, 2013.

At June 30, 2013, investments in bank loan participations considered to be impaired were $256,000, net of the related allowance for credit losses on such bank loan participations of $232,000. The unpaid principal on these bank loan participations was $488,000 at June 30, 2013. At December 31, 2012, investments in bank loan participations considered impaired were $367,000, net of the related allowance for credit losses on such bank loan participations of $121,000. The unpaid principal balance on these bank loan participations was $488,000 at December 31, 2012.

All bank loans have a credit rating that is below investment grade ("BBB-" for Standard & Poor's) at the date of purchase. These bank loans are primarily senior, secured floating-rate debt rated "B" or "BB" by Standard & Poor's or an equivalent rating from another nationally recognized rating agency. These bank

2. Investments (continued)

loans include assignments of, and participations in, performing and non-performing senior corporate debt generally acquired through primary bank syndications and in secondary markets. Bank loans consist of, but are not limited to, term loans, the funded and unfunded portions of revolving credit loans, and other similar loans and investments. Management believed that it was probable at the time that these loans were acquired that the Company would be able to collect all contractually required payments receivable.

Generally, the accrual of interest on a bank loan participation is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest. A bank loan participation may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Generally, bank loan participations are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest received on nonaccrual loans generally is reported as investment income. There were no bank loans on nonaccrual status at June 30, 2014 or December 31, 2013.

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

The average recorded investment in impaired bank loans, including the two loans due from companies that produce and supply power to Puerto Rico, was $4.7 million and $312,000 during the six months ended June 30, 2014 and June 30, 2013, respectively, and investment income of $0 and $16,000, respectively, was recognized during the time within the periods that the loans were impaired. The Company recorded realized losses of $963,000 during the six months ended June 30, 2014 for changes in the fair value of impaired bank loans. The Company recorded realized losses of $111,000 during the six months ended June 30, 2013 for changes in the fair value of impaired bank loans.

Changes in unrealized gains or losses on securities held for trading are recorded as trading gains or losses within net investment income. Net investment income for the six months ended June 30, 2014 includes $34,000 of net trading gains of which $23,000 relates to securities held at June 30, 2014.

2. Investments (continued)

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

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Fixed maturity securities:		
Gross realized gains	$ 394	$ 12,683
Gross realized losses	(1,412)	(1,424)
	(1,018)	11,259
Bank loan participations:		
Gross realized gains	$ 978	$ 1,671
Gross realized losses	(978)	(439)
	—	1,232
Equity securities:		
Gross realized gains	$ 88	$ 13
Gross realized losses	(842)	—
	(754)	13
Short-term investments and other:		
Gross realized gains	$ —	$ 10
Gross realized losses	(1,939)	—
	(1,939)	10
Total	$ (3,711)	$ 12,514

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

At June 30, 2014 and December 31, 2013, the Company holds fixed maturity securities with a fair value of $12.7 million and $11.0 million, respectively, issued by First Wind Capital, LLC ("First Wind Capital"). Two of the Company's directors are also directors of First Wind Capital, which is an affiliate of the Company's largest shareholder. Also at June 30, 2014 and December 31, 2013, the Company holds a note receivable with a carrying value of $4.7 million and $5.0 million, respectively, from an unrelated third party corporation that is wholly-owned by First Wind Capital.

Other invested assets include $5.4 million at June 30, 2014 and December 31, 2013, which represents the Company's investment in a bank holding company (the "Bank Holding Company"). At June 30, 2014, the Company has invested a total of $5.6 million, and its ownership interest in the bank holding company is 3.6%. The Chairman of the Board of Directors of the Company is also the Lead Director for the Bank Holding Company. Additionally, the Chairman and another director of the Company are also shareholders of the Bank Holding Company. The equity method is being used to account for the investment, which was made by the Corporate and Other segment. The Company recorded pre-tax income of $57,000 for the six months ended June 30, 2014. The Company recorded pre-tax income of $47,000 for the six months ended June 30, 2013 for its proportional share of equity interest, and these amounts were included in net investment income in the Company's condensed consolidated income statements. Additionally, in 2013, the Company's Corporate and Other segment purchased $4.5 million of subordinated notes issued by a company that is 70.0% owned by the Bank Holding Company. The Chairman of the Board of Directors of

2. Investments (continued)

the Company is also Lead Director for the issuing company. Interest on the notes, which mature on August 12, 2023, is fixed at 7.6% per annum, and income of $172,000 was recognized on the notes for the six months ended June 30, 2014. On July 4, 2014, the Bank Holding Company merged with and into another bank holding company. Refer to Note 13.

At December 31, 2013, the Company's Corporate and Other segment held equity interests ranging from 5.5% to 33.3% in four limited liability corporations (LLCs) that are managed by an affiliate of the Company's largest shareholder. In March 2014, the Company sold its interest in one of the LLCs for $5.9 million. The Company recognized investment income of $3.6 million in 2014 prior to the sale and recognized a $1.9 million realized loss on the sale. The principal objective of the LLCs is capital appreciation and income generation from owning and operating renewable energy facilities engaged in wind and solar energy production. The equity method is being used to account for the LLCs which are included in "other invested assets" in the accompanying condensed consolidated balance sheets. The collective carrying value of the LLCs was $23.4 million and $26.8 million at June 30, 2014 and December 31, 2013, respectively. Income of $4.0 million was recognized on the investments for the six months ended June 30, 2014. Income of $3.8 million was recognized on the investments for the six months ended June 30, 2013. The Company received cash distributions from these investments totaling $2.4 million and $2.7 million, respectively, in the six months ended June 30, 2014 and 2013.

On December 10, 2012, the Company's Corporate and Other segment entered into a $3.3 million note agreement with two property development companies. The note, which carried a 10.85% fixed interest rate, was originally scheduled to mature on December 10, 2013. The note was extended until July 10, 2014, and the fixed interest rate was increased to 11.10%. Origination fees received were recognized over the original term of the note under the effective interest method. Income of $181,000 was recognized on this investment for the six months ended June 30, 2014. Income of $202,000 was recognized on this investment for the six months ended June 30, 2013.

On July 1, 2013, the Company's Corporate and Other segment invested $2.0 million in a limited partnership that invests in a portfolio of companies undergoing financial stress. The equity method is being used to account for this investment. Income of $152,000 was recognized on the investment for the six months ended June 30, 2014, and the carrying value of the investment was $2.3 million and $2.1 million at June 30, 2014 and December 31, 2013, respectively.

On June 1, 2014, the Company's Corporate and Other segment invested $2.0 million in a limited partnership that seeks capital appreciation through investing in a concentrated portfolio of U.S. publicly traded companies with small market capitalizations. The equity method is being used to account for this investment. Income of $80,000 was recognized on the investment for the six months ended June 30, 2014 and the carrying value of the investment was $2.1 million at June 30, 2014.

3. Goodwill and Intangible Assets

On December 11, 2007, the Company completed the acquisition of James River Group, Inc. ("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 June 30, 2014 and December 31, 2013.

3. Goodwill and Intangible Assets (continued)

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

		June 30, 2014		December 31, 2013	
	Life (Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		($ in thousands)			
Intangible Assets					
Trademarks	Indefinite	$ 22,200	$ —	$ 22,200	$ —
Insurance licenses and authorities	Indefinite	9,164	—	9,164	—
Identifiable intangibles not subject to amortization		31,364	—	31,364	—
Broker relationships	24.6	11,611	2,551	11,611	2,253
Identifiable intangible assets subject to amortization		11,611	2,551	11,611	2,253
		$ 42,975	$ 2,551	$ 42,975	$ 2,253

4. Earnings Per Share

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

	Income (Numerator)	Weighted-Average Common Shares (Denominator)	Earnings Per Share
	(in thousands, except per share data)		
Six months ended June 30, 2014			
Basic	$ 18,651	570,807	$ 32.67
Share options	—	4,879	(0.27)
Diluted	$ 18,651	575,686	$ 32.40
Six months ended June 30, 2013			
Basic	$ 28,136	647,672	$ 43.44
Diluted	$ 28,136	647,672	$ 43.44

Common share equivalents of 500 shares and 41,075 shares were excluded from the calculation of diluted earnings per share for the six months ended June 30, 2014 and 2013, respectively, as their effects were anti-dilutive.

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 consolidated balance sheets:

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period	$ 526,985	$ 533,909
Add: Incurred losses and loss adjustment expenses net of reinsurance:		
Current year	121,200	108,907
Prior years	(3,750)	(3,048)
Total incurred losses and loss and adjustment expenses	117,450	105,859
Deduct: Loss and loss adjustment expense payments net of reinsurance:		
Current year	5,113	3,732
Prior years	77,383	61,736
Total loss and loss adjustment expense payments	82,496	65,468
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at end of period	561,939	574,300
Add: Reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	121,634	145,068
Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	$ 683,573	$ 719,368

A $3.7 million reserve redundancy developed in the six months ended June 30, 2014 on the reserve for losses and loss adjustment expenses held at December 31, 2013. This favorable development included $6.3 million of favorable development in the Excess and Surplus Lines segment primarily from the 2009 and 2010 accident years and $1.1 million of favorable development in the Specialty Admitted Insurance segment. This favorable development was partially offset by $3.6 million of adverse development on assumed business in the Casualty Reinsurance segment.

A $3.0 million reserve redundancy developed in the six months ended June 30, 2013 on the reserve for losses and loss adjustment expenses held at December 31, 2012. This favorable reserve development included $5.6 million of favorable development in the Excess and Surplus Lines segment primarily from the 2007 and 2009 accident years and $530,000 of favorable development in the Specialty Admitted Insurance segment. This favorable development was partially offset by $1.0 million of adverse reserve development on assumed crop business and $2.1 million of adverse development on other assumed business in the Casualty Reinsurance segment.

The favorable development in the Excess and Surplus Lines segment for each of the periods presented occurred because our actuarial studies indicated that our loss experience on mature casualty business continues to be below our initial expected ultimate loss ratios.

6. Other Comprehensive (Loss) Income

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

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Unrealized gains (losses) arising during the period, before U.S. income taxes	$ 13,390	$ (27,442)
U.S. income taxes	(2,987)	3,392
Unrealized gains (losses) arising during the period, net of U.S. income taxes	10,403	(24,050)
Less reclassification adjustment:		
Net realized investment (losses) gains	(1,772)	11,271
U.S. income tax expense	671	(3,116)
Reclassification adjustment for investment (losses) gains realized in net income	(1,101)	8,155
Other comprehensive income (loss)	$ 11,504	$ (32,205)

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.

The Company's reinsurance subsidiary, JRG Reinsurance Company, Ltd. ("JRG Re"), entered into two 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 $100.0 million facility, $94.1 million of letters of credit were issued through June 30, 2014, and assets of $110.6 million were on deposit at June 30, 2014 securing these letters of credit. Under a $62.5 million facility, $36.5 million of letters of credit were issued through June 30, 2014, and assets of $62.8 million were on deposit at June 30, 2014 securing the letters of credit. 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 $200.6 million at June 30, 2014.

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. Segment results are reported prior to the effects of the intercompany reinsurance agreements among the Company's insurance subsidiaries.

8. Segment Information (continued)

The following table summarizes the Company’s segment results:

	Excess and Surplus Lines	Specialty Admitted Insurance	Casualty Reinsurance	Corporate and Other	Total
			(in thousands)		
Six Months Ended June 30, 2014					
Gross written premiums	$ 120,687	$ 24,236	$ 99,278	$ —	$ 244,201
Net earned premiums	87,083	11,662	87,323	—	186,068
Segment revenues	92,326	12,892	98,265	3,008	206,491
Underwriting profit (loss) of operating segments	8,115	(1,040)	407	—	7,482
Net investment income	7,024	1,166	10,172	4,831	23,193
Interest expense	—	—	—	3,104	3,104
Segment goodwill	181,831	—	—	—	181,831
Segment assets	682,825	112,258	1,008,764	94,125	1,897,972
Six Months Ended June 30, 2013					
Gross written premiums	$ 94,773	$ 12,259	$ 57,989	$ —	$ 165,021
Net earned premiums	66,489	9,281	87,083	—	162,853
Segment revenues	83,044	11,670	102,197	4,093	201,004
Underwriting profit (loss) of operating segments	7,660	(1,606)	(2,721)	—	3,333
Net investment income	7,983	1,351	12,183	4,017	25,534
Interest expense	—	—	—	3,626	3,626
Segment goodwill	181,831	—	—	—	181,831
Segment assets	683,672	91,700	980,652	98,196	1,854,220

8. Segment Information (continued)

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

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Underwriting profit (loss) of operating segments:		
Excess and Surplus Lines	$ 8,115	$ 7,660
Specialty Admitted Insurance	(1,040)	(1,606)
Casualty Reinsurance	407	(2,721)
Total underwriting profit of operating segments	7,482	3,333
Other operating expenses of the Corporate and Other segment	(3,721)	(3,867)
Underwriting profit (loss)	3,761	(534)
Net investment income	23,193	25,534
Net realized investment (losses) gains	(3,711)	12,514
Other income	941	103
Amortization of intangible assets	(298)	(1,278)
Other expenses	(389)	(534)
Interest expense	(3,104)	(3,626)
Income before taxes	$ 20,393	$ 32,179

9. Other Operating Expenses

Other operating expenses consist of the following:

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Amortization of policy acquisition costs	$ 41,058	$ 36,711
Other underwriting expenses of the operating segments	20,078	16,950
Other operating expenses of the Corporate and Other segment	3,721	3,867
Total	$ 64,857	$ 57,528

Other expenses for the six months ended June 30, 2014 include $253,000 of due diligence costs for various merger and acquisition activities which were not consummated and $136,000 of expenses associated with a related party leasing agreement. Other expenses for the six months ended June 30, 2013 include $392,000 of due diligence costs for an acquisition which we elected not to pursue and $142,000 of expenses associated with a related party leasing agreement.

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.

10. Fair Value Measurements (continued)

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. If a quoted market price is not available, the Company uses prices of similar securities. Values for U.S. Treasury and publicly-traded equity securities are generally based on Level 1 inputs which use the market approach valuation technique. The values for all other fixed maturity securities (including state and municipal securities and obligations of U.S. government corporations and agencies) generally incorporate significant Level 2 inputs, and in some cases, Level 3 inputs, using the market approach and income approach valuation techniques. There have been no changes in the Company's use of valuation techniques since January 1, 2013.

Assets measured at fair value on a recurring basis as of June 30, 2014 are summarized below:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	(in thousands)			
Available-for-sale securities:				
Fixed maturity securities:				
State and municipal	$ —	$ 93,791	$ —	$ 93,791
Residential mortgage-backed	—	123,708	—	123,708
Corporate	—	258,090	—	258,090
Commercial mortgage and asset-backed	—	109,113	—	109,113
Obligations of U.S. government corporations and agencies	—	103,763	—	103,763
U.S. Treasury securities and obligations guaranteed by the U.S. government	53,939	1,507	—	55,446
Redeemable preferred stock	—	1,860	—	1,860
Total fixed maturity securities	53,939	691,832	—	745,771
Equity securities:				
Preferred stock	—	49,428	—	49,428
Common stock	11,864	734	—	12,598
Total equity securities	11,864	50,162	—	62,026
Total available-for-sale securities	$ 65,803	$ 741,994	$ —	$ 807,797
Trading securities:				
Fixed maturity securities	$ 4,198	$ 9,992	$ —	$ 14,190
Short-term investments	$ 128,350	$ 1,579	$ —	$ 129,929

10. Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis as of December 31, 2013 are summarized below:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
		(in thousands)		
Available-for-sale securities				
Fixed maturity securities:				
State and municipal	$ —	$ 76,146	$ —	$ 76,146
Residential mortgage-backed	—	98,569	—	98,569
Corporate	—	251,517	—	251,517
Commercial mortgage and asset-backed	—	83,965	—	83,965
Obligations of U.S. government corporations and agencies	—	104,961	—	104,961
U.S. Treasury securities and obligations guaranteed by the U.S. government	44,757	1,554	—	46,311
Redeemable preferred stock	—	1,649	—	1,649
Total fixed maturity securities	44,757	618,361	—	663,118
Equity securities:				
Preferred stock	—	37,042	—	37,042
Common stock	29,031	734	—	29,765
Total equity securities	29,031	37,776	—	66,807
Total available-for-sale securities	$ 73,788	$ 656,137	$ —	$ 729,925
Trading securities:				
Fixed maturity securities	$ 4,980	$ 12,326	$ —	$ 17,306
Short-term investments	$ 45,523	$ 25,995	$ —	$ 71,518

The beginning and ending balances of available-for-sale fixed maturity securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was $0, and there was no activity (purchases, sales, transfers) involving Level 3 securities for the six months ended June 30, 2014 or 2013.

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 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 six months ended June 30, 2014 or 2013. The Company recognizes transfers between levels at the beginning of the reporting period.

There were no realized gains or losses included in earnings for the six months ended June 30, 2014 attributable to the change in unrealized gains or losses relating to Level 3 assets valued at fair value on a recurring basis that are still held at June 30, 2014.

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

10. Fair Value Measurements (continued)

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	(in thousands)			
June 30, 2014				
Bank loan participations held-for-investment	$ —	$ —	$ 9,167	$ 9,167
December 31, 2013				
Bank loan participations held-for-investment	$ —	$ —	$ 246	$ 246

Bank loan participations held-for-investment that were determined to be impaired were written down to their fair value of $9.2 million and $246,000 at June 30, 2014 and December 31, 2013, respectively. The allowance for credit losses on bank loan participations was $963,000 at June 30, 2014 and $242,000 at December 31, 2013. The change in the allowance for credit losses on bank loan participations is included in net realized investment gains.

In the determination of the fair value for bank loan participations and certain high yield bonds, the Company's investment manager endeavors to obtain data from multiple external pricing sources. External pricing sources may include brokers, dealers and price data vendors that provide a composite price based on prices from multiple dealers. Such external pricing sources typically provide valuations for normal institutional size trading units of such securities using methods based on market transactions for comparable securities, and various relationships between securities, as generally recognized by institutional dealers. For investments in which the investment manager determines that only one external pricing source is appropriate or if only one external price is available, the relevant investment is generally recorded at fair value based on such price.

Investments for which external sources are not available or are determined by the investment manager not to be representative of fair value are recorded at fair value as determined by the investment manager. In determining the fair value of such investments, the investment manager considers one or more of the following factors: type of security held, convertibility or exchangeability of the security, redeemability of the security (including 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 June 30, 2014 and December 31, 2013, there were no investments for which external sources were unavailable to determine fair value.

10. Fair Value Measurements (continued)

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

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Assets				
Available-for-sale:				
Fixed maturity securities	$ 745,771	$ 745,771	$ 663,118	$ 663,118
Equity securities	62,026	62,026	66,807	66,807
Trading:				
Fixed maturity securities	14,190	14,190	17,306	17,306
Bank loan participations held-for-investment	224,186	226,439	197,659	200,626
Cash and cash equivalents	59,059	59,059	158,604	158,604
Short-term investments	129,929	129,929	71,518	71,518
Other invested assets – notes receivable	7,750	9,748	7,750	9,661
Liabilities				
Senior debt	58,000	55,031	58,000	52,698
Junior subordinated debt	104,055	88,160	104,055	79,524

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

The fair values of other invested assets-notes receivable, senior debt, and Junior Subordinated Debt at June 30, 2014 and December 31, 2013 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 June 30, 2014 and December 31, 2013, respectively.

The fair values of bank loan participations held-for-investment, senior debt, and junior subordinated debt at June 30, 2014 and December 31, 2013 were determined using inputs to the valuation methodology that are unobservable (Level 3).

11. Shareholders' Equity and Equity Awards

On April 3, 2013 the Company repurchased 150,000 outstanding Class A common shares at a price per share of $738.40, for a total purchase price of $110.8 million. Of this amount, $88.6 million was paid in cash and $22.2 million was paid with promissory notes. The principal amount of these promissory notes and all accrued interest amounts due were repaid on June 5, 2013. Interest on the notes was 2.5% per annum.

Also on April 3, 2013, Franklin Holdings II (Bermuda), Ltd. repurchased 20,766 outstanding Class A common shares at a price per share of $25.4748, for a total cash purchase price of $529,000.

No dividends were declared in the six months ended June 30, 2014 or 2013.

Equity Awards

Under the Franklin Holdings Equity Incentive Plan (the "Equity Incentive Plan"), directors and key employees are eligible to receive restricted shares, share appreciation rights, options, and deferred share

11. Shareholders' Equity and Equity Awards (continued)

units. All awards issued under the Equity Incentive Plan are issued at the discretion of the Board of Directors or the Compensation Committee of the Company's Board of Directors. The maximum number of shares available for issuance under the Equity Incentive Plan is 80,630.

All options vest in the event of a change in control. Upon exercise of an option for the purchase of common shares, the Company may have the right, but not the obligation, to purchase the acquired shares at fair value after such shares have been held for a period of no less than six months. All options were granted with an exercise price greater than or equal to the fair value at the date of grant. Management determined the fair value based on a variety of information including: (i) an appraisal by an independent third-party that utilized a combination of a market approach and a discounted cash flow analysis which projects the future cash flows of the Company and discounts those cash flows to the present value or (ii) transactions with third parties. The majority of the options have a contractual life of seven years from the original date of grant.

The following table summarizes the option activity:

	Six Months Ended June 30,			
	2014		2013	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding, beginning of period	43,325	$ 775.72	45,750	$ 774.79
Granted	—	$ —	500	$ 782.49
Forfeited	—	$ —	—	$ —
Lapsed	(100)	$ 782.49	(3,425)	$ 782.49
Outstanding, end of period	43,225	$ 775.71	42,825	$ 774.27
Exercisable, end of period	33,365	$ 774.62	27,152	$ 776.07

At June 30, 2014, the Company has 37,405 shares available for grant under the Equity Incentive Plan.

For the six months ended June 30, 2014, the Company recognized $213,000 of other operating expenses related to share based compensation, and the related U.S. tax benefit was $41,000. As of June 30, 2014, there was $806,000 of unrecognized share based compensation expense expected to be charged to earnings over a weighted-average period of 2.3 years. The weighted-average remaining contractual life of the options outstanding and options exercisable was 3.2 years and 2.5 years, respectively.

For the six months ended June 30, 2013, the Company recognized $343,000 of other operating expenses related to share based compensation, and the related U.S. tax benefit was $77,000.

There were no options granted during the six months ended June 30, 2014. The weighted-average fair value of options granted during the six months ended June 30, 2013 was $130.02. The value of the options granted was estimated at the date of grant using the Black-Scholes-Merton option pricing model using the following assumptions:

	Six Months Ended June 30, 2013
Weighted-average risk-free interest rate	0.77%
Weighted-average dividend yield	—
Weighted-average expected share price volatility	26.0%
Weighted-average expected life	5.0 years

11. Shareholders' Equity and Equity Awards (continued)

The Black-Scholes-Merton option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected share price volatility. Because the Company's share options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of such share options.

The risk-free interest rate assumption is based on the U.S. Treasury rate at the date of the grant for the corresponding expected life of the option. The dividend yield assumption is based upon dividends expected to be declared over the life of the options at the date of grant. The share price volatility assumption is based upon data for property/casualty companies which the Company deems to be its peers. The expected life is judgmentally determined based upon the vesting period, the contractual life, and expectations regarding the longevity of the employee workforce.

12. Subsequent Events

The $3.3 million note from two property development companies (see Note 2) was repaid in full on July 3, 2014.

Other invested assets of $5.4 million at June 30, 2014 and December 31, 2013 represent the Company's investment in a bank holding company (the "Bank Holding Company") (see Note 2). On July 4, 2014, the Bank Holding Company merged with and into another bank holding company. In exchange for its shares of the Bank Holding Company, the Company received cash and common shares in the surviving bank holding company. The total consideration received from the merger was $6.8 million. The $4.5 million of subordinated notes issued by the company that was 70.0% owned by the Bank Holding Company (see Note 2) became debt of the surviving bank holding company. The Chairman of the Board of Directors of the Company is the Lead Independent Director of the surviving bank holding company. The common shares of the surviving bank holding company are publicly traded and the Company does not have significant influence over the surviving bank holding company.

The Company amended its senior revolving credit facility on September 24, 2014. The amendment expanded the total facility to $175.0 million by increasing the unsecured portion of the revolving facility to $112.5 million, extended the maturity date of the facility to September 24, 2019, and modified certain other terms of the agreement including the schedule used to determine the rate of interest on borrowings under the facility.

On August 27, 2014, the Board of Directors of the Company declared a cash dividend of $122.63 per share on its outstanding Class A common shares payable to shareholders of record as of June 30, 2014. The cash dividend totaled $70.0 million and was funded through a $50.0 million dividend paid to the Company by its reinsurance subsidiary, JRG Re, and by additional borrowings on its unsecured revolving credit facility of $20.0 million.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of James River Group Holdings, Ltd.

We have audited the accompanying consolidated balance sheets of James River Group Holdings, Ltd. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed under the caption "Audited Consolidated Financial Statements" in the index to the financial statements on page F-1. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of James River Group Holdings, Ltd. and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP
Richmond, Virginia
November 5, 2014

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31,	
	2013	2012
	(in thousands)	
Assets		
Invested assets:		
Fixed maturity securities:		
Available-for-sale, at fair value (amortized cost: 2013 – $654,836; 2012 – $739,977)	$ 663,118	$ 789,936
Trading, at fair value (amortized cost: 2013 – $17,189; 2012 – $18,816)	17,306	19,150
Equity securities available-for-sale, at fair value (cost: 2013 – $67,129; 2012 – $52,840)	66,807	58,799
Bank loan participations held-for-investment, at amortized cost, net of allowance	197,659	168,476
Short-term investments	71,518	79,648
Other invested assets	42,066	23,734
Total invested assets	1,058,474	1,139,743
Cash and cash equivalents	158,604	95,794
Accrued investment income	7,156	7,719
Premiums receivable and agents' balances, net	135,889	250,874
Reinsurance recoverable on unpaid losses	119,467	175,812
Reinsurance recoverable on paid losses	1,010	1,051
Prepaid reinsurance premiums	23,737	40,726
Deferred policy acquisition costs	46,204	49,336
Intangible assets, net	40,722	43,192
Goodwill	181,831	181,831
U.S. federal income tax receivable	966	2,406
Deferred tax assets, net	194	—
Other assets	32,539	36,897
Total assets	$ 1,806,793	$ 2,025,381

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets (continued)

	December 31, 2013	December 31, 2012
	(in thousands, except share amounts)	
Liabilities and shareholders' equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 646,452	$ 709,721
Unearned premiums	218,532	239,055
Payables to reinsurers	29,364	79,097
Senior debt	58,000	35,000
Junior subordinated debt	104,055	104,055
Accrued expenses	14,535	11,383
Deferred tax liabilities, net	—	6,038
Other liabilities	34,365	56,992
Total liabilities	1,105,303	1,241,341
Commitments and contingent liabilities		
Shareholders' equity:		
Class A Common Shares – $0.01 par value; 1,200,000 shares authorized. 2013 and 2012: 570,807 and 720,600 shares issued and outstanding, respectively	6	7
Class B Common Shares – 2013 and 2012: $0.01 par value; 2,800,000 shares authorized; no shares issued and outstanding	—	—
Preferred Shares – 2013 and 2012: $0.01 par value; 2,500,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	627,647	738,020
Retained earnings (deficit)	66,636	(701)
Accumulated other comprehensive income	7,201	46,446
Total James River Group Holdings, Ltd. shareholders' equity	701,490	783,772
Non-controlling interest (Note 12)	—	268
Total shareholders' equity	701,490	784,040
Total liabilities and shareholders' equity	$ 1,806,793	$ 2,025,381

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Revenues:			
Gross written premiums	$ 368,518	$ 491,931	$ 490,821
Ceded written premiums	(43,352)	(139,622)	(57,752)
Net written premiums	325,166	352,309	433,069
Change in net unearned premiums	2,912	12,259	(95,964)
Net earned premiums	328,078	364,568	337,105
Net investment income	45,373	44,297	48,367
Net realized investment gains	12,619	8,915	20,899
Other income	222	130	226
Total revenues	386,292	417,910	406,597
Expenses:			
Losses and loss adjustment expenses	184,486	264,496	233,479
Other operating expenses	114,804	126,884	115,378
Other expenses	677	3,350	592
Interest expense	6,777	8,266	8,132
Amortization of intangible assets	2,470	2,848	2,848
Impairment of intangible assets	—	4,299	—
Total expenses	309,214	410,143	360,429
Income before income taxes	77,078	7,767	46,168
U.S. federal income tax expense (benefit):			
Current	7,260	2,835	3,277
Deferred	2,481	(3,732)	4,418
	9,741	(897)	7,695
Net income	$ 67,337	$ 8,664	$ 38,473
Other comprehensive income:			
Net unrealized (losses) gains, net of taxes of $(8,713) in 2013, $3,082 in 2012 and $1,972 in 2011	(39,245)	12,355	7,715
Total comprehensive income	$ 28,092	$ 21,019	$ 46,188
Earnings per share:			
Basic	$ 110.60	$ 12.12	$ 53.86
Diluted	$ 110.39	$ 11.95	$ 53.16
Weighted-average common shares outstanding:			
Basic	608,859	714,667	714,360
Diluted	610,016	714,667	714,360

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

	Class A Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total James River Group Holdings, Ltd. Shareholders' Equity	Non-Controlling Interest	Total Shareholders' Equity
				(in thousands except share amounts)				
Balances at December 31, 2010	$ 7	$ —	$ 724,096	$(47,838)	$ 26,376	$ 702,641	$ 11,584	$ 714,225
Net income	—	—	—	38,473	—	38,473	—	38,473
Other comprehensive income	—	—	—	—	7,715	7,715	—	7,715
Compensation expense under share incentive plans	—	—	1,962	—	—	1,962	—	1,962
Balances at December 31, 2011	7	—	726,058	(9,365)	34,091	750,791	11,584	762,375
Net income	—	—	—	8,664	—	8,664	—	8,664
Other comprehensive income	—	—	—	—	12,355	12,355	—	12,355
Net exercise of subsidiary share options (Note 12)	—	—	9,365	—	—	9,365	(11,316)	(1,951)
Special bonus shares issued (Note 12)	—	—	1,585	—	—	1,585	—	1,585
Compensation expense under share incentive plan	—	—	1,012	—	—	1,012	—	1,012
Balances at December 31, 2012	7	—	738,020	(701)	46,446	783,772	268	784,040
Net income	—	—	—	67,337	—	67,337	—	67,337
Other comprehensive loss	—	—	—	—	(39,245)	(39,245)	—	(39,245)
Class A common shares repurchase (Note 10)	(1)	—	(110,759)	—	—	(110,760)	—	(110,760)
Repurchase of non-controlling interest (Note 12)	—	—	(321)	—	—	(321)	(208)	(529)
Exchange of subsidiary common shares for Class A common shares (Note 10)	—	—	60	—	—	60	(60)	—
Compensation expense under share incentive plan	—	—	647	—	—	647	—	647
Balances at December 31, 2013	$ 6	$ —	$ 627,647	$ 66,636	$ 7,201	$ 701,490	$ —	$ 701,490

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Operating activities			
Net income	$ 67,337	$ 8,664	$ 38,473
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred policy acquisition costs	(68,516)	(68,775)	(122,579)
Amortization of policy acquisition costs	71,648	88,577	88,158
Net realized investment gains	(12,619)	(8,915)	(20,899)
Impairment of intangible assets	—	4,299	—
Distributions from equity method investments	2,637	—	118
(Income) loss from equity method investments	(4,620)	698	—
Trading securities purchases, sales, and maturities, net	1,518	(795)	8,724
Trading losses	226	110	(133)
Deferred U.S. federal income taxes	2,481	(3,732)	4,418
Provision for depreciation and amortization	3,567	3,186	1,691
Share based compensation expense	647	1,012	1,962
Expense associated with bonus shares issued (Note 12)	—	2,665	—
Change in operating assets and liabilities:			
Reserve for losses and loss adjustment expenses	(63,269)	143,766	54,569
Unearned premiums	(20,523)	15,442	93,744
Premiums receivable and agents' balances	114,985	(110,737)	(78,556)
Reinsurance balances	27,050	(45,187)	(3,210)
Payable to insurance companies	(22,126)	20,490	3,934
Other	5,215	(1,376)	4,495
Net cash provided by operating activities	105,638	49,392	74,909
Investing activities			
Securities available-for-sale:			
Purchases – fixed maturity securities	(226,292)	(255,459)	(16,167)
Purchases – equity securities	(16,207)	(16,684)	(273,661)
Sales – fixed maturity securities	260,182	85,089	(53,635)
Maturities and calls – fixed maturity securities	60,480	91,034	317,091
Sales – equity securities	1,127	42,148	79,606
Securities receivable or payable, net	330	(330)	(39)
Bank loan participations:			
Purchases	(273,249)	(165,985)	(144,422)
Sales	150,724	92,160	56,647
Maturities	98,518	62,641	36,665
Other invested asset – purchases	(16,525)	(13,198)	(12,575)
Other invested asset – return of capital	246	577	—
Short-term investments, net	8,130	(22,867)	41,057
Other	(709)	(623)	(363)
Net cash provided by (used in) investing activities	46,755	(101,497)	30,204
Financing activities			
Senior debt issuances	43,000	—	—
Senior debt repayments	(20,000)	—	—
Debt issue costs paid	(649)	—	—
Common share repurchases	(110,760)	—	—
Non-Controlling Interest – Subsidiary common share repurchases	(529)	—	—
Repayments of financing obligations, net of proceeds	(645)	(603)	(565)
Excess tax benefits from share option exercises	—	1,657	—
Non-Controlling Interest – Withholding taxes on net exercise of subsidiary share options (Note 12)	—	(1,951)	—
Withholding taxes paid on bonus shares issued (Note 12)	—	(1,080)	—
Net cash used in financing activities	(89,583)	(1,977)	(565)
Change in cash and cash equivalents	62,810	(54,082)	104,548
Cash and cash equivalents at beginning of period	95,794	149,876	45,328
Cash and cash equivalents at end of period	$ 158,604	$ 95,794	$ 149,876
Supplemental information			
U.S. federal income taxes paid, net of refunds	$ 5,820	$ 3,972	$ 3,660
Interest paid	$ 7,625	$ 9,631	$ 9,517

See accompanying notes.

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Notes to 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 six property/casualty companies, five insurance companies based in the United States ("U.S.") focused on specialty insurance niches and a Bermuda-based reinsurance company as described below:

- James River Group, Inc. ("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 ("James River Insurance") is an Ohio domiciled excess and surplus lines insurance company that, with its wholly-owned insurance subsidiary, James River Casualty 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 General Insurance Company, an Ohio domiciled company. Falls Lake National began writing specialty admitted program business in late 2013.
- Stonewood Insurance is a workers' compensation insurance company that writes insurance primarily for the residential construction and light manufacturing industries. Stonewood Insurance writes workers' compensation coverage in North Carolina, Virginia, South Carolina, and Tennessee.
- JRG Reinsurance Company, Ltd. ("JRG Re") was formed in 2007 and commenced operations in 2008. JRG Re, a Bermuda domiciled reinsurer, provides reinsurance to U.S. third parties and to the Company's U.S.-based insurance subsidiaries.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which vary in some respects from statutory accounting practices ("SAP") which are prescribed or permitted by the various state insurance departments in the U.S. or by insurance regulators in Bermuda. The accompanying consolidated financial statements include the accounts and operations of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Estimates and Assumptions

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

Fixed Maturity and Equity Securities

Fixed maturity and equity securities classified as "available-for-sale" are carried at fair value, and unrealized gains and losses on such securities, net of any deferred taxes, are reported as a separate component of accumulated other comprehensive income. Fixed maturity securities purchased for short-term resale are classified as "trading" and are carried at fair value with unrealized gains and losses included in earnings as a component of net investment income. The Company does not have any securities classified as "held-to-maturity".

1. Accounting Policies (continued)

Fair value generally represents quoted market value prices for securities traded in the public marketplace or prices analytically determined using bid or closing prices for securities not traded in the public marketplace.

Premiums and discounts on mortgage-backed securities and asset-backed securities are amortized or accrued using the constant yield method which considers anticipated prepayments at the date of purchase. To the extent that the estimated lives of such securities change as a result of changes in estimated prepayment rates, the adjustments are included in net investment income using the retrospective method.

Realized investment gains or losses are determined on a specific identification basis. Interest income is recognized as earned, and dividend income is recognized on the ex-dividend date.

The Company evaluates its available-for-sale investments regularly to determine whether there are declines in value that are other-than-temporary. The Company's outside investment managers assist the Company in this evaluation. When the Company determines that a security has experienced an other-than-temporary impairment, the impairment loss is recognized as a realized investment loss. The factors that the Company considers in evaluating whether such an other-than-temporary impairment has occurred include the amount and percentage that fair value is below amortized cost or cost and the length of time that fair value has been below amortized cost or cost. For fixed maturity securities, the Company considers the credit quality rating of the security, with a special emphasis on securities downgraded below investment grade. Management does not intend to sell available-for-sale fixed maturity 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 fair value to their amortized cost basis occurs. For equity securities, management evaluates the near-term prospects of these investments in relation to the severity and duration of the impairment, and the Company's ability and intent to hold these investments until a recovery of fair value occurs.

Bank Loan Participations and Allowance for Credit Losses

Bank loan participations are managed by a specialized outside investment manager and are generally stated at their outstanding unpaid principal balances net of unamortized premiums or discounts and net of any allowance for credit losses. Interest income is accrued on the unpaid principal balance. Discounts and premiums are amortized to income using the interest method.

Generally, the accrual of interest on a bank loan participation is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest. A bank loan participation may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Interest received on nonaccrual loans generally is reported as investment income. There were no bank loans on nonaccrual status at December 31, 2013 or 2012.

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.

The allowance for credit losses is maintained at a level believed adequate by management to absorb estimated probable credit losses. Management's periodic evaluation of the adequacy of the allowance is based on consultations and advice of the Company's specialized investment manager, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions, and other relevant factors. The Company has recorded an allowance equal to the difference between the fair value and the amortized cost of bank loans that it has determined to be impaired as a practical expedient for an estimate of probable future cash flows to be collected on those bank loans.

1. Accounting Policies (continued)

Other Invested Assets

Other invested assets at December 31, 2013 include the Company's interests in a bank holding company, a limited partnership, and four limited liability corporations involved in alternative energy production. The equity method is being used to account for these investments. Other invested assets at December 31, 2012 include the Company's investment in a bank holding company and two limited liability corporations involved in alternative energy production.

In 2012, the Company entered into a note agreement with two property development companies. Interest due under the note is being recorded using the effective interest method. The note matures on June 10, 2014. In 2013, the Company purchased subordinated notes issued by a bank holding company. The notes carry a fixed interest rate and mature in 2023.

Short-Term Investments

Short-term investments are carried at cost, which approximates fair value. Short-term investments have maturities greater than three months but less than one year at the date of purchase.

Cash Equivalents

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

Direct Written Premiums

Direct written premiums are earned on a pro rata basis over the terms of the policies, generally 12 months. The portion of premiums written applicable to the unexpired terms of the policies in force is recorded as unearned premiums.

Assumed Reinsurance Premiums

Assumed reinsurance written premiums include amounts reported by brokers and ceding companies, supplemented by the Company's own estimates of premiums when reports have not been received. Premiums on the Company's excess of loss and pro rata reinsurance contracts are estimated when the business is underwritten. For excess of loss contracts, the deposit premium, as defined in the contract, is generally recorded as an estimate of premiums written at the inception date of the treaty. Estimates of premiums written under pro rata contracts are recorded in the period in which the underlying risks are expected to begin and are based on information provided by the brokers and the ceding companies.

Reinsurance premium estimates are reviewed by management periodically. Any adjustment to these estimates is recorded in the period in which it becomes known.

Reinsurance premiums assumed are earned over the terms of the underlying policies or reinsurance contracts. Contracts and policies written on a "losses occurring" basis cover claims that may occur during the term of the contract or policy, which is typically 12 months (except for crop reinsurance assumed which was recognized over the risk period--the crop reinsurance program was terminated as of December 31, 2012). Accordingly, the premium is earned evenly over the term. Contracts which are written on a "risks attaching" basis cover claims which attach to the underlying insurance policies written during the terms of such contracts. Premiums earned on such contracts usually extend beyond the original term of the reinsurance contract, typically resulting in recognition of premiums earned over a 24-month period in proportion to the level of underlying exposure.

Certain of the Company's reinsurance contracts include provisions that adjust premiums or acquisition expenses based upon the experience under the contracts. Premiums written and earned, as well as related acquisition expenses are recorded based upon the projected experience under the contracts.

1. Accounting Policies (continued)

Premiums Receivable and Agents' Balances, Net

Premiums receivable and agents' balances are carried at face value net of any allowance for doubtful accounts, which approximates fair value. The allowance for doubtful accounts represents an estimate of amounts considered uncollectible based on the Company's assessment of the collectability of receivables that are past due. Receivables greater than 90 days past due were $1.8 million at December 31, 2013 and $2.3 million at December 31, 2012. The allowance for doubtful accounts was $1.7 million and $2.2 million at December 31, 2013 and 2012, respectively. Bad debt expense was $459,000 for the year ended December 31, 2013, $975,000 for the year ended December 31, 2012, and $659,000 for the year ended December 31, 2011. Receivables written off against the allowance for doubtful accounts totaled $978,000 for the year ended December 31, 2013, $695,000 for the year ended December 31, 2012, and $1.3 million for the year ended December31, 2011. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Deferred Policy Acquisition Costs

Costs which are incrementally or directly related to the successful acquisition of new or renewal insurance business are deferred. These deferred costs are primarily commissions to agents, ceding commissions paid on reinsurance assumed, premium taxes, and the portion of underwriting fixed compensation and payroll related fringe benefits directly related to an insurance contract insurance that has been acquired, net of ceding commissions related to reinsurance ceded. Amortization of such policy acquisition costs is charged to expense in proportion to premium earned over the estimated policy life. To the extent that unearned premiums on existing policies are not adequate to cover projected related costs and expenses, deferred policy acquisition costs are charged to earnings. The Company considers anticipated investment income in determining whether a premium deficiency exists.

Reinsurance

Certain premiums and losses are ceded to other insurance companies or assumed from other insurance companies under various excess of loss and quota-share reinsurance contracts. The Company enters into ceded reinsurance contracts to limit its exposure to large losses, to limit exposure on new lines of insurance written by the Company, and to provide additional capacity for growth.

Premiums, commissions, and losses and loss adjustment expenses on reinsured business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance recoverables and prepaid reinsurance premiums are reported as assets. Other amounts payable to insurance companies and reinsurers or receivable from insurance companies and reinsurers are netted where the right of offset exists. The Company receives ceding commissions in connection with certain ceded reinsurance. The ceding commissions are recorded as a reduction of other operating expenses.

U.S. Federal Income Taxes

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

Goodwill

Goodwill is tested annually for impairment in the fourth quarter of each calendar year, or more frequently if events or changes in circumstances indicate that the carrying amount of the Company's

1. Accounting Policies (continued)

reporting units, including goodwill, may exceed their fair values. The fair value of the reporting units is determined using a combination of a market approach and an income approach which projects the future cash flows produced by the reporting units and discounts those cash flows to their present value. The projection of future cash flows is necessarily dependent upon assumptions on the future levels of income as well as business trends, prospects, market, and economic conditions. The results of the two approaches are weighted to determine the fair value of each reporting unit. When the fair value is less than the carrying value of the net assets of the reporting unit, including goodwill, an impairment loss is charged to operations. To determine the amount of any goodwill impairment, the implied fair value of reporting unit goodwill is compared to the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, the fair value of a reporting unit is assigned to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

Intangible Assets, Net

Intangible assets are initially recognized and measured at fair value. Specifically identified intangible assets with indefinite lives include trademarks and state insurance licenses and authorities. Other specifically identified intangible assets with lives ranging from 6.0 to 27.5 years include relationships with customers and brokers. These intangible assets are amortized on a straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are reviewed for impairment at least annually. In evaluating whether there has been impairment to the intangible asset, management determines the fair value of the intangible asset and compares the resulting fair value to the carrying value of the intangible asset. If the carrying value exceeds the fair value, the intangible asset is written down to fair value, and the impairment is reported through earnings. The Company evaluates intangible assets with definite lives for impairment when impairment indicators are noted.

Impairment of Long-Lived Assets

Long-lived assets with finite lives are tested for impairment whenever recognized events or changes in circumstances indicate the carrying value of these assets may not be recoverable. If indicators of impairment are present, fair value is calculated using estimated future cash flows expected to be generated from the use of those assets. An impairment loss is recognized only if the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. That assessment is based on the carrying amount of the asset or asset group at the date it is tested for recoverability. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset or asset group exceeds its fair value.

Property and Equipment, Net

Property and equipment, which is included in “other assets” in the accompanying consolidated balance sheets, is reported at cost less accumulated depreciation and is depreciated principally on a straight-line basis over the estimated useful lives of the depreciable assets, generally three to ten years.

In the event the Company has been deemed the owner for accounting purposes of construction projects in lease arrangements, the estimated construction costs incurred to date are recorded as assets in property and equipment, net and included in “other assets” in the accompanying consolidated balance

1. Accounting Policies (continued)

sheets. Upon occupancy of facilities under lease, the Company assesses whether arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If the Company continues to be the deemed owner for accounting purposes, the cost of the building is depreciated over its estimated useful life.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents the estimated ultimate cost of all reported and unreported losses and loss adjustment expenses incurred and unpaid at the balance sheet date. The Company does not discount this reserve. The process of estimating the reserves for losses and loss adjustment expenses requires a high degree of judgment and is subject to a number of variables. The reserve for losses and loss adjustment expenses is estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency.

The Company utilizes various actuarially-accepted reserving methodologies in determining the continuum of expected outcomes for its reserves. These methodologies utilize various inputs, including management's initial expected loss ratio (the ratio of losses and loss adjustment expenses incurred to net earned premiums), expected reporting patterns and payment patterns for losses and loss adjustment expenses (based on insurance industry data and the Company's own experience), and the Company's actual paid and reported losses and loss adjustment expenses. An internal actuary reviews these results and (after applying appropriate professional judgment and other actuarial techniques that are considered necessary) presents recommendations to the Company's management. Management uses this information and its judgment to make decisions on the final recorded reserve for losses and loss adjustment expenses. Management believes that the use of judgment is necessary to arrive at a best estimate for the reserve for losses and loss adjustment expenses given the long-tailed nature of the business generally written by the Company and the limited operating experience of the Casualty Reinsurance segment and of the program and fronting business in the Specialty Admitted Insurance segment.

Catastrophes of significant magnitude, including hurricanes and earthquakes, involve complex coverage issues. In estimating the reserve for losses and loss adjustment expenses for these catastrophes, management uses case reserve estimates based on information obtained from site inspections by the Company's adjustors and the terms of coverage provided in the policies. Management estimates reserves for incurred but not reported claims for these catastrophes using judgment based on an assessment of the Company's property insurance exposures where the catastrophes occur and the Company's progress in settling claims.

Although management believes that the reserve for losses and loss adjustment expenses is reasonable, it is possible that the Company's actual incurred losses and loss adjustment expenses will not develop consistent with the assumptions inherent in the determination of these reserves. Specifically, the Company's actual ultimate loss ratio could differ from management's initial expected loss ratio and/or the Company's actual reporting patterns for losses could differ from the expected reporting patterns. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimates included in the Company's consolidated financial statements. These estimates are reviewed continually by management and are adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Share Based Compensation

The Company expenses the fair value of share option awards over the vesting period of the award, typically three or four years, on a straight-line basis. The Black-Scholes-Merton option pricing model is used to value the options granted (see Note 11). As the share based compensation expense is incurred, a corresponding increase to additional paid-in capital in shareholders' equity is recognized. Share based compensation expense is reflected in "other operating expenses" in the accompanying consolidated statements of income and comprehensive income.

1. Accounting Policies (continued)

Financing Obligations

In a lease arrangement where the Company made a minority investment in a partnership that was involved in the construction of a building, the Company was deemed the owner for accounting purposes during the construction period. The Company recorded an asset for the amount of the total project costs and the related financing obligation is included in "other liabilities" in the accompanying consolidated balance sheets. Once construction was completed, the Company determined the arrangement did not qualify for sale-lease back treatment. Accordingly, the Company continues to reduce the obligation over the lease term as payments are made and depreciates the asset over its useful life. The Company does not report rent expense for the portion of the rent payment determined to be related to the assets which are owned for accounting purposes. Rather, this portion of the rent payment under the lease is recognized as a reduction of the financing obligation and as interest expense.

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 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 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 $34.3 million and $20.5 million as of December 31, 2013 and 2012, respectively, representing the Company's maximum exposure to loss.

Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the dilution that could occur if securities or other contracts to issue common shares or common share equivalents were exercised or converted into common shares. When inclusion of common share equivalents increases the earnings per share or reduces the loss per share, the effect on earnings is anti-dilutive. Under these circumstances, the diluted net earnings or net loss per share is computed excluding the common share equivalents. Additionally, for purposes of calculating diluted earnings per share of the Company, the numerator has been adjusted to consider the effect of potentially dilutive securities of the non-controlling interest.

1. Accounting Policies (continued)

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

	Income (Numerator)	Weighted-Average Common Shares (Denominator)	Earnings Per Share
	(in thousands, except per share data)		
Year ended December 31, 2013			
Basic	$ 67,337	608,859	$ 110.60
Share options	—	1,157	(0.21)
Diluted	$ 67,337	610,016	$ 110.39
Year ended December 31, 2012			
Basic	$ 8,664	714,667	$ 12.12
Effect of non-controlling interest securities (Note 12)	(121)	—	(0.17)
Diluted	$ 8,543	714,667	$ 11.95
Year ended December 31, 2011			
Basic	$ 38,473	714,360	$ 53.86
Effect of non-controlling interest securities (Note 12)	(498)	—	(0.70)
Diluted	$ 37,975	714,360	$ 53.16

For the years ended December 31, 2013, 2012, and 2011, common share equivalents of 500 shares, 45,750 shares, and 46,600 shares, respectively, were excluded from the calculations of diluted earnings per share as their effects were anti-dilutive.

Adopted Accounting Standards

ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income

Accounting Standards Update ("ASU") 2011-05 was issued to increase the prominence of other comprehensive income in financial statements and to help financial statement users better understand the causes of an entity's change in financial position and results of operations. Under the standard, an entity is required to present the components of net income and other comprehensive income in either one continuous statement or two separate but consecutive financial statements. The Company adopted this ASU on December 31, 2012. The Company elected to report the components of net income and other comprehensive income in one continuous statement.

ASU 2010-26, Financial Services — Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

Effective January 1, 2012, the Company adopted ASU 2010-26*, Financial Services — Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* ("ASU 2010-26"). The accounting guidance in this ASU requires costs to be incrementally or directly related to the successful acquisition of new or renewal insurance contracts in order to be capitalized as deferred policy acquisition costs. The new guidance limits the capitalization of contract acquisition costs to four components:

- Incremental direct costs of contract acquisition, primarily commissions and premium taxes, incurred in successful contracts;
- The portion of the employee's fixed compensation and payroll-related fringe benefits directly related to time spent performing any of the following acquisition activities for a contract that has been acquired:
  - Underwriting,

1. Accounting Policies (continued)

  - Policy issuance and processing,
  - Medical and inspection, and
  - Sales force contract selling;
- Other direct costs related to insurers' activities that would not have been incurred without the contract such as travel costs incurred with acquisition activities; and
- Advertising costs that meet the capitalization criteria.

The Company adopted the guidance on January 1, 2012 using the prospective method. At December 31, 2011, deferred policy acquisition costs included $4.5 million of costs that no longer met the criteria for deferral as of January 1, 2012, and as a result, such amounts were expensed during the year ended December 31, 2012 consistent with policy terms. Acquisition expenses deferred in 2012 under ASU 2010-26 were $68.4 million. Had the Company's previous accounting policy been applied in 2012, acquisition expenses deferred would have been $78.8 million.

During the year ended December 31, 2012, the Company amortized $88.6 million of policy acquisition costs. Under its previous policy, the Company would have amortized $97.4 million of policy acquisition costs for the year ended December 31, 2012.

ASU 2013-02, Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income

The Financial Accounting Standards Board ("FASB") issued ASU 2013-02, *Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which amended FASB Accounting Standards Codification (ASC) 220, *Comprehensive Income*, to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires information about reclassifications out of accumulated other comprehensive income by component to be reported in one place, either on the face of the statement where net income is presented or as a separate disclosure in the notes to the consolidated financial statements. The guidance also requires disclosure of the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. This standard was effective for the Company on January 1, 2013. The adoption of this guidance had no impact on the Company's financial position, results of operations or cash flows.

Prospective Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies in all industries. The guidance applies to all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards, such as insurance contracts. Under this guidance, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 becomes effective for the Company during the first quarter of 2017 and must be applied retrospectively. The Company is currently evaluating ASU No. 2014-09 to determine the potential impact that adopting this standard will have on its consolidated financial statements.

2. Investments

The Company’s available-for-sale investments are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
December 31, 2013				
Fixed maturity securities:				
State and municipal	$ 74,678	$ 3,903	$ (2,435)	$ 76,146
Residential mortgage-backed	101,352	2,119	(4,902)	98,569
Corporate	245,139	8,576	(2,198)	251,517
Commercial mortgage and asset-backed	81,054	3,000	(89)	83,965
Obligations of U.S. government corporations and agencies	104,153	1,944	(1,136)	104,961
U.S. Treasury securities and obligations guaranteed by the U.S. government	46,435	339	(463)	46,311
Redeemable preferred stock	2,025	—	(376)	1,649
Total fixed maturity securities	654,836	19,881	(11,599)	663,118
Equity securities	67,129	2,140	(2,462)	66,807
Total investments available-for-sale	$ 721,965	$ 22,021	$ (14,061)	$ 729,925
December 31, 2012				
Fixed maturity securities:				
State and municipal	$ 136,076	$ 17,559	$ (220)	$ 153,415
Residential mortgage-backed	149,970	4,778	(141)	154,607
Corporate	278,225	16,452	(822)	293,855
Commercial mortgage and asset-backed	36,766	5,565	—	42,331
Obligations of U.S. government corporations and agencies	108,052	5,788	(5)	113,835
U.S. Treasury securities and obligations guaranteed by the U.S. government	29,791	989	(6)	30,774
Redeemable preferred stock	1,097	22	—	1,119
Total fixed maturity securities	739,977	51,153	(1,194)	789,936
Equity securities	52,840	5,965	(6)	58,799
Total investments available-for-sale	$ 792,817	$ 57,118	$ (1,200)	$ 848,735

The amortized cost and fair value of available-for-sale investments in fixed maturity securities at December 31, 2013 are summarized, by contractual maturity, as follows:

	Amortized Cost	Fair Value
	(in thousands)	
One year or less	$ 13,771	$ 13,959
After one year through five years	310,360	315,828
After five years through ten years	74,373	75,927
After ten years	71,901	73,221
Residential mortgage-backed	101,352	98,569
Commercial mortgage and asset-backed	81,054	83,965
Redeemable preferred stock	2,025	1,649
Total	$ 654,836	$ 663,118

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

2. Investments (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
			(in thousands)			
December 31, 2013						
Fixed maturity securities:						
State and municipal	$ 12,913	$ (780)	$ 3,129	$ (1,655)	$ 16,042	$ (2,435)
Residential mortgage-backed	46,210	(3,087)	16,783	(1,815)	62,993	(4,902)
Corporate	45,624	(1,692)	1,924	(506)	47,548	(2,198)
Commercial mortgage and asset-backed	39,497	(89)	—	—	39,497	(89)
Obligations of U.S. government corporations and agencies	51,686	(1,136)	—	—	51,686	(1,136)
U.S. Treasury securities and obligations guaranteed by the U.S. government	31,219	(463)	—	—	31,219	(463)
Redeemable preferred stock	1,649	(376)	—	—	1,649	(376)
Total fixed maturity securities	228,798	(7,623)	21,836	(3,976)	250,634	(11,599)
Equity securities	26,339	(2,462)	—	—	26,339	(2,462)
Total investments available-for-sale	$ 255,137	$ (10,085)	$ 21,836	$ (3,976)	$ 276,973	$ (14,061)
December 31, 2012						
Fixed maturity securities:						
State and municipal	$ 4,602	$ (220)	$ —	$ —	$ 4,602	$ (220)
Residential mortgage-backed	22,700	(141)	—	—	22,700	(141)
Corporate	2,200	(69)	10,651	(753)	12,851	(822)
Obligations of U.S. government corporations and agencies	18,928	(5)	—	—	18,928	(5)
U.S. Treasury securities and obligations guaranteed by the U.S. government	3,564	(6)	—	—	3,564	(6)
Total fixed maturity securities	51,994	(441)	10,651	(753)	62,645	(1,194)
Equity securities	1,265	(6)	—	—	1,265	(6)
Total investments available-for-sale	$ 53,259	$ (447)	$ 10,651	$ (753)	$ 63,910	$ (1,200)

As of December 31, 2013, the Company held securities of 54 issuers that were in an unrealized loss position with a total fair value of $277.0 million and gross unrealized losses of $14.1 million. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment.

2. Investments (continued)

Unrealized losses on fixed maturity securities are primarily interest rate related. At December 31, 2013, 82.5% of the Company's fixed maturity security portfolio was rated "A-" or better by Standard & Poor's or received an equivalent rating from another nationally recognized rating agency. Fixed maturity securities with ratings below investment grade by Standard & Poor's or another nationally recognized rating agency at December 31, 2013 had an aggregate fair value of $53.3 million and an aggregate net unrealized gain of $1.1 million.

Management concluded that none of the securities in its fixed maturity portfolio with an unrealized loss at December 31, 2013 or 2012 had experienced an other-than-temporary impairment. Management does not intend to sell available-for-sale securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs. Management concluded that two securities, a commercial mortgage-backed security and a corporate security, in its fixed maturity portfolio had experienced other-than-temporary impairments in 2011. These impairments were credit related, and accordingly, the Company recorded $195,000 of realized investment losses in 2011 to reduce the carrying value of the securities to the net present value of the discounted adjusted cash flows.

Management concluded that one of the equity securities with an unrealized loss at December 31, 2013 experienced an other-than-temporary impairment, and accordingly, the Company recorded an impairment loss of $804,000 in 2013. Management concluded that the remaining equity securities with an unrealized loss at December 31, 2013 had not experienced an-other-than-temporary impairment. Management evaluated the near-term prospects of these investments in relation to the severity and duration of the impairment, and at December 31, 2013, the Company has the ability and intent to hold these investments until a recovery of fair value occurs. Management concluded that none of its equity securities with an unrealized loss at December 31, 2012 had experienced an other-than-temporary impairment. Management concluded that one of the equity securities with an unrealized loss at December 31, 2011 had experienced an other-than-temporary impairment, and accordingly, the Company recorded an impairment loss of $185,000 in 2011.

Bank loan participations generally have a credit rating that is below investment grade (i.e. below "BBB-" for Standard & Poor's) at the date of purchase. These bank loans are primarily senior, secured floating-rate debt rated "B" or "BB" 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. At the time that these loans were acquired, management believed that the Company would be able to collect all contractually required payments receivable.

Generally, the accrual of interest on a bank loan participation is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest. A bank loan participation may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Interest received on nonaccrual loans generally is reported as investment income. There were no bank loans on nonaccrual status at December 31, 2013 or 2012.

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.

The allowance for credit losses is maintained at a level believed adequate by management to absorb estimated probable credit losses. Management's periodic evaluation of the adequacy of the allowance is based on consultations and advice of the Company's specialized investment manager, known and inherent

2. Investments (continued)

risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, current economic conditions, and other relevant factors. The Company generally records an allowance equal to the difference between the fair value and the amortized cost of bank loans it has determined to be impaired as a practical expedient for an estimate of probable future cash flows to be collected on those bank loans. Bank loans are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

At December 31, 2013, investments in bank loan participations considered to be impaired were $246,000, net of the related allowance for credit losses of $242,000. At December 31, 2012, investments in bank loan participations considered impaired were $367,000, net of the related allowance for credit losses of $121,000.

The average recorded investment in impaired bank loans was $307,000, $754,000, and $1.3 million during the years ended December 31, 2013, 2012, and 2011, respectively, on which investment income of $32,000, $0, and $0 respectively, was recognized during the time that the loans were impaired. The Company recorded realized losses of $121,000, $780,000, and $222,000 during the years ended December 31, 2013, 2012, and 2011, respectively, for changes in the fair value of impaired bank loans.

At December 31, 2013, unamortized discounts on bank loan participations were $2.9 million, and unamortized premiums on bank loan participations were $121,000.

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

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Fixed maturity securities	$ 24,896	$ 31,330	$ 35,261
Bank loan participations	14,406	13,677	11,963
Equity securities	4,308	3,062	3,799
Other invested assets	5,123	(674)	(152)
Cash, cash equivalents, and short-term investments	120	214	198
Trading losses	(226)	(110)	133
Gross investment income	48,627	47,499	51,202
Investment expense	(3,254)	(3,202)	(2,835)
Net investment income	$ 45,373	$ 44,297	$ 48,367

Changes in unrealized gains or losses on securities held for trading are recorded as trading gains or losses within net investment income. Net investment income for the year ended December 31, 2013 included $226,000 of net trading losses of which $180,000 of net trading losses related to securities still held at December 31, 2013. Net investment income for the year ended December 31, 2012 included $110,000 of net trading losses of which $36,000 of net trading losses related to securities still held at December 31, 2012. Net investment income for the year ended December 31, 2011 included $133,000 of net trading gains of which $80,000 of net trading gains related to securities still held at December 31, 2011.

2. Investments (continued)

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

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Fixed maturity securities:			
Gross realized gains	$ 14,347	$ 4,584	$ 18,060
Gross realized losses	(2,823)	(969)	(244)
	11,524	3,615	17,816
Equity securities:			
Gross realized gains	13	4,506	—
Gross realized losses	(804)	(399)	(185)
	(791)	4,107	(185)
Bank loan participations:			
Gross realized gains	2,549	2,757	2,396
Gross realized losses	(675)	(1,435)	(1,205)
	1,874	1,322	1,191
Short-term investments and other:			
Gross realized gains	12	—	2,947
Gross realized losses	—	(129)	(870)
	12	(129)	2,077
Total	$ 12,619	$ 8,915	$ 20,899

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

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Change in gross unrealized gains (losses):			
Fixed maturity securities	$ (41,677)	$ 13,384	$ 5,760
Equity securities	(6,281)	2,054	3,927
Total	$ (47,958)	$ 15,438	$ 9,687

The Company maintains fixed maturity securities, short-term investments, and cash and cash equivalents amounting to $355.6 million at December 31, 2013 in trust accounts or on deposit as collateral for outstanding letters of credit issued as security to third-party reinsureds on reinsurance assumed by JRG Re.

At December 31, 2013 and 2012, investments with a fair value of $15.8 million and $10.1 million, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

At December 31, 2013, the Company held two securities with a market value of $512,000 in securitizations of alternative-A mortgages and held no sub-prime mortgages. All alternative-A mortgages are performing and are rated "investment grade" by the established rating agencies.

2. Investments (continued)

At December 31, 2013, the Company holds $11.0 million of fixed maturity securities issued by First Wind Capital, LLC ("First Wind Capital"). Two of the Company's directors are also directors of First Wind Capital, which is an affiliate of the Company's largest shareholder. Also at December 31, 2013, the Company holds a $5.0 million note receivable from an unrelated third party corporation that is owned by First Wind Capital. At December 31, 2012, the Company held a $4.3 million note receivable from a different unrelated third party owned by First Wind Capital. This note was repaid in full in 2013.

Other invested assets of $5.4 million and $5.2 million at December 31, 2013 and 2012, respectively, represent the Company's investment in a bank holding company (the "Bank Holding Company"). At December 31, 2013 and 2012, the Company had invested $5.6 million, and its ownership interest in the Bank Holding Company was 3.6%. The Chairman of the Board of Directors of the Company is also the Chairman of the Board of Directors for the Bank Holding Company. Additionally, the Chairman and another director of the Company are also stockholders of the Bank Holding Company. The equity method is being used to account for the investment, which was made by the Corporate and Other segment. The Company recorded pre-tax income of $143,000 for the year ended December 31, 2013 and pre-tax losses of $62,000 and $152,000 for the years ended December 31, 2012 and 2011, respectively, for its proportional share of equity interest, and these amounts were included in net investment income in the Company's consolidated income statement. Additionally, in 2013, the Company's Corporate and Other segment purchased $4.5 million of subordinated notes issued by a company that is 70.0% owned by the Bank Holding Company. The Chairman of the Board of Directors of the Company is also the Chairman of the Board of Directors for the issuing company. Interest on the notes, which mature on August 12, 2023, is fixed at 7.6% per annum, and income of $132,000 was recognized on the notes for the year ended December 31, 2013.

The Company's Corporate and Other segment holds equity interests ranging from 5.5% to 33.3% in four limited liability corporations (LLCs) that are managed by an affiliate of the Company's largest shareholder. The principal objective of the LLCs is capital appreciation and income generation from owning and operating renewable energy facilities engaged in wind and solar energy production. The equity method is being used to account for the LLCs which are included in "other invested assets" in the accompanying consolidated balance sheets. In 2013, the Company invested an additional $10.0 million in the LLCs, received cash distributions of $2.8 million, and recognized income of $4.3 million. The collective carrying value of the LLCs was $26.8 million at December 31, 2013. In 2012, the Company invested an additional $10.0 million in the LLCs, received cash distributions of $577,000, and recognized losses of $637,000. The collective carrying value of the LLCs was $15.3 million at December 31, 2012. No earnings were recognized on the investments in the LLCs for the year ended December 31, 2011.

On December 10, 2012, the Company's Corporate and Other segment entered into a $3.3 million note agreement with two property development companies. The note, which carried a 10.85% fixed interest rate, was originally scheduled to mature on December 10, 2013. On December 10, 2013, the note was extended until June 10, 2014, and the fixed interest rate was increased to 11.10%. Origination fees received were recognized over the original term of the note under the effective interest method. Income of $415,000 and $24,000 was recognized on this investment for the years ended December 31, 2013 and 2012, respectively.

On July 1, 2013, the Company's Corporate and Other segment invested $2.0 million in a limited partnership. The equity method is being used to account for this investment. Income of $131,000 was recognized on the investment for year ended December 31, 2013, and the carrying value of the investment was $2.1 million at December 31, 2013.

3. Deferred Policy Acquisition Costs

An analysis of deferred policy acquisition costs is as follows:

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Balance at beginning of period	$ 49,336	$ 69,138	$ 35,594
Policy acquisition costs deferred:			
Commissions	63,958	64,185	109,298
Underwriting and other issue expenses	4,558	4,590	12,404
	68,516	68,775	121,702
Amortization of policy acquisition costs	(71,648)	(88,577)	(88,158)
Net change	(3,132)	(19,802)	33,544
Balance at end of period	$ 46,204	$ 49,336	$ 69,138

4. 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 is an asset of the Excess and Surplus Lines segment. The Company’s annual testing performed in the fourth quarter of 2013, 2012 and 2011 indicated that no impairment of goodwill had occurred. The carrying amount of goodwill at December 31, 2013 and 2012 was $181.8 million. Accumulated goodwill impairment losses were $99.6 million at December 31, 2013 and 2012.

Specifically identifiable intangible assets were acquired in the Merger. During the fourth quarters of 2013, 2012, and 2011, the indefinite-lived intangible assets for trademarks and insurance licenses and authorities were tested for impairment. There were no impairments recognized in 2013. The results of the 2012 analysis indicated that impairments of trademarks for the Specialty Admitted Insurance segment had occurred due to lower projected gross written premiums for this reporting unit, and accordingly, the Company recognized impairment losses of $300,000 as of December 31, 2012 based on a fair value determined using the relief from royalty method. There were no impairments recognized in 2011.

Intangible assets for customer and broker relationships that have specific lives and are subject to amortization were also reviewed for impairment during the fourth quarters of 2013, 2012, and 2011. There were no impairments recognized in 2013. The results of the analysis for 2012 indicated that there were impairments for the Specialty Admitted Insurance segment due to lower projections of operating income, the segment’s lack of profitability during 2011 and 2012, and a lower agency retention rate. Accordingly, the Company recognized impairment losses of $3.8 million and $169,000, respectively, on the intangible assets for customer and broker relationships for the year ended December 31, 2012 for this segment. There were no impairments recognized in 2011.

On December 31, 2011, the Company acquired all of the outstanding stock of two Ohio-domiciled insurance companies for $16.3 million in cash. The acquired companies had cash and invested assets of $12.2 million, and specifically identifiable intangible assets of $4.0 million were recorded for the fair values of state insurance licenses acquired in the transaction.

4. Goodwill and Intangible Assets (continued)

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

		December 31,			
		2013		2012	
	Weighted-Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(in thousands)			
Trademarks	Indefinite	$ 22,200	$ —	$ 22,200	$ —
Insurance licenses and authorities	Indefinite	9,164	—	9,164	—
Identifiable intangibles not subject to amortization		31,364	—	31,364	—
Customer relationships	6.0	12,300	12,300	12,300	10,360
Broker relationships	24.6	11,611	2,253	11,720	1,832
Identifiable intangible assets subject to amortization		23,911	14,553	24,020	12,192
		$ 55,275	$ 14,553	$ 55,384	$ 12,192

Future estimated amortization of specifically identifiable intangible assets as of December 31, 2013 is as follows (*in thousands)*:

2014	$ 597
2015	597
2016	597
2017	597
2018	597
Thereafter	6,373
Total	$ 9,358

The table below summarizes the changes in the net carrying values of intangible assets by segment for 2013:

	December 31, 2012 Net Carrying Value	Amortization	Impairment Losses	December 31, 2013 Net Carrying Value
		(in thousands)		
Excess and Surplus Lines				
Trademarks	$ 19,700	$ —	$ —	$ 19,700
Insurance licenses and authorities	4,900	—	—	4,900
Customer relationships	1,940	(1,940)	—	—
Broker relationships	8,137	(362)	—	7,775
	34,677	(2,302)	—	32,375
Specialty Admitted Insurance				
Trademarks	2,500	—	—	2,500
Insurance licenses and authorities	4,265	—	—	4,265
Broker relationships	1,750	(168)	—	1,582
	8,515	(168)	—	8,347
Total identifiable intangible assets	$ 43,192	$ (2,470)	$ —	$ 40,722

4. Goodwill and Intangible Assets (continued)

The table below summarizes the changes in the net carrying values of intangible assets by segment for 2012:

	December 31, 2011 Net Carrying Value	Amortization	Impairment Losses	December 31, 2012 Net Carrying Value
		(in thousands)		
Excess and Surplus Lines				
Trademarks	$ 19,700	$ —	$ —	$ 19,700
Insurance licenses and authorities	4,900	—	—	4,900
Customer relationships	3,990	(2,050)	—	1,940
Broker relationships	8,499	(362)	—	8,137
	37,089	(2,412)	—	34,677
Specialty Admitted Insurance				
Trademarks	2,800	—	(300)	2,500
Insurance licenses and authorities	4,265	—	—	4,265
Customer relationships	4,180	(350)	(3,830)	—
Broker relationships	2,005	(86)	(169)	1,750
	13,250	(436)	(4,299)	8,515
Total identifiable intangible assets	$ 50,339	$ (2,848)	$ (4,299)	$ 43,192

Amortization of intangible assets was $2.4 million for the Excess and Surplus Lines segment and $436,000 for the Specialty Admitted Insurance segment for the year ended December 31, 2011.

5. Property and Equipment, Net

Property and equipment, net of accumulated depreciation, consists of the following:

	December 31, 2013	December 31, 2012
	(in thousands)	
Building, leased (Note 22)	$ 29,907	$ 29,907
Electronic data processing hardware and software	2,501	2,518
Furniture and equipment	1,693	1,516
Property and equipment, cost basis	34,101	33,941
Accumulated depreciation	(8,536)	(7,331)
Property and equipment, net	$ 25,565	$ 26,610

6. 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 consolidated balance sheets:

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period	$ 533,909	$ 476,761	$ 421,593
Add: Incurred losses and loss adjustment expenses net of reinsurance:			
Current year	221,938	263,102	253,390
Prior years	(37,452)	1,394	(19,911)
Total incurred losses and loss and adjustment expenses	184,486	264,496	233,479
Deduct: Loss and loss adjustment expense payments net of reinsurance:			
Current year	19,485	30,023	62,644
Prior years	171,925	177,325	115,667
Total loss and loss adjustment expense payments	191,410	207,348	178,311
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at end of period	526,985	533,909	476,761
Add: Reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	119,467	175,812	89,194
Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	$ 646,452	$ 709,721	$ 565,955

The foregoing reconciliation shows that a $37.5 million redundancy developed in 2013 on the reserve for losses and loss adjustment expenses held at December 31, 2012. This favorable reserve development included $40.7 million of favorable development in the Excess and Surplus Lines segment, including $11.7 million of favorable development on casualty lines from the 2009 accident year, $7.5 million of favorable development from the 2007 accident year, and $5.7 million of favorable development from the 2008 accident year. This favorable development occurred because our actuarial studies at December 31, 2013 for the Excess and Surplus Lines segment indicated that our loss experience on our mature casualty business continues to be below our initial expected ultimate loss ratios. Favorable reserve development on direct business written in the Specialty Admitted Insurance segment was $1.4 million, including favorable development of $1.3 million from the 2012 accident year. In addition, $4.7 million of adverse development occurred in the Casualty Reinsurance segment, with $1.0 million of adverse development on assumed crop business from the 2012 and 2011 accident years and $3.7 million of adverse development on other assumed business, primarily from the 2011 accident year.

The foregoing reconciliation shows that $1.4 million of adverse development occurred in 2012 on the reserve for losses and loss adjustment expenses held at December 31, 2011. This development included $20.1 million of favorable development in the Excess and Surplus Lines segment, including $7.7 million of favorable development on casualty lines from the 2009 accident year, $4.0 million of favorable development from the 2008 accident year, and $3.8 million of favorable development from the 2007 accident year. This favorable development occurred because our actuarial studies for the Excess and Surplus Lines segment at December 31, 2012 indicated that our loss experience on our mature casualty business continues to be below our initial expected ultimate loss ratios. Adverse reserve development on direct business written in the Specialty Admitted Insurance segment was $4.9 million, including adverse development of $3.6 million

6. Reserve for Losses and Loss Adjustment Expenses (continued)

from the 2011 accident year and $1.7 million for the 2010 accident year. Adverse development of $16.6 million occurred in the Casualty Reinsurance segment, including $9.0 million of adverse development on assumed crop business almost entirely from the 2011 accident year. Adverse development on other assumed business of $7.6 million included $15.2 million of adverse development on the 2010 accident year partially offset by favorable development on the 2011 and 2009 accident years.

The foregoing reconciliation shows that a $19.9 million redundancy developed in 2011 on the reserve for losses and loss adjustment expenses held at December 31, 2010. This favorable reserve development included $21.0 million of favorable development in the Excess and Surplus Lines segment. The Excess and Surplus Lines segment favorable development included $6.6 million of favorable development on casualty lines from the 2007 accident year, $4.1 million of favorable development from the 2008 accident year, and $3.6 million of favorable development from the 2009 accident year. Favorable reserve development on direct business written in the Specialty Admitted Insurance segment was $1.5 million, including favorable development of $1.1 million from the 2007 accident year, $991,000 for the 2009 accident year, and $872,000 for the 2006 accident year, partially offset by $1.5 million of adverse development on the 2010 accident year. The Specialty Admitted Insurance segment also had $181,000 of favorable development on assumed business. In addition, $2.8 million of adverse development occurred in the Casualty Reinsurance segment, with $500,000 of favorable development on assumed crop business from the 2010 accident year and $3.3 million of adverse development on other assumed business, primarily from the 2010 accident year, in the Casualty Reinsurance segment.

The Company has not provided insurance coverage that could reasonably be expected to produce material levels of asbestos claims activity. In addition, management does not believe that the Company is exposed to any environmental liability claims other than those which it has specifically underwritten and priced as an environmental exposure. Any asbestos or environmental exposure on policies issued by Fidelity Excess and Surplus Insurance Company, the predecessor to James River Insurance, prior to July 1, 2003 is subject to a reinsurance agreement and a trust agreement (see Note 7).

7. Reinsurance

The Company's insurance subsidiaries remain liable to policyholders if its reinsurers are unable to meet their contractual obligations under applicable reinsurance agreements. To minimize exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk. The Company's 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.

At December 31, 2013, the Company had reinsurance recoverables on unpaid losses of $119.5 million and reinsurance recoverables on paid losses of $1.0 million. All of these reinsurance recoverables are from companies with A.M. Best Company ratings of "A-" (Excellent) or better, or are collateralized with letters of credit or by a trust agreement. The Company has a reinsurance agreement that is secured by a trust agreement with American Empire Surplus Lines Insurance Company ("American Empire") and an irrevocable and unconditional guarantee by Great American Insurance Company, an affiliate of American Empire. At December 31, 2013, the fair value of assets in the trust was $2.2 million and reinsurance recoverables from American Empire were $576,000.

At December 31, 2013, reinsurance recoverables on unpaid losses from the Company's three largest reinsurers were $33.2 million, $23.1 million, and $11.1 million, representing 56.4% of the total balance.

At December 31, 2013, prepaid reinsurance premiums ceded to two reinsurers totaled $7.8 million and $4.9 million, representing 53.6% of the total balance.

7. Reinsurance (continued)

Under the terms of a reinsurance agreement with Infinity Insurance Company in connection with the Company's acquisition of two "shell" insurance companies in 2011, all liabilities resulting from direct and assumed business written by the "shell" insurance companies through December 31, 2011 are ceded to Infinity Insurance Company.

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

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Written premiums:			
Direct	$ 211,607	$ 193,956	$ 174,552
Assumed	156,911	297,975	316,269
Ceded	(43,352)	(139,622)	(57,752)
Net	$ 325,166	$ 352,309	$ 433,069
Earned premiums:			
Direct	$ 196,351	$ 180,888	$ 160,102
Assumed	192,690	307,808	219,250
Ceded	(60,963)	(124,128)	(42,247)
Net	$ 328,078	$ 364,568	$ 337,105
Losses and loss adjustment expenses:			
Direct	$ 73,948	$ 115,072	$ 86,033
Assumed	141,340	259,938	166,505
Ceded	(30,802)	(110,514)	(19,059)
Net	$ 184,486	$ 264,496	$ 233,479

8. Senior Debt

On June 5, 2013, the Company closed on a three year $125.0 million senior revolving credit facility (the "Facility"). James River Group Holdings, Ltd. and JRG Re are borrowers on the new Facility. A subsidiary of the Bank Holding Company is one of the lenders for the Facility, with an $8.0 million commitment allocation on the $125.0 million total facility. A portion of the proceeds from the Facility were used to pay off the $20.0 million balance of the previous senior facility. The new Facility is comprised of two parts:

- A $62.5 million secured revolving facility to be utilized by JRG Re to issue letters of credit for the benefit of third-party reinsureds. At December 31, 2013, JRG Re had $30.9 million of letters of credit issued under the facility.
- A $62.5 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 LIBOR plus a margin of 2.25%, which is subject to change according to terms in the credit agreement. At December 31, 2013, the Company had a drawn balance of $43.0 million outstanding on the unsecured revolver.

This debt contains certain financial and other covenants with which the Company is in compliance at December 31, 2013.

8. Senior Debt (continued)

On May 26, 2004, James River Group issued $15.0 million of unsecured, floating rate senior debentures (the "Senior Debt"), due April 29, 2034 unless accelerated earlier, through an indenture. The Senior Debt is not redeemable by the holder and is not subject to sinking fund requirements. Interest accrues quarterly and is payable in arrears at a per annum rate of the three-month LIBOR on the Determination Date (as defined in the indenture) plus 3.85%. The Senior Debt is redeemable prior to its stated maturity in whole or in part, at the option of James River Group.

The terms of the indenture generally provide that so long as the Senior Debt is outstanding, neither James River Group nor any of its subsidiaries may:

- assume or permit to exist any indebtedness that is secured by any encumbrance on the capital stock of James River Group or any of its subsidiaries which is senior to the Senior Debt; or
- issue, sell, transfer or otherwise dispose of any shares of, securities convertible into, or warrants rights or options to subscribe for or purchase shares of, capital stock of any subsidiary.

James River Group is in compliance with all covenants of the indenture at December 31, 2013.

Interest payable is included in "accrued expenses" in the accompanying consolidated balance sheets.

9. Junior Subordinated Debt

The Company issued trust preferred securities ("Trust Preferred Securities") through James River Capital Trust I, James River Capital Trust II, James River Capital Trust III, James River Capital Trust IV, and Franklin Holdings II (Bermuda) Capital Trust I, (each, a "Trust"; collectively, the "Trusts"). These Delaware statutory trusts are sponsored and wholly-owned by the Company. Each Trust was created solely for the purpose of issuing the Trust Preferred Securities.

Each Trust used proceeds from the sale of its Trust Preferred Securities to purchase the Company's floating rate junior subordinated debentures (the "Junior Subordinated Debt") issued to the Trust under an indenture (each, an "Indenture"; collectively, the "Indentures"). The Junior Subordinated Debt is the sole asset of each Trust, and the Trust Preferred Securities are the sole liabilities of each Trust. The Company purchased all of the outstanding common stock of the Trusts, and the investment in the Trusts is included in "other assets" in the accompanying consolidated balance sheets.

9. Junior Subordinated Debt (continued)

The following table summarizes the nature and terms of the Junior Subordinated Debt and 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
			($ in thousands)		
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%	7.51% until March 15, 2013; three-Month LIBOR plus 3.1% thereafter	7.97% until June 15, 2013; three-Month LIBOR plus 4.0% thereafter
Redeemable at 100% of principal amount at option of the Company on or after	May 24, 2009	December 15, 2009	June 15, 2011	March 15, 2013	June 15, 2013

Interest on the Trust Preferred Securities and interest paid to the Trusts on the Junior Subordinated Debt is payable quarterly in arrears at a per annum rate as described in the table above. The Company has the right to defer interest payments on the Junior Subordinated Debt for up to five years without triggering an event of default.

The Trust Preferred Securities are subject to mandatory redemption in a like amount (a) upon repayment of all of the Junior Subordinated Debt on the stated maturity date, (b) contemporaneously with the optional prepayment of all of the Junior Subordinated Debt in conjunction with a special event (as defined), and (c) five years or more after the issue date, contemporaneously with the optional prepayment, in whole or in part, of the Junior Subordinated Debt. The Indentures contain certain covenants which the Company is in compliance with as of December 31, 2013.

Interest payable is included in “accrued expenses” on the accompanying consolidated balance sheets.

10. Capital Stock

The Company has authorized 1,200,000 Class A common shares, par value $0.01 per share (the “Class A Common Shares”) and 2,800,000 Class B common shares, par value $0.01 per share (the “Class B Common Shares”).

On December 12, 2012, the Company issued 6,240 Class A Common Shares in exchange for 180,870 Franklin Holdings II (Bermuda), Ltd. (“Franklin Holdings II”) Class B Common Shares (see Note 12).

On April 3, 2013, the Company repurchased 150,000 outstanding Class A common shares at a price per share of $738.40, for a total purchase price of $110.8 million. Of this amount, $88.6 million was paid in cash and $22.2 million was paid with promissory notes. The principal amount of these promissory notes and all accrued interest amounts due were repaid in full on June 5, 2013. Interest on the notes was 2.5% per annum.

In connection with the merger of Franklin Holdings II into the Company on November 20, 2013, Franklin Holdings II’s sole minority shareholder transferred 6,000 Franklin Holdings II Class A common shares to the Company in exchange for the issuance of 207 Class A common shares on October 22, 2013 (see Note 12).

On April 3, 2013, Franklin Holdings II repurchased 20,766 of its outstanding Class A common shares at a price per share of $25.4748, for a total cash purchase price of $529,000.

In the event of an initial public offering or an Extraordinary Transaction (as defined; generally, a change in control), each Class A Common Share shall automatically convert into Class B Common Shares at the Conversion Rate effective immediately prior to such transaction. The Conversion Rate is defined as the number which, when multiplied by the number of fully diluted shares of Class A Common Shares (that is, the number of outstanding Class A Common Shares plus the number of Class A Common Shares subject to issuance upon conversion of convertible securities of the Company or exchange of securities of a subsidiary of the Company) would, upon conversion of the fully diluted shares of Class A Shares, result in the holders of such shares holding 90% of the fully diluted Class B Common Shares, (that is, the number of outstanding Class B Common Shares plus the number of Class B Common Shares subject to issuance upon conversion of convertible securities of the Company, including options and Class A Common Shares, or exchange of securities of a subsidiary of the Company).

The holders of Class A Common Shares and Class B Common Shares shall generally vote together as a single class on all matters submitted to a vote of the common shareholders on an as converted basis. The Company has no Class A Common Shares reserved for future issuance. The following table summarizes the number of Class B Common Shares reserved for future issuance:

	Issuable Shares
Upon conversion of Class A Common Shares	570,807
Upon exercise of options	80,630
	651,437

No dividends were declared in 2013, 2012, or 2011.

11. Equity Awards

Under the Franklin Holdings Equity Incentive Plan (the “Equity Incentive Plan”), directors and key employees are eligible to receive restricted shares, share appreciation rights, options, and deferred share units. All awards issued under the Equity Incentive Plan are issued at the discretion of the Board of Directors or the Compensation Committee of the Company’s Board of Directors. The maximum number of shares available for issuance under the Equity Incentive Plan is 80,630.

11. Equity Awards (continued)

All options were granted with an exercise price greater than or equal to the fair value at the date of grant and vest in the event of a change in control. Management determined the fair value based on a variety of information including an appraisal by an independent third-party that utilized a combination of a market approach and a discounted cash flow analysis which projects the future cash flows of the Company and discounts those cash flows to the present value. The majority of the options have a contractual life of seven years from the original date of grant.

The following table summarizes the option activity to date:

	Year Ended December 31,					
	2013		2012		2011	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding, beginning of period	45,750	$ 774.79	46,600	$ 778.04	54,000	$ 782.49
Granted	1,000	$ 841.46	11,900	$ 770.32	6,000	$ 747.94
Forfeited	—	—	—	—	(6,450)	$ 782.49
Lapsed	(3,425)	$ 782.49	(12,750)	$ 782.49	(6,950)	$ 782.49
Outstanding, end of period	43,325	$ 775.72	45,750	$ 774.79	46,600	$ 778.04
Exercisable, end of period	31,402	$ 776.93	28,639	$ 779.47	34,410	$ 781.49

At December 31, 2013, there are 37,305 shares available for grant under the Equity Incentive Plan.

For the year ended December 31, 2013, the Company recognized $647,000 of other operating expenses related to share based compensation, and the related U.S. tax benefit was $139,000. As of December 31, 2013, there was $1.0 million of unrecognized share based compensation expense expected to be charged to earnings over a weighted-average period of 2.7 years. The weighted-average remaining contractual life of the options outstanding and options exercisable were 3.7 years and 3.0 years, respectively. There were no option exercises during 2013. The aggregate intrinsic value of options outstanding and exercisable at December 31, 2013 was $5.4 million and $3.9 million, respectively. Options outstanding and exercisable at December 31, 2012 and 2011 had no intrinsic value.

For the year ended December 31, 2012, the Company recognized $1.0 million of other operating expenses related to share based compensation, and the related U.S. tax benefit was $248,000. There were no option exercises during 2012.

For the year ended December 31, 2011, the Company recognized $2.0 million of other operating expenses related to share based compensation, and the related U.S. tax benefit was $488,000. The results for the year ended December 31, 2011 included a $472,000 benefit as a result of a modification in the Company's forfeiture assumptions on awards granted prior to 2011. There were no option exercises during 2011.

11. Equity Awards (continued)

The weighted-average fair value of options granted during 2013, 2012 and 2011 was $181.22, $120.44, and $120.87 respectively. The value of the options granted was estimated at the date of grant using the Black-Scholes-Merton option pricing model using the following assumptions:

	Year Ended December 31,		
	2013	2012	2011
Range of risk-free interest rates	0.77% – 1.50%	0.62% – 0.85%	2.16%
Dividend yield	0.00%	1.30%	3.50%
Expected share price volatility	26.00%	26.00%	25.00%
Expected life	5.0 years	5.0 years	5.0 years

The Black-Scholes-Merton option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected share price volatility. Because the Company's share options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of such share options.

The risk-free interest rate assumption is based on the five-year U.S. Treasury rate at the date of the grant. The dividend yield assumption is based upon dividends expected to be declared over the life of the options at the date of grant. The share price volatility assumption is based upon data for property/casualty companies which the Company deems to be its peers. The expected life is judgmentally determined based upon the vesting period, the contractual life, and expectations regarding the longevity of the employee workforce.

12. Non-Controlling Interest — Subsidiary Common Shares and Share Options

Of James River Group's 2,133,787 options cancelled in connection with the Merger, optionees holding 602,926 options elected to roll over these vested options (the "Rollover Options") into rollover plans (the "Rollover Plans") sponsored by Franklin Holdings II. The Rollover Plans exist for the sole purpose of administering the Rollover Options. The Rollover Options were exercisable by the holder at any time prior to their expiration.

A summary of option activity in the Rollover Plans is as follows:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding and exercisable, beginning of period	569,129	$ 15.92	569,129	$ 15.92
Exercised	(569,129)	$ 15.92	—	—
Outstanding and exercisable, end of period	—	—	569,129	$ 15.92

On December 12, 2012, the Company and Franklin Holdings II's Board of Directors and shareholders, as applicable, approved a series of equity transactions including (i) the contribution of the 6,240 of the Company's Class A Common Shares to Franklin Holdings II and (ii) the net exercise of Franklin Holdings II Rollover Options in exchange for shares of the Company's Class A Common Shares (the "Offering").

Prior to December 12, 2012, each Rollover Option was exercisable into one share of Franklin Holdings II Class A common shares. The Franklin Holdings II Class A common shares (i) were convertible into shares of the Company's Class A Common Shares in the event of certain trigger events such as change in

12. Non-Controlling Interest — Subsidiary Common Shares and Share Options (continued)

control (no such trigger events were probable at December 31, 2012 or 2011) and (ii) generally participated in dividends and distributions declared or paid on a parri passu basis with the Franklin Holdings II Class B common shares.

In the event that a dividend was declared by the Company, each holder of an unexercised Rollover Option was eligible to receive a special cash bonus in an amount determined by the Company's Board of Directors in its discretion so long as the holder remained an employee with the Company or its subsidiaries.

Upon exercise, the Rollover Option holders received the following pursuant to the terms of the Offering:

- Consideration of $4.7 million of shares less $1.9 million of shares withheld for taxes of the Company's Class A Common Shares with an aggregate value equal to the excess, if any, of (i) the fair market value of the Franklin Holdings II shares subject to the eligible options (which fair market value was deemed to equal $24.15 per share, as determined by the Company's Board of Directors) over (ii) the aggregate exercise price of the eligible options. The fair market value of the Company's Class A Common Shares for this transaction was determined by the Company's Board of Directors to be $699.73 per share, and

- $2.7 million for bonus shares determined based upon the number of shares subject to the eligible options and the exercise price of each eligible option. This bonus consisted of the Company's Class A Common Shares and cash, with the cash portion approximately equal to the aggregate amount of $1.1 million of required withholding taxes. This bonus expense is included in "other expenses" in the accompanying consolidated statement of income and comprehensive income.

All of the holders of the outstanding Rollover Options elected to participate in the offering.

On April 3, 2013, Franklin Holdings II repurchased 20,766 of its outstanding Class A common shares at a price per share of $25.4748, for a total cash purchase price of $529,000.

On October 22, 2013, Franklin Holdings II's sole minority shareholder transferred 6,000 Franklin Holdings II Class A common shares to the Company (see Note 10).

13. Income Taxes

Under current Bermuda law, James River Group Holdings, Ltd. and its Bermuda based subsidiary are not required to pay any Bermuda taxes on their income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

The Company's U.S. subsidiaries are, however, subject to federal, state and local corporate income taxes, and other taxes applicable to U.S. corporations. The Company's U.S.-domiciled subsidiaries file a consolidated U.S. federal income tax return. The Company's U.S.-based subsidiaries are generally no longer subject to income tax examination by U.S. income tax authorities for the tax years ending before January 1, 2010. Should the U.S. subsidiaries pay a dividend outside the U.S. group, a withholding tax will apply.

13. Income Taxes (continued)

The expected income tax provision computed from pre-tax income at the weighted-average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Statutory tax rates of 0% and 35% have been used for Bermuda and the U.S., respectively. U.S. income before income taxes was $31.1 million, $2.5 million, and $27.6 million for the years ending December 31, 2013, 2012, and 2011, respectively. A reconciliation of the difference between the Company's income tax provision on U.S. income and the expected tax provision on U.S. income using the weighted-average tax rate is as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Expected income tax expense	$ 10,906	$ 863	$ 9,670
Tax-exempt investment income	(769)	(1,279)	(1,227)
Dividends received deduction	(583)	(582)	(767)
Other	187	101	19
Income tax expense (benefit)	$ 9,741	$ (897)	$ 7,695

The significant components of the net deferred tax asset or liability at the current prevailing corporate income tax rate are summarized as follows:

	December 31,	
	2013	2012
	(in thousands)	
Deferred tax assets:		
Reserve for losses and loss adjustment expenses	$ 6,135	$ 7,201
Unearned premiums	1,689	1,396
Share based compensation	2,720	2,581
Transaction costs of the Merger	1,044	1,048
Allowance for doubtful accounts	596	777
Deferred policy acquisition costs	551	751
Property and equipment	1,353	942
Invested asset impairments	281	—
Other	3,727	2,739
Total deferred tax assets	18,096	17,435
Deferred tax liabilities:		
Intangible assets	12,611	13,285
Net unrealized gains	758	9,471
Deferred gain on extinguishment of debt	530	530
Other	4,003	187
Total deferred tax liabilities	17,902	23,473
Net deferred tax assets (liabilities)	$ 194	$ (6,038)

13. Income Taxes (continued)

The Company does not provide for deferred taxes on unremitted U.S. earnings. Management has taken the position that earnings of its U.S. subsidiaries have been and will be indefinitely reinvested in U.S. operations, and, therefore, the recording of deferred tax liabilities for unremitted U.S. earnings is not required.

The Company had no reserve for future tax contingencies or liabilities ("unrecognized tax benefits") at December 31, 2013 or 2012.

The U.S. imposes a 1% excise tax on reinsurance premiums paid to non-U.S. reinsurers with respect to risks located in the U.S. The rates of tax are established based on the nature of the risk, unless reduced by an applicable U.S. tax treaty. For the years ended December 31, 2013, 2012, and 2011, the Company paid $1.4 million, $1.2 million, and $1.3 million, respectively, of federal excise taxes on its intercompany reinsurance transactions. The Company also paid excise taxes of $2.6 million, $1.6 million, and $1.3 million for the years ended December 31, 2013, 2012, and 2011, respectively, on written premiums assumed from third-party insurers with respect to risks located in the U.S. Federal excise taxes are reflected as "other operating expenses" in the Company's consolidated income statements.

14. Other Operating Expenses and Other Expenses

Other operating expenses consist of the following:

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Amortization of policy acquisition costs	$ 71,648	$ 88,577	$ 88,158
Other underwriting expenses of the insurance segments	34,849	30,983	18,968
Other operating expenses of the Corporate and Other segment	8,307	7,324	8,252
Total	$ 114,804	$ 126,884	$ 115,378

Other expenses of $677,000 for the year ended December 31, 2013 includes $392,000 of due diligence expenses related to an acquisition that was not consummated and $285,000 of expenses associated with a related party leasing agreement (Note 22). Other expenses of $3.4 million for the year ended December 31, 2012 includes $2.7 million of expense associated with a bonus in stock (see Note 12), $432,000 of due diligence expenses related to an acquisition that was not consummated, and $239,000 of expenses associated with a related party leasing agreement (Note 22). Other expenses of $592,000 for the year ended December 31, 2011 includes $409,000 of legal and professional fees relating to a potential acquisition that was not consummated and $183,000 of expenses associated with a related party leasing agreement (Note 22).

15. Employee Benefits

The Company and its subsidiaries offer savings plans (the "Savings Plans") which qualify under Section 401(k) of the U.S. Internal Revenue Code. Participants may contribute certain percentages of their pre-tax salary to the Savings Plans subject to statutory limitations. The Company and its subsidiaries match employee contributions at various rates up to a maximum contribution of 6.0% of the participant's earnings subject to certain statutory limits. For the years ended December 31, 2013, 2012, and 2011, respectively, the expense associated with the Savings Plans totaled $1.1 million, $978,000, and $933,000, respectively.

16. Commitments and Contingent Liabilities

The Company is a party to various lawsuits arising in the ordinary course of its operations. The Company believes that the ultimate resolution of these matters will not materially impact its financial position or results of operations.

The Company leases certain office space under operating leases that expire at various times and are subject to renewal options at market rates prevailing at the time of renewal. Rental expense for such leases was $2.2 million, $2.4 million, and $2.7 million for the years ended December 31, 2013, 2012, and 2011, respectively.

As of December 31, 2013, future minimum payments under non-cancelable operating leases are as follows *(in thousands)*:

2014	$ 2,095
2015	2,002
2016	2,031
2017	2,061
2018	1,111
Thereafter	660
	$ 9,960

Included in the future minimum lease payments is $7.2 million related to the building constructed and owned by a partnership in which the Company has a minority investment (see Note 22). The Company has subleased certain office space through 2014, and amounts to be received under the subleases total $73,000.

The Company's reinsurance subsidiary, JRG Re, entered into two 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 $100.0 million facility, $92.2 million of letters of credit were issued through December 31, 2013 and assets of $114.3 million were on deposit at December 31, 2013 securing the letters of credit. Under a $62.5 million facility, $30.9 million of letters of credit were issued through December 31, 2013 and assets of $56.4 million were on deposit at December 31, 2013 securing the letters of credit. 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 $184.5 million at December 31, 2013 (see Note 2).

The Company has committed to invest an additional $2.8 million in one of the four VIE's managed by an affiliate of the Company's largest shareholder.

17. Other Comprehensive (Loss) Income

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

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Unrealized (losses) gains arising during the period, before U.S. income taxes	$ (37,225)	$ 23,160	$ 27,318
U.S. income taxes	5,854	(5,594)	(4,584)
Unrealized (losses) gains arising during the period, net of U.S. income taxes	(31,371)	17,566	22,734
Less reclassification adjustment:			
Net realized investment gains	10,733	7,723	17,631
U.S. income taxes	(2,859)	(2,512)	(2,612)
Reclassification adjustment for investment gains realized in net income	7,874	5,211	15,019
Other comprehensive (loss) income	$ (39,245)	$ 12,355	$ 7,715

In addition to the $10.7 million of realized investment gains on available-for-sale securities for the year ended December 31, 2013, the Company recognized $1.9 million of realized gains on its investments in bank loan participations in 2013.

In addition to the $7.7 million of realized investment gains on available-for-sale securities for the year ended December 31, 2012, the Company recognized $1.3 million of realized gains on its investments in bank loan participations in 2012.

In addition to the $17.6 million of realized investment gains on available-for-sale securities for the year ended December 31, 2011, the Company recognized $1.2 million of realized gains on its investments in bank loan participations in 2011. The Company also realized a gain of $2.9 million in 2011 for the repayment of a note receivable for an amount above its carrying value.

18. Segment Information

The Company has four reportable segments, three of which are separately managed business units and the fourth (“Corporate and Other”) includes the Company’s remaining operations. The Excess and Surplus Lines segment primarily offers commercial excess and surplus lines liability and excess property insurance products. The Specialty Admitted Insurance segment offers workers’ compensation insurance coverage as well as specialty admitted program business starting in late 2013. The Casualty Reinsurance segment offers commercial liability and property reinsurance to U.S. insurance companies and to the Company’s U.S.-based insurance subsidiaries. The Corporate and Other segment consists of certain management and treasury activities of James River Group and JRG Holdings as well as interest expense associated with senior debt and Junior Subordinated Debt, and all investments accounted for using the equity method. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Segment revenues for each reportable segment consist of net earned premiums, net investment income, and realized investment gains (losses). Segment profit (loss) for each reportable segment is measured by underwriting profit (loss), which is generally defined as net earned premiums less losses and loss adjustment expenses and other operating expenses of the operating segments. Segment results are reported prior to the effects of the intercompany quota-share reinsurance agreement between the Company’s insurance subsidiaries. All gross written premiums and net earned premiums for all periods presented were generated from policies issued to U.S.-based insureds.

18. Segment Information (continued)

	Excess and Surplus Lines	Specialty Admitted Insurance	Casualty Reinsurance	Corporate and Other	Total
			(in thousands)		
As of and for the Year Ended December 31, 2013					
Gross written premiums	$ 192,394	$ 20,594	$ 155,530	$ —	$ 368,518
Net earned premiums	141,826	17,908	168,344	—	328,078
Segment revenues	165,431	21,582	193,752	5,527	386,292
Net investment income	15,489	2,601	21,907	5,376	45,373
Interest expense	—	—	—	6,777	6,777
Underwriting profit (loss) of operating segments	43,523	(3,868)	(2,560)	—	37,095
Segment goodwill	181,831	—	—	—	181,831
Segment assets	651,249	92,700	967,982	94,862	1,806,793
As of and for the Year Ended December 31, 2012					
Gross written premiums	$ 158,654	$ 36,709	$ 296,568	$ —	$ 491,931
Net earned premiums	115,940	32,189	216,439	—	364,568
Segment revenues	140,594	36,352	241,005	(41)	417,910
Net investment income	18,080	2,736	23,605	(124)	44,297
Interest expense	—	—	—	8,266	8,266
Underwriting profit (loss) of operating segments	16,979	(17,318)	(19,149)	—	(19,488)
Segment goodwill	181,831	—	—	—	181,831
Segment assets	714,665	102,573	1,109,052	99,091	2,025,381
As of and for the Year Ended December 31, 2011					
Gross written premiums	$ 131,007	44,914	314,900	$ —	$ 490,821
Net earned premiums	101,099	37,918	198,088	—	337,105
Segment revenues	127,200	42,805	232,975	3,617	406,597
Net investment income	19,118	3,775	24,906	568	48,367
Interest expense	—	—	—	8,132	8,132
Underwriting profit (loss) of operating segments	20,269	(9,095)	(14,674)	—	(3,500)
Segment goodwill	183,488	—	—	—	183,488
Segment assets	718,122	108,674	837,818	95,136	1,759,750

18. Segment Information (continued)

Revenues of the Corporate and Other segment for the year ended December 31, 2011 included a $2.9 million realized gain for the repayment of a note receivable for an amount above its carrying value.

The following table reconciles the underwriting profit (loss) of insurance segments by individual segment to income from continuing operations before taxes:

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Underwriting profit (loss) of the operating segments:			
Excess and Surplus Lines	$ 43,523	$ 16,979	$ 20,269
Specialty Admitted Insurance	(3,868)	(17,318)	(9,095)
Casualty Reinsurance	(2,560)	(19,149)	(14,674)
Total underwriting profit (loss) of operating segments	37,095	(19,488)	(3,500)
Other operating expenses of the Corporate and Other segment	(8,307)	(7,324)	(8,252)
Underwriting profit (loss)	28,788	(26,812)	(11,752)
Net investment income	45,373	44,297	48,367
Net realized investment gains	12,619	8,915	20,899
Other income	222	130	226
Other expenses	(677)	(3,350)	(592)
Interest expense	(6,777)	(8,266)	(8,132)
Amortization of intangible assets	(2,470)	(2,848)	(2,848)
Impairment of intangible assets	—	(4,299)	—
Income before taxes	$ 77,078	$ 7,767	$ 46,168

The Company currently has 14 underwriting divisions, including 12 in the Excess and Surplus Lines segment, one in the Specialty Admitted Insurance segment, and one in the Casualty Reinsurance segment. Each underwriting division focuses on a specific industry group or coverage.

Gross written premiums by underwriting division are presented below:

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Manufacturers and Contractors	$ 58,509	$ 46,648	$ 38,566
Excess Casualty	32,489	29,761	20,753
Allied Health	9,148	8,391	9,472
General Casualty	22,636	12,674	8,156
Professional Liability	10,695	10,664	11,058
Energy	21,400	15,766	10,566
Excess Property	10,988	9,231	8,228
Medical Professionals	4,492	5,294	6,177
Life Sciences	9,978	9,865	7,886
Environmental	2,557	2,954	2,289
Sports and Entertainment	3,189	1,624	1,970
Small Business	6,313	5,782	5,886
Total Excess and Surplus Lines	192,394	158,654	131,007
Specialty Admitted Insurance	20,594	36,709	44,914
Casualty Reinsurance	155,530	296,568	314,900
Total	$ 368,518	$ 491,931	$ 490,821

18. Segment Information (continued)

The Company does business with three brokers that generated $30.7 million, $29.3 million, and $22.7 million of gross written premiums for the Excess and Surplus Lines segment for the year ended December 31, 2013, representing 8.3%, 7.9%, and 6.2% of consolidated gross written premiums and 15.9%, 15.2%, and 11.8% of the Excess and Surplus Lines segment's gross written premiums, respectively. The Company has agency contracts with various branches within the aforementioned brokers. No other broker generated 10.0% or more of the gross written premiums for the Excess and Surplus Lines segment for the year ended December 31, 2013.

The Company does business with an agency that generated $3.0 million of gross written premiums for the Specialty Admitted Insurance segment for the year ended December 31, 2013, representing 0.8% of the consolidated gross written premiums and 14.7% of the Specialty Admitted Insurance segment's gross written premiums. No other agency generated 10.0% or more of the gross written premiums for the Specialty Admitted Insurance segment for the year ended December 31, 2013.

The Company does business with four brokers that generated $65.5 million, $36.4 million, $20.2 million, and $18.1 million of gross written premiums for the Casualty Reinsurance segment for the year ended December 31, 2013, representing 17.8% (Aon Benfield, Inc.), 9.9%, 5.5%, and 4.9% of consolidated gross written premiums and 42.1%, 23.4%, 13.0%, and 11.6% of the Casualty Reinsurance segment's gross written premiums, respectively. No other broker generated 10.0% or more of the gross written premiums for the Casualty Reinsurance segment for the year ended December 31, 2013. The Casualty Reinsurance segment assumed business from three unaffiliated ceding companies that generated $63.2 million, $27.2 million, and $21.4 million of gross written premiums for the year ended December 31, 2013, representing 17.1% (State National Insurance Company), 7.4%, and 5.8% of consolidated gross written premiums and 40.6%, 17.5%, and 13.8% of the Casualty Reinsurance segment's gross written premiums, respectively.

19. Fair Value Measurements

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

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

To measure fair value, the Company obtains quoted market prices for its investment securities from its outside investment managers. If a quoted market price is not available, the Company uses prices of similar securities. Values for U.S. Treasury and publicly-traded equity securities are generally based on Level 1 inputs which use the market approach valuation technique. The values for all other fixed maturity securities (including state and municipal securities and obligations of U.S. government corporations and agencies) generally incorporate significant Level 2 inputs, and in some cases, Level 3 inputs, using the market approach and income approach valuation techniques. There have been no changes in the Company's use of valuation techniques since December 31, 2011.

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 our investment custodian. The Company also reviews and monitors changes in unrealized gains and losses. The Company has not historically adjusted security prices. The Company obtains an understanding of the methods, models and inputs used by the investment managers and independent pricing services, and controls are in place to validate that prices provided represent fair values. The Company's control process includes, but is not

19. Fair Value Measurements (continued)

limited to, initial and ongoing evaluation of the methodologies used, a review of specific securities and an assessment for proper classification within the fair value hierarchy, and obtaining and reviewing internal control reports for our investment manager that obtains fair values from independent pricing services.

Assets measured at fair value on a recurring basis as of December 31, 2013 are summarized below:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	(in thousands)			
Available-for-sale securities				
Fixed maturity securities:				
State and municipal	$ —	$ 76,146	$ —	$ 76,146
Residential mortgage-backed	—	98,569	—	98,569
Corporate	—	251,517	—	251,517
Commercial mortgage and asset-backed	—	83,965	—	83,965
Obligations of U.S. government corporations and agencies	—	104,961	—	104,961
U.S. Treasury securities and obligations guaranteed by the U.S. government	44,757	1,554	—	46,311
Redeemable preferred stock	—	1,649	—	1,649
Total fixed maturity securities	44,757	618,361	—	663,118
Equity securities:				
Preferred stock	—	37,042	—	37,042
Common stock	29,031	734	—	29,765
Total equity securities	29,031	37,776	—	66,807
Total available-for-sale securities	$ 73,788	$ 656,137	$ —	$ 729,925
Trading securities:				
Fixed maturity securities	$ 4,980	$ 12,326	$ —	$ 17,306
Short-term investments	$ 45,523	$ 25,995	$ —	$ 71,518

19. Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis as of December 31, 2012 are summarized below:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	(in thousands)			
Available-for-sale securities				
Fixed maturity securities:				
State and municipal	$ —	$ 153,415	$ —	$ 153,415
Residential mortgage-backed	—	154,607	—	154,607
Corporate	—	293,855	—	293,855
Commercial mortgage and asset-backed	—	42,331	—	42,331
Obligations of U.S. government corporations and agencies	—	113,835	—	113,835
U.S. Treasury securities and obligations guaranteed by the U.S. government	26,581	4,193	—	30,774
Redeemable preferred stock	—	1,119	—	1,119
Total fixed maturity securities	26,581	763,355	—	789,936
Equity securities:				
Preferred stock	—	37,072	—	37,072
Common stock	20,993	734	—	21,727
Total equity securities	20,993	37,806	—	58,799
Total available-for-sale securities	$ 47,574	$ 801,161	$ —	$ 848,735
Trading securities:				
Fixed maturity securities	$ —	$ 19,150	$ —	$ 19,150
Short-term investments	$ 79,648	$ —	$ —	$ 79,648

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

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Beginning balance	$ —	$ 4,386	$ 12,173
Transfers out of Level 3	—	(13,234)	(8,641)
Transfers in to Level 3	—	9,314	667
Purchases	—	2,388	4,450
Sales	—	(2,990)	(4,034)
Amortization of discount	—	25	132
Total gains or losses (realized/unrealized):	—		
Included in earnings	—	61	84
Included in other comprehensive income	—	50	(445)
Ending balance	$ —	$ —	$ 4,386

19. Fair Value Measurements (continued)

Transfers out of Level 3 occur when the Company is able to obtain reliable prices from pricing vendors for which the Company was previously unable to obtain reliable prices. Transfers 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.

There were no transfers between Level 1 and Level 2 during 2013, 2012 or 2011. The Company recognizes transfers between levels at the beginning of the reporting period.

There were no realized gains or losses included in earnings for the year ended December 31, 2013 attributable to the change in unrealized gains or losses relating to Level 3 assets valued at fair value on a recurring basis that are still held at December 31, 2013.

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

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	(in thousands)			
December 31, 2013				
Bank loan participations held-for-investment	$ —	$ —	$ 246	$ 246
December 31, 2012				
Bank loan participations held-for-investment	$ —	$ —	$ 367	$ 367
Trademarks of the Specialty Admitted Insurance segment	$ —	$ —	$ 2,500	$ 2,500
Broker relationships of the Specialty Admitted Insurance segment	$ —	$ —	$ 1,750	$ 1,750

At December 31, 2013, bank loan participations held for investment that were determined to be impaired were written down to their fair value of $246,000. The valuation allowance for credit losses on bank loan participations was $242,000 at December 31, 2013.

At December 31, 2012, bank loan participations held for investment that were determined to be impaired were written down to their fair value of $367,000. The valuation allowance for credit losses on bank loan participations was $121,000 at December 31, 2012. The change in the valuation allowance for credit losses on bank loan participations is included in net realized investment gains or losses.

In the determination of the fair value for bank loan participations and certain high yield bonds, the Company's investment manager endeavors to obtain data from multiple external pricing sources. External pricing sources may include brokers, dealers and price data vendors that provide a composite price based on prices from multiple dealers. Such external pricing sources typically provide valuations for normal institutional size trading units of such securities using methods based on market transactions for comparable securities, and various relationships between securities, as generally recognized by institutional dealers. For investments in which the investment manager determines that only one external pricing source is appropriate or if only one external price is available, the relevant investment is generally recorded at fair value based on such price.

19. Fair Value Measurements (continued)

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 investment manager. In determining the fair value of such investments, the investment manager 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 December 31, 2013 and 2012, there were no investments for which external sources were unavailable to determine fair value.

Goodwill and intangible assets with indefinite useful lives, including trademarks, are tested annually for impairment in the fourth quarter of each calendar year, or more frequently if there are indicators of impairment. A description of the impairment of intangible assets for 2012, the circumstances that led to the impairment, and the valuation techniques used to calculate the impairments are provided in Note 4.

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

	December 31,			
	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Assets				
Available-for-sale:				
Fixed maturity securities	$ 663,118	$ 663,118	$ 789,936	$ 789,936
Equity securities	66,807	66,807	58,799	58,799
Trading:				
Fixed maturity securities	17,306	17,306	19,150	19,150
Bank loan participations held-for-investment	197,659	200,626	168,476	171,053
Cash and cash equivalents	158,604	158,604	95,794	95,794
Short-term investments	71,518	71,518	79,648	79,648
Other invested assets – notes receivable	7,750	9,661	—	—
Liabilities				
Senior debt	58,000	52,698	35,000	32,733
Junior subordinated debt	104,055	79,524	104,055	83,196

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

The fair values of other invested assets-notes receivable, senior debt, and Junior Subordinated Debt at December 31, 2013 and 2012 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 December 31, 2013 and 2012, respectively.

The fair values of bank loan participations held-for-investment, senior debt, and junior subordinated debt at December 31, 2013 and 2012 were determined using inputs to the valuation methodology that are unobservable (Level 3).

20. Statutory Matters

U.S.

U.S. state insurance laws and regulations prescribe accounting practices for determining statutory net income and capital and surplus for insurance companies. In addition, state regulators may permit statutory accounting practices that differ from prescribed practices. Statutory accounting practices prescribed or permitted by regulatory authorities for the Company's insurance subsidiaries differ from U.S. GAAP. The principal differences between SAP and GAAP as they relate to the financial statements of the Company's insurance subsidiaries are (a) policy acquisition costs are expensed as incurred under SAP, whereas they are deferred and amortized under GAAP, (b) certain assets are not admitted for purposes of determining surplus under SAP, (c) the classification and carrying amounts of investments in certain securities are different under SAP and GAAP, and (d) the criteria for providing asset valuation allowances and the methodologies used to determine the amount thereof are different under SAP and GAAP. Combined net income, statutory capital and surplus and minimum required statutory capital and surplus, as determined in accordance with statutory accounting practices, for the U.S. insurance subsidiaries as of December 31, 2013, 2012, and 2011 and for the years then ended are summarized as follows:

	2013	2012	2011
		(in thousands)	
Statutory net income	$ 21,607	$ 19,957	$ 30,636
Statutory capital and surplus	208,369	252,614	259,798
Minimum required statutory capital and surplus	21,250	21,250	28,252

Risk-Based Capital ("RBC") requirements promulgated by the National Association of Insurance Commissioners require property/casualty insurers to maintain minimum capitalization levels determined based on formulas incorporating various business risks of the insurance subsidiaries. As of December 31, 2013, the insurance subsidiaries' adjusted capital and surplus exceeds their authorized control level RBC.

Bermuda

Under the Bermuda Insurance Act, 1978 and related regulations, JRG Re is required to maintain certain solvency and liquidity levels. The minimum statutory solvency margin required at December 31, 2013 was approximately $57.4 million. Actual statutory capital and surplus at December 31, 2013 was $320.7 million. JRG Re had statutory net income of $52.6 million for 2013 and $25.2 million for 2012. JRG Re had a statutory net loss of $11.4 million for 2011. JRG Re had shareholders' equity of $370.6 million on a GAAP basis at December 31, 2013. The principal difference between statutory capital and surplus and shareholders' equity presented in accordance with GAAP are deferred acquisition costs, which are non-admitted assets for Bermuda statutory purposes.

JRG Re maintains a Class 3B license and thus must maintain a minimum liquidity ratio in which the value of its relevant assets is not less than 75.0% of the amount of its relevant liabilities for general business. Relevant assets include cash and cash equivalents, fixed maturities, alternative investments, accrued interest income, premiums receivable, losses recoverable from reinsurers, and funds withheld. The relevant liabilities include total general business insurance reserves and total other liabilities, less sundry liabilities. As of December 31, 2013, the Company met the minimum liquidity ratio requirement.

21. Dividend Restrictions

U.S.

The insurance statutes of the U.S.-based insurance subsidiaries' states of domicile limit the amount of dividends that they may pay annually without first obtaining 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

21. Dividend Restrictions (continued)

end of the preceding year. The maximum amount of dividends available to James River Group from its U.S. insurance subsidiaries during 2014 without regulatory approval is $26.4 million. However, U.S. insurance regulators have broad powers to prevent the reduction of statutory surplus to inadequate levels and could refuse to permit the payment of dividends.

There is no tax treaty between Bermuda and the U.S. Accordingly, the payment of any dividends by the Company's U.S.-based subsidiaries to a Bermuda-based entity is subject to U.S. taxes at a 30.0% tax rate. JRG Holdings decided that earnings of its U.S. subsidiaries have been and will be indefinitely reinvested in U.S. operations.

Bermuda

Bermuda regulations limit the amount of dividends and return of capital paid by a regulated entity. A class 3B insurer is prohibited 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. The maximum amount of dividends and return of capital available to the Company from JRG Re during 2014 without regulatory approval is approximately $80.2 million.

As of December 31, 2013, JRG Holdings had consolidated retained earnings of $66.6 million, all of which was available for the payment of dividends to shareholders.

22. Related Party Leasing Agreement

The Company leases a commercial office building which houses the Company's Richmond, Virginia operations under the terms of a non-cancelable lease from an entity with which it is affiliated. As a result of being deemed the owner for accounting purposes, the building is recorded as an asset and the related financing obligation is recorded as a liability on the accompanying consolidated balance sheets. Since the arrangement did not qualify for sale-lease back treatment upon completion of the asset's construction, the Company continues to reduce the obligation over the lease term as payments are made and depreciates the asset over its useful life. Both the financing obligation and the lease have 10-year terms which started in 2007. The arrangements provide for 2.0% fixed annual rent increases.

23. Subsequent Events

The $3.3 million note from two property development companies (see Note 2) was repaid in full on July 3, 2014.

Other invested assets of $5.4 million at June 30, 2014 and December 31, 2013 represent the Company's investment in a bank holding company (the "Bank Holding Company") (see Note 2). On July 4, 2014, the Bank Holding Company merged with and into another bank holding company. In exchange for its shares of the Bank Holding Company, the Company received cash and common shares in the surviving bank holding company ("Surviving Bank Holding Company"). The total consideration received from the merger was $6.8 million. The $4.5 million of subordinated notes issued by the company that was 70.0% owned by the Bank Holding Company (see Note 2) became debt of the Surviving Bank Holding Company. The Chairman of the Board of Directors of the Company is the Lead Independent Director of the Surviving Bank Holding Company. The common shares of the Surviving Bank Holding Company are publicly traded and the Company does not have significant influence over the Surviving Bank Holding Company.

The Company amended its senior revolving credit facility (the "Facility") on September 24, 2014. The amendment expanded the total facility to $175.0 million by increasing the unsecured portion of the revolving facility to $112.5 million, extended the maturity date of the facility to September 24, 2019, and

23. Subsequent Events (continued)

modified certain other terms of the agreement including the schedule used to determine the rate of interest on borrowings under the facility. A subsidiary of the Surviving Bank Holding Company is one of the lenders for the Facility, with a $10.0 million commitment allocation on the $175.0 million total facility.

On August 27, 2014, the Board of Directors of the Company declared a cash dividend of $122.63 per share on its outstanding Class A common shares payable to shareholders of record as of June 30, 2014. The cash dividend totaled $70.0 million and was funded through a $50.0 million dividend paid to the Company by its reinsurance subsidiary, JRG Re, and by additional borrowings on its unsecured revolving credit facility of $20.0 million.

SCHEDULE I

JAMES RIVER GROUP HOLDINGS, LTD AND SUBSIDIARIES

Summary of Investments — Other than Investments in Related Parties
As of December 31, 2013

Type of Investment	Cost	Fair Value	Amount at which shown on Balance Sheet
		(in thousands)	
Fixed maturity securities, available-for-sale:			
State and municipal	$ 74,678	$ 76,146	$ 76,146
Residential mortgage-backed	101,352	98,569	98,569
Corporate	245,139	251,517	251,517
Commercial mortgage and asset-backed	81,054	83,965	83,965
Obligations of U.S. government corporations and agencies	104,153	104,961	104,961
U.S. Treasury securities and obligations guaranteed by the U.S. government	46,435	46,311	46,311
Redeemable preferred stock	2,025	1,649	1,649
Total fixed maturity securities, available-for sale	654,836	663,118	663,118
Fixed maturity securities, trading	17,189	17,306	17,306
Equity securities, available-for-sale			
Preferred Stock	37,016	37,042	37,042
Common Stock	30,113	29,765	29,765
Total equity securities, available-for sale	67,129	66,807	66,807
Bank loan participations, held-for-investment, net of allowance	197,659	200,626	197,659
Short-term investments	71,518	71,518	71,518
Other invested assets			42,066
Total invested assets			$ 1,058,474

SCHEDULE II

JAMES RIVER GROUP HOLDINGS, LTD AND SUBSIDIARIES

Condensed Financial Information of Registrant
Balance Sheets (Parent Company)

	December 31,	
	2013	2012
	(in thousands)	
Assets		
Cash and cash equivalents	$ 514	$ 893
Investment in subsidiaries	864,509	774,942
Due from subsidiaries	270	21,761
Other assets	1,513	57
Total assets	$ 866,806	$ 797,653
Liabilities and shareholders' equity		
Liabilities:		
Accrued expenses	$ 1,645	$ 1,438
Senior debt	43,000	—
Junior subordinated debt	15,928	—
Notes payable to subsidiary	100,000	11,000
Due to subsidiaries	4,743	1,035
Other liabilities	—	140
Total liabilities	165,316	13,613
Commitments and contingent liabilities		
Shareholders' equity:		
Class A Common Shares	6	7
Additional paid-in capital	627,647	738,020
Retained earnings (deficit)	66,636	(701)
Accumulated other comprehensive income	7,201	46,446
Total parent shareholders' equity	701,490	783,772
Non-controlling interest	—	268
Total shareholders' equity	701,490	784,040
Total liabilities and shareholders' equity	$ 866,806	$ 797,653

See accompanying notes.

SCHEDULE II

JAMES RIVER GROUP HOLDINGS, LTD AND SUBSIDIARIES

Condensed Financial Information of Registrant
Statements of Income and Comprehensive Income (Parent Company)

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Revenues:			
Management fees from subsidiaries	$ 2,600	$ 2,528	$ 2,528
Total revenues	2,600	2,528	2,528
Expenses:			
Other operating expenses	4,746	4,240	4,009
Other expenses	389	—	409
Interest expense	1,638	310	305
Total expenses	6,773	4,550	4,723
Income before equity in net income of subsidiaries	(4,173)	(2,022)	(2,195)
Equity in net income of subsidiaries	71,510	10,686	40,668
Net income	$ 67,337	$ 8,664	$ 38,473
Other comprehensive income:			
Equity in other comprehensive earnings (losses) of subsidiaries	(39,245)	12,355	7,715
Total comprehensive income	$ 28,092	$ 21,019	$ 46,188

See accompanying notes.

SCHEDULE II

JAMES RIVER GROUP HOLDINGS, LTD AND SUBSIDIARIES

Condensed Financial Information of Registrant
Statements of Cash Flows (Parent Company)

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Operating activities			
Net income	$ 67,337	$ 8,664	$ 38,473
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for depreciation and amortization	129	2	2
Share based compensation expense	647	1,012	1,962
Equity in undistributed earnings of subsidiaries	(71,510)	(10,686)	(40,668)
Changes in operating assets and liabilities	2,213	(66)	1,321
Net cash used in operating activities	(1,184)	(1,074)	1,090
Investing activities			
Purchases of property and equipment	(3)	—	—
Net cash used in investing activities	(3)	—	—
Financing activities			
Merger with subsidiary	217	—	—
Senior debt issuance	43,000	—	—
Subsidiary note issuance	100,000	11,000	—
Subsidiary note repayment	(11,000)	(7,000)	—
Contribution to subsidiary	(20,000)	(4,000)	—
Debt issue costs paid	(649)	—	—
Common share repurchases	(110,760)	—	—
Net cash provided by financing activities	808	—	—
Change in cash and cash equivalents	(379)	(1,074)	1,090
Cash and cash equivalents at beginning of period	893	1,967	877
Cash and cash equivalents at end of period	$ 514	$ 893	$ 1,967
Supplemental information			
Interest paid	$ 1,970	$ 311	$ 306

See accompanying notes.

SCHEDULE II

JAMES RIVER GROUP HOLDINGS, LTD AND SUBSIDIARIES

Condensed Financial Information of Registrant
Notes to Condensed Financial Statements

1. Accounting Policies

Organization

James River Group Holdings, Ltd. is an exempted holding company registered in Bermuda, organized for the purpose of acquiring and managing insurance and reinsurance entities.

Basis of Presentation

The accompanying condensed financial statements have been prepared using the equity method. Under the equity method, the investment in consolidated subsidiaries is stated at cost plus equity in undistributed earnings of consolidated subsidiaries since the date of acquisition. These condensed financial statements should be read in conjunction with the Company’s consolidated financial statements.

Estimates and Assumptions

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

SCHEDULE III

JAMES RIVER GROUP HOLDINGS, LTD AND SUBSIDIARIES

Supplementary Insurance Information

	Deferred Policy Acquisition Costs	Reserve for Losses and Loss Adjustment Expenses	Unearned Premiums	Net Earned Premiums	Net Investment Income	Losses and Loss Adjustment Expenses	Amortization of Policy Acquisition Costs	Other Operating Expenses	Net Written Premiums
					(in thousands)				
December 31, 2013									
Excess and Surplus Lines	$ 11,435	$ 378,967	$ 89,630	$ 141,826	$ 15,489	$ 57,250	$ 23,518	$ 41,053	$ 155,064
Specialty Admitted Insurance	949	58,906	7,500	17,908	2,601	12,066	2,212	9,710	18,169
Casualty Reinsurance	33,820	208,579	121,402	168,344	21,907	115,170	45,918	55,734	151,933
Corporate and Other	—	—	—	—	5,376	—	—	8,307	—
Total	$ 46,204	$ 646,452	$ 218,532	$ 328,078	$ 45,373	$ 184,486	$ 71,648	$ 114,804	$ 325,166
December 31, 2012									
Excess and Surplus Lines	$ 9,022	$ 380,377	$ 74,782	$ 115,940	$ 18,080	$ 60,985	$ 22,270	$ 37,976	$ 123,483
Specialty Admitted Insurance	594	76,010	7,176	32,189	2,736	37,988	4,812	11,519	33,041
Casualty Reinsurance	39,720	253,334	157,097	216,439	23,605	165,523	61,495	70,065	195,785
Corporate and Other	—	—	—	—	(124)	—	—	7,324	—
Total	$ 49,336	$ 709,721	$ 239,055	$ 364,568	$ 44,297	$ 264,496	$ 88,577	$ 126,884	$ 352,309
December 31, 2011									
Excess and Surplus Lines	$ 11,052	$ 368,785	$ 63,432	$ 101,099	$ 19,118	$ 49,017	$ 23,665	$ 31,813	$ 105,004
Specialty Admitted Insurance	1,196	66,633	5,551	37,918	3,775	37,009	5,965	10,004	44,414
Casualty Reinsurance	56,890	130,537	154,630	198,088	24,906	147,453	58,528	65,309	283,651
Corporate and Other	—	—	—	—	568	—	—	8,252	—
Total	$ 69,138	$ 565,955	$ 223,613	$ 337,105	$ 48,367	$ 233,479	$ 88,158	$ 115,378	$ 433,069

SCHEDULE IV

JAMES RIVER GROUP HOLDINGS, LTD AND SUBSIDIARIES

Reinsurance

	Direct Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
			(in thousands)		
Year Ended December 31, 2013:					
Excess and Surplus Lines Written Premiums	$ 192,394	$ 37,330	$ —	$ 155,064	—
Specialty Admitted Insurance Written Premiums	19,213	2,425	1,381	18,169	7.6%
Casualty Reinsurance Written Premiums	—	3,597	155,530	151,933	102.4%
Total Written Premiums	$ 211,607	$ 43,352	$ 156,911	$ 325,166	48.3%
Year Ended December 31, 2012:					
Excess and Surplus Lines Written Premiums	$ 158,654	$ 35,171	$ —	$ 123,483	—
Specialty Admitted Insurance Written Premiums	35,302	3,668	1,407	33,041	4.3%
Casualty Reinsurance Written Premiums	—	100,783	296,568	195,785	151.5%
Total Written Premiums	$ 193,956	$ 139,622	$ 297,975	$ 352,309	84.6%
Year Ended December 31, 2011:					
Excess and Surplus Lines Written Premiums	$ 131,007	$ 26,003	$ —	$ 105,004	—
Specialty Admitted Insurance Written Premiums	43,545	500	1,369	44,414	3.1%
Casualty Reinsurance Written Premiums	—	31,249	314,900	283,651	111.0%
Total Written Premiums	$ 174,552	$ 57,752	$ 316,269	$ 433,069	73.0%

SCHEDULE V

JAMES RIVER GROUP HOLDINGS, LTD AND SUBSIDIARIES

Valuation and Qualifying Accounts

		Additions	Deductions	
	Balance at Beginning of Period	Amounts Charged to Expense	Amounts Written Off or Disposals	Balance at End of Period
		(in thousands)		
Year Ended December 31, 2013:				
Allowance for doubtful accounts	$ 2,220	$ 459	$ (978)	$ 1,701
Allowance for credit losses on bank loans	121	121	—	242
Total	$ 2,341	$ 580	$ (978)	$ 1,943
Year Ended December 31, 2012:				
Allowance for doubtful accounts	$ 1,940	$ 975	$ (695)	$ 2,220
Allowance for credit losses on bank loans	591	121	(591)	121
Total	$ 2,531	$ 1,096	$ (1,286)	$ 2,341
Year Ended December 31, 2011:				
Allowance for doubtful accounts	$ 2,581	$ 659	$ (1,300)	$ 1,940
Allowance for credit losses on bank loans	274	317	—	591
Total	$ 2,855	$ 976	$ (1,300)	$ 2,531

SCHEDULE VI

JAMES RIVER GROUP HOLDINGS, LTD AND SUBSIDIARIES

Supplementary Information Concerning Property — Casualty Insurance Operations

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Deferred policy acquisition costs	$ 46,204	$ 49,336	$ 69,138
Reserve for losses and loss adjustment expenses	646,452	709,721	565,955
Unearned premiums	218,532	239,055	223,613
Net earned premiums	328,078	364,568	337,105
Net investment income	45,373	44,297	48,367
Losses and loss adjustment expenses incurred:			
Current year	221,938	263,102	253,390
Prior year	(37,452)	1,394	(19,911)
Total losses and loss adjustment expenses incurred	184,486	264,496	233,479
Amortization of policy acquisition costs	71,648	88,577	88,158
Paid losses and loss adjustment expenses, net of reinsurance	191,410	207,348	178,311
Net written premiums	325,166	352,309	433,069

TABLE OF CONTENTS

• Shares

JAMES RIVER GROUP HOLDINGS, LTD.

Common Shares

PRELIMINARY PROSPECTUS

Joint Book-Running Managers

Keefe Bruyette & Woods
A Stifel Company

UBS Investment Bank

FBR

BMO Capital Markets

Co-managers

KeyBanc Capital Markets

SunTrust Robinson Humphrey

Scotiabank

, 2014

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the estimated fees and expenses (other than the underwriting discounts and commissions) payable by the registrant in connection with this offering. All of these amounts (except the SEC registration fee, FINRA filing fee and stock exchange listing fee) are estimates.

SEC registration fee	$	*
FINRA filing fee		*
Stock exchange listing fee		*
Printing and engraving expenses		*
Legal fees and expenses		*
Accounting fees and expenses		*
Transfer agent and registrar fees and expenses		*
Miscellaneous		*
Total	$	*

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers.

Bye-law 55 of our bye-laws provides, among other things, that we shall indemnify our directors and officers. Specifically, bye-law 55 provides that our directors and officers, as well as their heirs, executors and administrators, shall, subject to the aforesaid Companies Act prohibitions described below, be indemnified by us from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their heirs, executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts, and none of them shall be answerable for the acts, receipts, neglects or defaults of the others of them or for joining in any receipts for the sake of conformity, or any bankers or other persons with whom any moneys or effect belonging to us shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to us shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto. We are not required, however, to indemnify any person for the fraud, gross negligence or willful misconduct of such person.

Bye-law 55 of our bye-laws also provides that, except with respect to matters involving fraud or dishonesty of our directors and officers, each shareholder agrees to waive any claim or right of action it might have, whether individually or by or in the right of us, against any director or officer on account of any action taken by such director or officer, or the failure of such director or officer to take any action in the performance of his duties with or for us.

Section 98 of the Companies Act provides generally that a Bermuda company may indemnify its directors, officers and auditors against any liability which by virtue of any rule of law would otherwise be imposed on them in respect of any negligence, default, breach of duty or breach of trust, except in cases where such liability arises from fraud or dishonesty of which such director, officer or auditor may be guilty in relation to us. Section 98 further provides that a Bermuda company may indemnify its directors, officers and auditors against any liability incurred by them in defending any proceedings, whether civil or criminal, in which judgment is awarded in their favor or in which they are acquitted or granted relief by the Supreme Court of Bermuda pursuant to section 281 of the Companies Act.

Indemnification Agreements. We intend to enter into indemnification agreements to indemnify our directors and executive officers. These agreements will provide for indemnification of our directors and executive officers to the fullest extent permitted by applicable Bermuda law against all expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by any such person in actions or proceedings, including actions by us or in our right, arising out of such person's services as our director or executive officer, any of our subsidiaries or any other company or enterprise to which the person provided services at our request.

Reference is made to the form of Underwriting Agreement to be filed as Exhibit 1.1 hereto for provisions providing that the underwriters are obligated, under certain circumstances, to indemnify the directors, certain officers and the controlling persons of the Company against certain liabilities under the Securities Act.

Item 15. Recent Sales of Unregistered Securities.

During the period of August 1, 2011 through August 1, 2014, we granted options to purchase an aggregate of 11,650 Class B common shares, with exercise prices ranging from $699.73 to $782.49 per share, to our officers and employees pursuant to the Amended and Restated James River Group Holdings, Ltd. Equity Incentive Plan. The options were issued pursuant to written compensatory plans or arrangements with our employees and directors in reliance on the exemption provided by Rule 701 promulgated under the Securities Act.

On December 12, 2012, we issued 3,985 Class A common shares in the aggregate to officers, directors and a former director upon the net exercise of options that were originally granted to acquire 569,129 Class A common shares (the "Rollover Options") granted under the Franklin Holdings II (Bermuda), Ltd. ("Franklin Holdings II") 2003 Rollover Option Plan, as amended (the "2003 Plan"), and the Franklin Holdings II 2005 Rollover Option Plan, as amended (the "2005 Plan"). On the same date, we issued an aggregate of 2,255 Class A common shares pursuant to the Franklin Holdings II 2012 Management Bonus Plan (the "Bonus Plan") to the same group of officers, directors and a former director. The Class A common shares issued upon the exercise of the Rollover Options, and the shares issued under the 2012 Management Bonus Plan were issued pursuant to written compensatory plans or arrangements with our employees and directors in reliance on the exemption provided by Rule 701 promulgated under the Securities Act, and with respect to our former director, pursuant to Section 4(a)(2) under the Securities Act, pertaining to transactions by an issuer not involving any public offering.

Franklin Holdings II was a directly owned subsidiary of ours until it was merged into James River Group Holdings, Ltd. on November 20, 2013. Following the merger of Franklin Holdings II into us, the 2003 Plan, 2005 Plan and Bonus Plan terminated.

On November 20, 2013 we issued 207 Class A common shares to an officer of the Company in exchange for 6,000 Franklin Holdings II's Class A common shares. These Class A common shares were issued pursuant to Section 4(a)(2) under the Securities Act, pertaining to transactions by an issuer not involving any public offering, to the extent an exemption from such registration was required.

There were no underwriters employed in connection with any of the transactions set forth above.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits: The list of exhibits is set forth beginning on page II-5 of this Registration Statement and is incorporated herein by reference.

(b) Financial Statement Schedules: See the financial statement schedules listed in the Index to Financial Statements, which are incorporated by reference as if fully set forth herein.

Item 17. Undertakings.

* (f) The undersigned registrant hereby undertakes to provide to the underwriters, at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

* (h) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission

such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

* (i) The undersigned registrant hereby undertakes that:

- For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

- For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

* Paragraph references correspond to those of Regulation S-K, Item 512.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Hamilton, Canada on November 6, 2014.

James River Group Holdings, Ltd.
/s/ J. Adam Abram
By: J. Adam Abram
Title: Chief Executive Officer and Chairman of the Board

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint J. Adam Abram, Robert P. Myron, Gregg T. Davis and each of them, as true and lawful attorney-in-fact and agent of the undersigned, with full power of substitution, resubstitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver this Registration Statement on Form S-1, and any and all amendments thereto, including any post-effective amendments and supplements to this registration statement, and any additional registration statement filed pursuant to Rule 462(b); such registration statement and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

* * * *

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ J. Adam Abram J. Adam Abram	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	November 6, 2014
/s/ Robert P. Myron Robert P. Myron	President, Chief Operating Officer and Director	November 5, 2014
/s/Gregg T. Davis Gregg T. Davis	Chief Financial Officer (Principal Financial Officer)	November 6, 2014
/s/ Michael E. Crow Michael E. Crow	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	November 5, 2014
/s/ Bryan Martin Bryan Martin	Director	November 5, 2014
/s/ Michael T. Oakes Michael T. Oakes	Director	November 5, 2014
/s/ R.J. Pelosky, Jr. R.J. Pelosky, Jr.	Director	November 5, 2014
/s/ David Zwillinger David Zwillinger	Director	November 5, 2014

EXHIBIT INDEX

Exhibit Number	Description
1.1*	Form of Underwriting Agreement
3.1	Certificate of Incorporation of James River Group Holdings, Ltd.
3.2	Certificate of Incorporation on Change of Name
3.3	Memorandum of Association of James River Group Holdings, Ltd.
3.4	Certificate of Deposit of Memorandum of Increase of Share Capital, dated December 24, 2007
3.5	Certificate of Deposit of Memorandum of Increase of Share Capital, dated October 7, 2009
3.6*	Form of Third Amended and Restated Bye-Laws of James River Group Holdings, Ltd.
4.1*	Form of Certificate of Common Shares
4.2	Indenture, dated as of May 26, 2004, by and between James River Group, Inc. and Wilmington Trust Company, as Trustee, relating to Floating Rate Senior Debentures Due 2034+
4.3	Indenture, dated as of May 26, 2004, by and between James River Group, Inc. and Wilmington Trust Company, as Trustee, relating to Floating Rate Junior Subordinated Debentures Due 2034+
4.4	Amended and Restated Declaration of Trust of James River Capital Trust I, dated as of May 26, 2004, by and among James River Group, Inc., as Sponsor, Wilmington Trust Company, as Institutional Trustee and Delaware Trustee, the Regular Trustees (as defined therein), and the holders, from time to time, of undivided beneficial interests in James River Capital Trust I+
4.5	Preferred Securities Guarantee Agreement, dated as of May 26, 2004, by James River Group, Inc., as Guarantor, and Wilmington Trust Company, as Preferred Guarantee Trustee, for the benefit of the holders of James River Capital Trust I+
4.6	Indenture, dated as of December 15, 2004, by and between James River Group, Inc. and Wilmington Trust Company, as Trustee, relating to Floating Rate Junior Subordinated Deferrable Interest Debentures Due 2034+
4.7	Amended and Restated Declaration of Trust of James River Capital Trust II, dated as of December 15, 2004, by and among James River Group, Inc., as Sponsor, Wilmington Trust Company, as Institutional Trustee and Delaware Trustee, the Administrators (as defined therein), and the holders, from time to time, of undivided beneficial interests in the James River Capital Trust II+
4.8	Guarantee Agreement, dated as of December 15, 2004, by James River Group, Inc., as Guarantor, and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders, from time to time, of the capital securities of James River Capital Trust II+
4.9	Indenture, dated June 15, 2006, by and between James River Group, Inc. and Wilmington Trust Company, as Trustee, relating to Floating Rate Junior Subordinated Deferrable Interest Debentures Due 2036+
4.10	Amended and Restated Declaration of Trust of James River Capital Trust III, dated as of June 15, 2006, by and among James River Group, Inc., as Sponsor, Wilmington Trust Company, as Institutional Trustee and Delaware Trustee, the Administrators (as defined therein) and the holders, from time to time, of undivided beneficial interests in the James River Capital Trust III+
4.11	Guarantee Agreement dated as of June 15, 2006, by James River Group, Inc., as Guarantor, and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders, from time to time, of the capital securities of James River Capital Trust III+
4.12	Indenture dated December 11, 2007, by and between James River Group, Inc. and Wilmington Trust Company, as Trustee, relating to Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures Due 2037+
4.13	Amended and Restated Declaration of Trust dated December 11, 2007, by and among James River Group, Inc., as Sponsor, Wilmington Trust Company, as Institutional Trustee and Delaware Trustee and the Administrators (as defined therein) and the holders, from time to time, of

Exhibit Number	Description
	undivided beneficial interests in James River Capital Trust IV+
4.14	Guarantee Agreement dated as of December 11, 2007, by James River Group, Inc., as Guarantor, and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders, from time to time, of the capital securities of James River Capital Trust IV+
4.15	Indenture dated as of January 10, 2008, among James River Group Holdings, Ltd. and Wilmington Trust Company, as Trustee relating to Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures Due 2038+
4.16	Amended and Restated Declaration of Trust dated as of January 10, 2008, by and among James River Group Holdings, Ltd., as Sponsor, Wilmington Trust Company, as Institutional Trustee and Delaware Trustee and the Administrators (as defined therein) for the benefit of the holders, from time to time, of undivided beneficial interest in Franklin Holdings II (Bermuda) Capital Trust I+
4.17	Guarantee Agreement dated as of January 10, 2008, by and among James River Group Holdings, Ltd., as Guarantor, and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders, from time to time, of the capital securities of Franklin Holdings II (Bermuda) Capital Trust I+
5.1*	Opinion of Conyers Dill & Pearman Limited regarding the legality of the securities being registered
8.1*	Opinion of Bryan Cave LLP relating to U.S. tax matters
10.1	Credit Agreement, dated as of June 5, 2013, among James River Group Holdings, Ltd., JRG Reinsurance Company, Ltd., the lenders named therein, and KeyBank National Association, as Administrative Agent and Letter of Credit Issuer
10.2	Continuing Guaranty of Payment, dated as of June 5, 2013, among James River Group, Inc., as Guarantor, James River Group Holdings, Ltd. and JRG Reinsurance Company Ltd., as the Borrowers, pursuant to Credit Agreement, dated as of June 5, 2013, among the Borrowers, KeyBank National Association, as Administrative Agent and as Letter of Credit Issuer, and certain Lender parties
10.3	First Amendment to Credit Agreement, dated as of September 24, 2014, among James River Group Holdings, Ltd., JRG Reinsurance Company, Ltd., the lenders named therein, and KeyBank National Association, as Administrative Agent and Letter of Credit Issuer
10.4	Redemption Agreement by and between James River Group Holdings, Ltd. and Lehman Brothers Offshore Partners, Ltd. dated April 3, 2013
10.5	Redemption Agreement by and between James River Group Holdings, Ltd., Sunlight Capital Ventures, LLC, and Sunlight Capital Partners II, LLC dated April 3, 2013
10.6	Form of Shareholder Indemnification Agreement, dated as of December 11, 2007, entered into by James River Group Holdings, Ltd. and James River Group, Inc., and each of (1) D. E. Shaw CF-SP Franklin, L.L.C., D. E. Shaw CH-SP Franklin, L.L.C., and D. E. Shaw Oculus Portfolios, L.L.C., (2) The Goldman Sachs Group, Inc., (3) Sunlight Capital Ventures, LLC and Sunlight Capital Partners II, LLC and (4) Lehman Brothers Offshore Partners Ltd.
10.7*	Form of Director and Officer Indemnification Agreement
10.8	Amended and Restated James River Group Holdings, Ltd. Equity Incentive Plan
10.9	Form of Stock Option Agreement (Amended and Restated James River Group Holdings, Ltd. Equity Incentive Plan)
21.1	List of subsidiaries of James River Group Holdings, Ltd.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
23.2*	Consent of Conyers Dill & Pearman Limited (included in Exhibit 5.1)
23.3*	Consent of Bryan Cave LLP (included in Exhibit 8.1)

Exhibit Number	Description
24.1	Power of Attorney (included on signature page)
99.1*	Form F-N

* To be filed by amendment.

+ Exhibit not filed with the Securities and Exchange Commission pursuant to Item 601 (b)(4)(iii) of Regulation S-K. The Company will furnish a copy to the Securities and Exchange Commission upon request.

Exhibit 3.1

FORM NO. 6 **Registration No. 40141**

QUO FATA FERUNT

BERMUDA

CERTIFICATE OF INCORPORATION

I hereby in accordance with section 14 of ***the Companies Act 1981*** issue this Certificate of Incorporation and do certify that on the **30th** of **May, 2007**

Franklin Holdings (Bermuda), Ltd.

was registered by me in the Register maintained by me under the provisions of the said section and that the status of the said company is that of an **exempted** company.

Given under my hand and the Seal of the REGISTRAR OF COMPANIES this **1st** day of **June, 2007**

for **Registrar of Companies**

Exhibit 3.2

FORM NO. 3a

Registration No. 40141

BERMUDA

CERTIFICATE OF INCORPORATION ON CHANGE OF NAME

I HEREBY CERTIFY that in accordance with section 10 of ***the Companies Act 1981*** **Franklin Holdings (Bermuda), Ltd.** by resolution and with the approval of the Registrar of Companies has changed its name and was registered as **James River Group Holdings, Ltd.** on the **18th** day of **September 2014.**

Given under my hand and the Seal of the REGISTRAR OF COMPANIES
this **22nd** day of **September 2014**

Registrar of Companies

Exhibit 3.3

FORM NO. 2

BERMUDA

THE COMPANIES ACT 1981

MEMORANDUM OF ASSOCIATION OF COMPANY LIMITED BY SHARES

(Section 7(1) and (2))

MEMORANDUM OF ASSOCIATION OF

Franklin Holdings (Bermuda), Ltd.
(hereinafter referred to as "the Company")

1. The liability of the members of the Company is limited to the amount (if any) for the time being unpaid on the shares respectively held by them.

2. We, the undersigned, namely,

NAME	ADDRESS	BERMUDIAN STATUS (Yes/No)	NATIONALITY	NUMBER OF SHARES SUBSCRIBED
Charles G. Collis	Clarendon House 2 Church Street Hamilton HM 11 Bermuda	Yes	British	One
Christopher G. Garrod	"	Yes	British	One
Alison R. Guilfoyle	"	No	British	One

do hereby respectively agree to take such number of shares of the Company as may be allotted to us respectively by the provisional directors of the Company, not exceeding the number of shares for which we have respectively subscribed, and to satisfy such calls as may be made by the directors, provisional directors or promoters of the Company in respect of the shares allotted to us respectively.

3. The Company is to be an **exempted** company as defined by the Companies Act 1981.

4. The Company, with the consent of the Minister of Finance, has power to hold land situate in Bermuda not exceeding ___ in all, including the following parcels:- **N/A**

5. The authorised share capital of the Company is US$1.00 divided into shares of US$1.00 each.

6. The objects for which the Company is formed and incorporated are unrestricted.

7. Subject to paragraph 4, the Company may do all such things as are incidental or conducive to the attainment of its objects and shall have the capacity, rights, powers and privileges of a natural person, and –

(i) pursuant to Section 42 of the Act, the Company shall have the power to issue preference shares which are, at the option of the holder, liable to be redeemed;

(ii) pursuant to Section 42A of the Act, the Company shall have the power to purchase its own shares for cancellation; and

(iii) pursuant to Section 42B of the Act, the Company shall have the power to acquire its own shares to be held as treasury shares.

Signed by each subscriber in the presence of at least one witness attesting the signature thereof

(Subscribers) (Witnesses)

SUBSCRIBED this 30th day of May, 2007.

Exhibit 3.4

FORM NO. 7a **Registration No. 40141**

QUO FATA FERUNT

BERMUDA

CERTIFICATE OF DEPOSIT OF
MEMORANDUM OF INCREASE OF SHARE CAPITAL

THIS IS TO CERTIFY that a Memorandum of Increase of Share Capital of

Franklin Holdings (Bermuda), Ltd.

was delivered to the Registrar of Companies on the **20th** day of **December, 2007** in accordance with section 45(3) of ***the Companies Act 1981*** ("the Act").

REGISTRAR OF COMPANIES BERMUDA

Given under my hand and the Seal of the REGISTRAR OF COMPANIES this **24th** day of **December, 2007**

for **Registrar of Companies**

Capital prior to increase:	US$	1.00
Amount of increase:	US$	54,999.00
Present Capital:	US$	55,000.00

Exhibit 3.5

FORM NO. 7a **Registration No. 40141**

BERMUDA

CERTIFICATE OF DEPOSIT OF MEMORANDUM OF INCREASE OF SHARE CAPITAL

THIS IS TO CERTIFY that a Memorandum of Increase of Share Capital
of

Franklin Holdings (Bermuda), Ltd.

was delivered to the Registrar of Companies on the **2nd** day of **October 2009** in accordance with section 45(3) of ***the Companies Act 1981*** (“the Act”).

Given under my hand and the Seal of the REGISTRAR OF COMPANIES this **7th** day of **October 2009**

REGISTRAR OF COMPANIES BERMUDA

for Registrar of Companies

Capital prior to increase:	US$	55,000.00
Amount of increase:	US$	10,000.00
Present Capital:	US$	65,000.00

Exhibit 10.1

Published Transaction CUSIP Number: G3660DAA7
Published Revolver (Secured) CUSIP Number: G3660DAB5
Published Revolver (Unsecured) CUSIP Number: G3660DAC3

CREDIT AGREEMENT

dated as of

June 5, 2013

among

FRANKLIN HOLDINGS (BERMUDA), LTD. and
JRG REINSURANCE COMPANY LTD., as Borrowers

THE LENDERS PARTY HERETO

KEYBANK NATIONAL ASSOCIATION,
as Administrative Agent and Letter of Credit Issuer

KEYBANK NATIONAL ASSOCIATION and SUNTRUST ROBINSON HUMPHREY, INC.,
as Joint Book Runners

KEYBANK NATIONAL ASSOCIATION, SUNTRUST ROBINSON HUMPHREY, INC.
and BMO CAPITAL MARKETS,
as Joint Lead Arrangers

BANK OF MONTREAL, CHICAGO BRANCH and SUNTRUST BANK,
as Co- Syndication Agents

TABLE OF CONTENTS

		Page
ARTICLE 1	DEFINITIONS	2
	Section 1.01. Defined Terms	2
	Section 1.02. Classification of Loans and Borrowings	30
	Section 1.03. Terms Generally	30
	Section 1.04. Accounting Terms; Changes in GAAP	30
ARTICLE 2	THE CREDITS	32
	Section 2.01. Commitments	32
	Section 2.02. Revolving Loans	32
	Section 2.03. Requests to Borrow Loans	33
	Section 2.04. James River as a Borrower	34
	Section 2.05. Letters of Credit	34
	Section 2.06. Funding of Loans	38
	Section 2.07. Interest Elections	38
	Section 2.08. Termination or Reduction of Commitments	39
	Section 2.09. Payment at Maturity; Evidence of Debt	40
	Section 2.10. Optional and Mandatory Prepayments	41
	Section 2.11. Optional Increase in Commitments	42
	Section 2.12. Fees	44
	Section 2.13. Interest	45
	Section 2.14. Alternate Rate of Interest	46
	Section 2.15. Increased Costs; Capital Adequacy	46
	Section 2.16. Break Funding Payments	47
	Section 2.17. Taxes	48
	Section 2.18. Payments Generally; Pro Rata Treatment; Sharing of Set-Offs	50
	Section 2.19. Defaulting Lenders	51
	Section 2.20. Cash Collateral	54
	Section 2.21. Lender’s Obligation to Mitigate	55
ARTICLE 3	REPRESENTATIONS AND WARRANTIES	55
	Section 3.01. Organization; Powers	55
	Section 3.02. Authorization; Enforceability	55
	Section 3.03. Governmental Approvals; No Conflicts	55
	Section 3.04. Financial Statements; No Material Adverse Change	56
	Section 3.05. Insurance Licenses	56
	Section 3.06. Borrower Subsidiaries	57
	Section 3.07. Litigation	57
	Section 3.08. Compliance with Laws and Agreements; Anti-Terrorism Laws	57
	Section 3.09. Investment Company Status	58
	Section 3.10. Taxes	58
	Section 3.11. Material Debt Agreements and Liens	59
	Section 3.12. Environmental Matters	59

TABLE OF CONTENTS
(continued)

Page

Section 3.13. Equity Obligations 59
Section 3.14. No Reliance 60
Section 3.15. ERISA, 60
Section 3.16. Regulation U 60
Section 3.17. Disclosure 61
Section 3.18. Solvency 61

ARTICLE 4 CONDITIONS 61
Section 4.01. Effective Date 61
Section 4.02. Conditions to Initial Utilization and Each Subsequent Utilization 63

ARTICLE 5 AFFIRMATIVE COVENANTS 64
Section 5.01. Financial Statements and Other Information 64
Section 5.02. Insurance Subsidiary Reporting 66
Section 5.03..Notice of Material Events 67
Section 5.04. Existence; Conduct of Business 68
Section 5.05. Payment of Obligations; Termination of Union Bank of California Facility 69
Section 5.06. Insurance 69
Section 5.07. NAIC Ratio 69
Section 5.08. Proper Records; Rights to Inspect and Appraise 69
Section 5.09. Compliance with Laws 69
Section 5.10. Use of Proceeds and Letters of Credit 70

ARTICLE 6 NEGATIVE COVENANTS 70
Section 6.01. Debt; Certain Equity Securities 70
Section 6.02. Liens 71
Section 6.03. Fundamental Changes 73
Section 6.04. Investments, Loans, Advances, Guarantees and Acquisitions 74
Section 6.05. Asset Sales 74
Section 6.06. Ceded Reinsurance 75
Section 6.07. Sale and Leaseback Transactions 75
Section 6.08. Restricted Payments 76
Section 6.09. Transactions with Affiliates 76
Section 6.10. Restrictive Agreements 76
Section 6.11. Leverage Ratio 77
Section 6.12. Consolidated Net Worth 77
Section 6.13. Risk-Based Capital Ratio 77
Section 6.14. Fixed Charge Coverage Ratio; Other Minimum Capital Requirements 77
Section 6.15. Minimum Combined Group Financial Strength Rating 77
Section 6.16. Amendment of Material Documents 77
Section 6.17. Lines of Business 78

TABLE OF CONTENTS
(continued)

		Page
ARTICLE 7	EVENTS OF DEFAULT	78
	Section 7.01. Events of Default	78
	Section 7.02. Application of Proceeds	81
ARTICLE 8	THE ADMINISTRATIVE AGENT	82
	Section 8.01. Appointment and Authorization	82
	Section 8.02. Rights and Powers as a Lender	82
	Section 8.03. Limited Duties and Responsibilities	82
	Section 8.04. Authority to Rely on Certain Writings, Statements and Advice	83
	Section 8.05. Sub-Agents and Related Parties	83
	Section 8.06. Resignation; Successor Agent	83
	Section 8.07. Credit Decisions by Lenders	84
	Section 8.08. Agent’s Fees	85
	Section 8.09 Arranger, Syndication Agent, Etc	85
	Section 8.10 No Reliance on Administrative Agent’s Customer Identification Program	85
ARTICLE 9	MISCELLANEOUS	85
	Section 9.01. Notices	85
	Section 9.02. Waivers; Amendments	86
	Section 9.03. Expenses; Indemnity; Damage Waiver	88
	Section 9.04. Successors and Assigns	89
	Section 9.05. USA PATRIOT Act	92
	Section 9.06. Survival	93
	Section 9.07. Counterparts; Integration; Effectiveness	93
	Section 9.08. Severability	93
	Section 9.09. Right of Setoff	94
	Section 9.10. Governing Law; Jurisdiction; Consent to Service of Process	94
	Section 9.11. WAIVER OF JURY TRIAL	95
	Section 9.12. Headings	95
	Section 9.13. Confidentiality	95
	Section 9.14. Interest Rate Limitation	96
	Section 9.15. Replacement of Lenders	96
	Section 9.16. Bermuda Law Event	97
	Section 9.17. Borrower Agent	97
ARTICLE 10	JOINT AND SEVERAL	98
	Section 10.01 Joint and Several Obligations	98
	Section 10.02 Lenders Parties’ Rights to Administer Credit	98
	Section 10.03 Primary Obligation	99
	Section 10.04 Payments Recovered From Lender	99
	Section 10.05 No Release	100
	Section 10.06 Actions Not Required	100

TABLE OF CONTENTS
(continued)

		Page
Section 10.07	Deficiencies	101
Section 10.08	Borrower Bankruptcy	101
Section 10.09	Limited Subrogation	101
Section 10.10	Borrowers' Financial Condition	102
Section 10.11	Relationship of Borrowers	102
Section 10.12	Limitation	102

CREDIT AGREEMENT

This CREDIT AGREEMENT ("this Agreement") is made and entered into as of June 5, 2013 among:

(i) FRANKLIN HOLDINGS (BERMUDA), LTD., a Bermuda company, and its successors and permitted assigns, as a Borrower;

(ii) JRG REINSURANCE COMPANY LTD., a regulated insurance company domiciled in Bermuda;

(iii) the LENDERS party hereto;

(iv) KEYBANK NATIONAL ASSOCIATION, a national banking association, in its capacity as Administrative Agent;

(v) KEYBANK NATIONAL ASSOCIATION, a national banking association, in its capacity as a Letter of Credit Issuer;

(vi) KEYBANK NATIONAL ASSOCIATION and SUNTRUST ROBINSON HUMPHREY, INC., as Joint Book Runners;

(vii) KEYBANK NATIONAL ASSOCIATION, SUNTRUST ROBINSON HUMPHREY, INC. and BMO CAPITAL MARKETS, as Joint Lead Arrangers; and

(viii) BANK OF MONTREAL, CHICAGO BRANCH and SUNTRUST BANK, as Co-Syndication Agents.

Recitals:

A. The Parent desires to borrow funds under this Agreement for general corporate purposes, including liquidity and working capital.

B. The Lenders and the Letter of Credit Issuers are willing to make Loans or issue or participate in Letters of Credit hereunder upon and subject to the terms and conditions set forth in this Agreement.

Agreements:

NOW, THEREFORE, in consideration of the foregoing Recitals, the mutual agreements of the parties hereto and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.01. *Defined Terms.* As used in this Agreement, the following terms have the meanings specified below:

"Accumulated Other Comprehensive Income" or **"Accumulated Other Comprehensive Loss"** means, as at any date of determination, the amount of Consolidated accumulated other comprehensive income (or loss), as applicable, of the Parent and its Subsidiaries, as reflected on the balance sheet of the Parent as of such date in accordance with GAAP.

"**Acquisition**" means, with respect to any Person, (i) the purchase by such Person of all or a significant part of a business, division or other business unit conducted by any other Person, whether such purchase is of assets or Equity Interests, (ii) the merger, consolidation or amalgamation of such Person with any other Person or (iii) any transaction that is considered to be a change in control of such Person under the "Insurance Holding Company Systems Act" of the Applicable Insurance Code, to the extent applicable.

"Adjusted Consolidated Debt" means, as of any date, Consolidated Debt of the Parent (of the type described in any or all of clauses (a), (b), (c), (d), (e), (h) and (i) of the definition of "Debt", but, as to clause (i), only to the extent that it is an unpaid obligation in respect of a letter of credit or letter of guaranty that is then due and payable and not contingent) on such date.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Adjustment.

"Administrative Agent" means KeyBank National Association, in its capacity as administrative agent under the Loan Documents, and its successors in such capacity.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affected Lender" has the meaning specified in Section 2.15(e).

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls, or is Controlled by or under common Control with such specified Person.

"Agent" means the Administrative Agent.

"Alternate Base Rate" means, for any day, a fluctuating rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus one-half percent (0.50%), and (c) the Adjusted LIBO Rate for an Interest Period of one month beginning on such day (or if such day is not a Business Day, the most recent Business Day), plus one percent (1.00%). Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate will be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Amounts Available for Dividends" means (a) as of the end of each Fiscal Quarter of any Fiscal Year, the maximum aggregate amount of dividends that James River Insurance, Stonewood Insurance, JRG Reinsurance and each other Insurance Subsidiary is permitted to pay as of the first day of such Fiscal Year, in each case as permitted under the Applicable Insurance Code of its respective state or other jurisdiction of domicile and, in each case, minus the aggregate amount of dividends paid by James River Insurance, Stonewood Insurance, JRG Reinsurance and each other Insurance Subsidiary during such Fiscal Year.

"Anti-Terrorism Laws" means any laws relating to terrorism or money laundering, including Executive Order No. 13224, the USA PATRIOT Act, the laws comprising or implementing the Bank Secrecy Act, and the laws administered by the United States Treasury Department's Office of Foreign Asset Control (as any of the foregoing laws may from time to time be amended, renewed, extended, or replaced).

"Applicable FHLB" means, as to any Domestic Insurance Subsidiary, the Federal Home Loan Bank of which such Domestic Insurance Subsidiary is a member.

"Applicable Insurance Code" means, as to any Insurance Subsidiary or any other Person that is a regulated insurance company, the insurance code or other statute of any state where such Insurance Subsidiary or other Person is domiciled or doing insurance business and any successor statute of similar import, together with the regulations thereunder, as amended or otherwise modified and in effect from time to time. References to sections of the Applicable Insurance Code shall be construed to also refer to successor sections.

"Applicable Insurance Regulatory Authority" means, when used with respect to any Insurance Subsidiary, the insurance department or similar administrative authority or agency located in the state in which such Insurance Subsidiary is domiciled.

"Applicable Rate" means for any day:

(a) with respect to any Loan that is a Eurodollar Loan, the applicable rate per annum set forth in the Pricing Schedule in the row opposite the caption "Eurodollar Margin" and in the column corresponding to the "Pricing Level" that, pursuant to the Pricing Schedule, is in effect for such day;

(b) with respect to any Loan that is a Base Rate Loan, the applicable rate per annum set forth in the Pricing Schedule in the row opposite the caption "Base Rate Margin" and in the column corresponding to the "Pricing Level" that, pursuant to the Pricing Schedule, is in effect for such day; and

(c) with respect to the facility fees payable hereunder, the applicable rate per annum set forth in the Pricing Schedule in the row opposite the caption "Commitment Fee Rate" and in the column corresponding to the "Pricing Level" that, pursuant to the Pricing Schedule, is in effect for such day.

In each case, the "Applicable Rate" will be determined by reference to the Leverage Ratio as provided in the Pricing Schedule; *provided* that at any time when an Event of Default has occurred and is continuing, such Applicable Rates will be those set forth in the Pricing Schedule as "Pricing Level III".

"Arranger" means KeyBank National Association, in its capacity as lead arranger of the credit facility provided under this Agreement.

"Assignment" means an assignment and assumption agreement entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Assumed Reinsurance" means reinsurance assumed by any Insurance Subsidiary from another Person (other than from another Insurance Subsidiary).

"Availability Rate" means, with respect to any category of Eligible Collateral (as those categories are set forth on Exhibit B hereto), the percentage listed on Exhibit B hereto in the "Availability Rate" column that corresponds to such category of Eligible Collateral.

"Available Amount" means, as of the last day of any Fiscal Quarter, the sum of (a) Amounts Available for Dividends for the end of such Fiscal Quarter and (b) the aggregate of the cash and cash equivalents of each Borrower (not on a Consolidated basis) and each Guarantor (not on a Consolidated basis) on such date that are free of any Lien or restriction, other than inchoate Liens of the type described in clause (a) of the definition of Permitted Liens.

"Base Rate", when used with respect to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Bermuda Law Event" has the meaning specified in Section 9.16.

"Bermuda Minimum Solvency Requirement" means, with respect to JRG Reinsurance and any other Bermuda-domiciled Foreign Insurance Subsidiary that is registered to conduct "general business", as such term is defined in the Bermuda Insurance Act 1978 (as from time to time in effect, the "**Insurance Act**"), the amount calculated in accordance with Regulation 10 and Schedule 1 of the Insurance Returns and Solvency Regulations 1980, in each case as amended, modified or supplemented from time to time. If at any time JRG Reinsurance or such other Bermuda-domiciled Foreign Insurance Subsidiary ceases to registered to conduct general business under the Insurance Act, this definition shall be deemed to refer to the applicable regulations for a long-term business or special-purpose business, as applicable.

"Best" means A.M. Best Company, Inc. and its successors and assigns or, if it shall be dissolved or shall no longer assign ratings to insurance companies, then any other nationally recognized insurance statistical rating agency designated by the Administrative Agent.

"Best Rating" means, as of any date, the financial strength rating by Best on such date of an Insurance Subsidiary.

"Blocked Person" has the meaning specified in Section 3.08(d).

"Board of Directors" means, the Board of Directors of the Parent or any committee thereof duly authorized to act on behalf of such Board of Directors.

"Borrower" means, on the Effective Date, the Parent and JRG Reinsurance and thereafter at such time, if ever, as James River becomes a Borrower upon and subject to the provisions of Section 2.04, each of the Parent, JRG Reinsurance and James River, it being understood and agreed that unless and until, if ever, James River becomes a Borrower as aforesaid, all references to the "Borrowers" or "Borrower" shall be deemed to refer to the Parent and JRG Reinsurance, collectively or individually.

"Borrower Agent" means the Parent or such other Person as the Borrowers may from time to time designate to the Administrative Agent in writing, in its capacity as the agent of the Borrowers under and pursuant to the provisions of this Agreement and the other Loan Documents.

"Borrowing" means Loans under the Unsecured Facility of the same Interest Type made, converted or continued on the same day and, in the case of Eurodollar Loans, as to which the same Interest Period is in effect.

"Borrowing Request" means a request by the Borrower Agent, for and on behalf of the Borrowers in accordance with Section 2.03.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in Cleveland, Ohio are authorized or required by law to remain closed; *provided* that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Lease Obligations" of any Person means obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required under GAAP to be classified and accounted for as capital leases on a balance sheet of such Person. The amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

"Cash Collateralize" means, to pledge and deposit with or deliver to the Administrative Agent, for the benefit of one or more of the Letter of Credit Issuers or Lenders, as collateral for LC Exposure or obligations of Lenders to fund participations in respect of LC Exposure, cash or deposit account balances or, if the Administrative Agent and each applicable Letter of Credit

Issuer shall agree in their sole discretion, other credit support, in each case pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent and each applicable Letter of Credit Issuer. " **Cash Collateral**" shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

"Ceded Reinsurance" means risk that is ceded (whether by co-insurance**,** reinsurance or equivalent relationship otherwise named) by any Insurance Subsidiary to any other Person (other than to another Insurance Subsidiary), other than Surplus Relief Reinsurance.

"Change in Control" means, the occurrence of any of the following:

(a) at any time that the Parent ceases to own (directly or indirectly through one or more Subsidiaries the issued and outstanding Equity Interests of which it owns at least 90%), at least ninety percent (90%) of all of the issued and outstanding Equity Interests of each other Loan Party;

(b) at any time that (i) the Existing Investors cease to own in the aggregate (A) a majority of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests in the Parent and (B) a majority of the aggregate equity value represented by the issued and outstanding Equity Interests in the Parent or (ii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than any one or more of the Existing Investors, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for the purposes of this clause (b)(ii) such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than any one or more of the following: (A) 30% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests in the Parent and (B) 30% of the aggregate economic interests represented by the issued and outstanding Equity Interests in the Parent;

(c) during any period of eighteen (18) consecutive calendar months, individuals who at the beginning of such period constituted the Board of Directors of a Loan Party, other than the Parent (together with any new directors (i) whose election by the Board of Directors was or (ii) whose nomination for election by the Parent was, prior to the date of the proxy or consent solicitation relating to such nomination (A) approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved or (B) designated by an Existing Investor) shall cease for any reason to constitute a majority of the members of the Board of Directors of such Loan Party then in office;

(d) during any period of eighteen (18) consecutive calendar months, individuals who at the beginning of such period constituted the Board of Directors of the Parent (together with any new directors (i) whose election by the Board of Directors was or (ii) whose nomination for election by the Parent's shareholders was, prior to the date of the proxy or consent solicitation relating to such nomination (A) approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved or (B) designated by an Existing Investor) shall cease for any reason to constitute a majority of the members of the Board of Directors of the Parent then in office;

(e) the adoption of a plan relating to the liquidation or dissolution of the Parent or another Loan Party; or

(f) the merger (other than a merger permitted under the provisions of Section 6.03) or consolidation of the Parent or other Loan Party with or into another Person or the merger of another Person with or into the Parent or other Loan Party, or the sale of all or substantially all of the assets of the Parent or other Loan Party or to another Person, other than a merger or consolidation transaction in which holders of Equity Interests representing 100% of the ordinary voting power represented by the Equity Interests in the Parent or other Loan Party immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least 70% of the ordinary voting power represented by the Equity Interests in the surviving Person in such merger or consolidation transaction issued and outstanding immediately after such transaction and in substantially the same proportion as before the transaction.

"Change in Law" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption of any law, rule or regulation, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority or (c) compliance by any Lender or Letter of Credit Issuer (or, for purposes of Section 2.15(b), by any lending office of such Lender or Letter of Credit Issuer or by such Lender's or Letter of Credit Issuer's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after such date; *provided* that, notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (ii) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued.

"Collateral Value" means, as of any date, with respect to any category of Eligible Collateral (as those categories are set forth on Exhibit B hereto), an amount equal to (i) the market value on such date of all Eligible Collateral in such category, multiplied by (ii) the Availability Rate for such category.

"Commitment" means a Secured Facility Commitment or an Unsecured Facility Commitment. The aggregate amount of the Commitments as of the Effective Date is $125,000,000.

"Consolidated" means the Parent and its Subsidiaries, taken as a whole in accordance with GAAP, or, where the context requires, another Loan Party and its Subsidiaries, taken as a whole in accordance with GAAP.

"Consolidated Assets" means, as at the date of any determination, the net book value of all assets of the Parent and its Subsidiaries as of such date classified as assets in accordance with GAAP and determined on a Consolidated basis.

"Consolidated Interest Expense" means Interest Expense of the Parent and its Subsidiaries determined on a Consolidated basis.

"Consolidated Liabilities" means, as at any date of determination, all liabilities of the Parent and its Subsidiaries as of such date classified as liabilities in accordance with GAAP and determined on a Consolidated basis.

"Consolidated Net Worth" means, as at any date of determination, the remainder of (i) all Consolidated Assets (less the net book value of all patents, copyrights, goodwill and similar intangible property) as of such date, (ii) minus all Consolidated Liabilities as of such date and (iii) as applicable, plus Accumulated Other Comprehensive Loss or minus Accumulated Other Comprehensive Income.

"Control" means possession, directly or indirectly, of the power (a) to vote 20% or more of any class of voting Equity Interests of a Person or (b) to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting Equity Interests, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Current Redeemable Equity" means any preferred stock or other preferred Equity Interests, which in either case, is subject to mandatory redemption at any time prior to the first anniversary of the Maturity Date (as it exists on any date of determination).

"Debt" of any Person means, without duplication:

(a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind (other than unspent cash deposits held in escrow by or in favor of such Person, or in a segregated deposit account controlled by such Person, in each case in the ordinary course of business to secure the performance obligations of, or damages owing from, one or more third parties),

(b) all obligations of such Person evidenced by bonds, debentures, notes (including, without limitation, the Trust Preferred Securities Notes) or similar instruments,

(c) all obligations of such Person on which interest charges are customarily paid (other than obligations where interest is levied only on late or past due amounts),

(d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person,

(e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business),

(f) all Debt of others secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Debt secured thereby has been assumed,

(g) all Guarantees by such Person of Debt of others,

(h) all Capital Lease Obligations of such Person,

(i) all unpaid obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty (other than cash collateralized letters of credit to secure the performance of workers' compensation, unemployment insurance, other social security laws or regulations, bids, trade contracts, leases, environmental and other statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case, obtained in the ordinary course of business),

(j) all capital stock of such Person which is required to be redeemed or is redeemable at the option of the holder if certain events or conditions occur or exist or otherwise, and

(k) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances.

The Debt of any Person shall include the Debt of any other entity (including any partnership in which such Person is a general partner) to the extent that such Person is liable therefor pursuant to law or judicial holding as a result of such Person's ownership interest in or other relationship with such entity, except to the extent that contractual provisions binding on the holder of such Debt provide that such Person is not liable therefor; *provided* that Debt shall not include (i) obligations with respect to insurance policies, annuities, guaranteed investment contracts and similar products underwritten by, or Reinsurance Agreements or Retrocession Agreements entered into by, an Insurance Subsidiary, or (ii) obligations with respect to Surplus Relief Reinsurance ceded by an Insurance Subsidiary in the ordinary course of its business.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions, including foreign, from time to time in effect.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Defaulting Lender" means, subject to Section 2.19(b), any Lender that (a) has failed to (i) fund all or any portion of its Loans within two (2) Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Administrative Agent and the

Borrower Agent in writing that such failure is the result of such Lender's good faith determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable Default, shall be specifically identified in such writing) has not been satisfied, or (ii) pay to the Administrative Agent, any Letter of Credit Issuer, or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit) within two (2) Business Days of the date when due, (b) has notified the Borrower Agent, the Administrative Agent, any Letter of Credit Issuer or any other Lender in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender's obligation to fund a Loan hereunder and states that such position is based on such Lender's good faith determination that a condition precedent to funding (which condition precedent, together with any applicable Default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) has failed, within three (3) Business Days after written request by the Administrative Agent or the Borrower Agent, to confirm in writing to the Administrative Agent and the Borrower Agent that it will comply with its prospective funding obligations hereunder (*provided* that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by the Administrative Agent and the Borrower Agent), or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, or (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; *provided* that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses (a) through (d) above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to Section 2.19(b) hereof) upon delivery of written notice of such determination to the Borrower Agent, each Letter of Credit Issuer and each Lender.

"Dollars" or **"$"** refers to lawful money of the United States.

"Domestic Insurance Subsidiary" means each Insurance Subsidiary that is a Domestic Subsidiary. As of the Effective Date, James River Casualty, James River Insurance, Stonewood General, Stonewood Insurance and Stonewood National constitute the Domestic Insurance Subsidiaries.

"Domestic Subsidiary" means each Subsidiary that is not a Foreign Subsidiary.

"Effective Date" means the date on which each of the conditions specified in Section 4.01 is satisfied (or waived in accordance with Section 9.02).

“Effective Date Trust Preferred Securities” means Trust Preferred Securities issued by any of the following Delaware business trusts that are Affiliates of the Parent or any other Subsidiary as of the Effective Date: Franklin Holdings II (Bermuda) Capital Trust I, James River Capital Trust I, James River Capital Trust II, James River Capital Trust III, and James River Capital Trust IV.

“Eligible Collateral” has the meaning specified on Exhibit B hereto.

“Environmental Laws” means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, the preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or the effects of the environment on health and safety.

“Equity Interests” means (a) shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person or (b) any Equity Rights in such Person.

“Equity Rights” means, with respect to any Person, any subscriptions, options, warrants, commitments, preemptive rights or agreements of any kind (including, without limitation, any stockholders’ or voting trust agreements) for the issuance, sale, registration or voting of, or securities convertible into, any additional shares of capital stock of any class, or partnership or other ownership interests of any type in, such Person.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Parent or any Subsidiary, is treated as a single employer under Section 4 14(b) or (c) of the Internal Revenue Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Internal Revenue Code, is treated as a single employer under Section 414 of the Internal Revenue Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (except an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Internal Revenue Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Internal Revenue Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Parent or any ERISA Affiliate of any liability under any of Sections 4062, 4063, 4064 or 4069 of ERISA; (e) the receipt by the Parent or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Parent or any ERISA Affiliate of any liability with respect to withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Parent or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Parent or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Eurodollar", when used with respect to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Events of Default" has the meaning specified in Article 7.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

"Excluded Taxes" means, with respect to any Lender Party or other recipient of a payment made by or on account of any obligation of a Loan Party hereunder:

(a) income or franchise taxes imposed on (or measured by) its net income, receipts, capital or net worth by the United States (or any jurisdiction within the United States), except to the extent that the United States (or any such jurisdiction within the United States) imposes such taxes solely in connection with such Lender Party's enforcement of its rights or exercise of its remedies under the Loan Documents, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located (collectively, **"Income Taxes"**);

(b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction described in clause (a) above;

(c) in the case of a Foreign Lender, any United States federal withholding tax that (i) is in effect and would apply to amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement or designates a new lending office or (ii) is attributable to such Foreign Lender's failure to comply with Section 2.17(e); and

(d) any United States federal withholding taxes imposed pursuant to FATCA.

Notwithstanding the foregoing, a withholding tax will not be an "Excluded Tax" to the extent that (A) it is imposed on amounts payable to a Foreign Lender by reason of an assignment made to such Foreign Lender at the Borrower Agent's request pursuant to Section 9.15, (B) it is imposed on amounts payable to a Foreign Lender by reason of any other assignment and does not exceed the amount for which the assignor would have been indemnified pursuant to Section 2.17(a) or (C) in the case of designation of a new lending office, it does not exceed the amount for which such Foreign Lender would have been indemnified if it had not designated a new lending office.

"Existing Investors" means (a) the D.E. Shaw Investors (as defined in the Shareholders Agreement) and (b) The Goldman Sachs Group, Inc., a Delaware corporation, and certain Affiliates thereof.

“Existing JRG Facility” has the meaning specified in Section 4.01(j).

“Existing Letters of Credit” means those letters of credit that were issued by KeyBank National Association for the account of JRG under and pursuant to the Existing JRG Facility, a list of which is set forth on Schedule 1.01 hereto

“Exposure” means, with respect to any Lender at any time, the sum of (a) the aggregate outstanding principal amount of such Lender’s Loans at such time and (b) such Lender’s LC Exposure at such time.

“FATCA” means Sections 1471 through 1474 of the Internal Revenue Code, as in effect on the date of this Agreement (or any amended or successor version of FATCA that is substantively comparable and not materially more onerous to comply with), and any current or future regulations thereunder or official governmental interpretations thereof.

“Federal Funds Effective Rate” means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of Cleveland, or, if such rate is not so published on such Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

“Federal Reserve Board” means the Board of Governors of the Federal Reserve System of the United States.

“Financial Officer” means the chief financial officer, the president, the chief executive officer or a vice president (whose duties include financial matters) of a Loan Party.

“Financing Transactions” means any one or more of the execution, delivery and performance by a Loan Party of the Loan Documents to which it is to be a party, and the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

“Fiscal Quarter” means a fiscal quarter of the Parent.

“Fiscal Quarter Increase” means, as to any Fiscal Quarter, the sum of (a) the greater of (i) an amount equal to 50% of the Parent’s Consolidated net, after tax earnings (determined in accordance with GAAP) for such Fiscal Quarter and (ii) zero dollars ($0) and (b) an amount equal to 50% of Net Available Proceeds received by the Parent or any of its Subsidiaries in such Fiscal Quarter.

“Fiscal Year” means a fiscal year of the Parent.

“Fixed Charge Coverage Ratio” means, as of the end of any Fiscal Quarter, the ratio of (a) the Available Amount as of such Fiscal Quarter-end to (b) Trailing Fixed Charges as of such Fiscal Quarter-end.

"Fixed Charges" means, for any period, the sum, without duplication, of (a) Consolidated Interest Expense for such period and (b) Restricted Payments made or incurred by the Parent during such period, other than the Restricted Payments made to the Redeemed Investors on or about April 3, 2013 in connection with the Parent's redemption of Equity Interests of the Parent theretofore owned by the Redeemed Investors.

"Foreign Insurance Subsidiary" means each Insurance Subsidiary that is a Foreign Subsidiary. As of the Effective Date JRG Reinsurance is the sole Foreign Insurance Subsidiary.

"Foreign Lender" means (a) as to a Borrower that is a U.S. Person, a Lender that is not a U.S. Person and (b) as to a Borrower that is not a U.S. Person, a Lender that is resident or organized under the laws of a jurisdiction other than that in which such Borrower is a resident for Tax purposes.

"Foreign Subsidiary" means a Subsidiary (which may be a corporation, limited liability company, partnership or other legal entity) organized under the laws of a jurisdiction outside the United States, and conducting a material portion of its operations outside the United States.

"Fronting Exposure" means, at any time there is a Defaulting Lender, with respect to any Letter of Credit Issuer, such Defaulting Lender's Percentage of the outstanding LC Reimbursement Obligations with respect to Letters of Credit issued by such Letter of Credit Issuer other than LC Reimbursement Obligations as to which such Defaulting Lender's participation obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, applied on a basis consistent (except for changes concurred in by the Parent's independent public accountants) with the most recent audited Consolidated financial statements of the Parent and its Consolidated Subsidiaries delivered to the Lenders. If at any time the SEC permits or requires U.S.-domiciled companies subject to the reporting requirements of the Exchange Act to use, in whole or in part, IFRS in lieu of GAAP for financial reporting purposes, the Parent may elect by written notice to the Administrative Agent to so use IFRS (or, to the extent permitted by the SEC and consistent with pronouncements of the Financial Accounting Standards Board and the International Accounting Standards Board, portions thereof from time to time) in lieu of GAAP and, upon any such notice, references herein to GAAP shall thereafter be construed to mean (a) for periods beginning on and after the date specified in such notice, IFRS (or, if applicable, such portions) as in effect from time to time and (b) for prior periods, GAAP as defined in the first sentence of this definition (and as theretofore modified pursuant to this sentence), in each case subject to Section 1.04.

"Governmental Authority" means the government of the United States or any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Debt or other obligations to pay money of any other Person (the **"primary obligor"**) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation or to purchase (or advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Debt or other obligation; *provided* that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantor" means, as of the Effective Date, each of Holdings II and, until, if ever, James River becomes a Borrower upon and subject to the provisions of Section 2.04, James River, it being understood and agreed that after, if ever, James River becomes a Borrower as aforesaid, all references to the "Guarantors" shall be deemed to refer to the Holdings II.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest rate, currency exchange rate or commodity price hedging arrangement.

"Holdings II" means Franklin Holdings II (Bermuda), Ltd., a company organized under the laws of Bermuda, its successors and permitted assigns.

"IFRS" means the International Financial Reporting Standards and applicable accounting requirements set by the International Accounting Standards Board or any successor thereto (or the Financial Accounting Standards Board, the Accounting Principles Board of the American Institute of Certified Public Accountants, or any successor to either such Board, or the SEC, as the case may be), as in effect from time to time.

"Income Taxes" has the meaning specified in clause (a) of the definition of Excluded Taxes.

"Indemnified Taxes" means all Taxes except Excluded Taxes.

"Insurance Subsidiary" means a Subsidiary that is a regulated insurance company. As of the date of this Agreement, James River Casualty, James River Insurance, Stonewood General, Stonewood Insurance, Stonewood National and JRG Reinsurance constitute the Insurance Subsidiaries.

“Interest Election” means an election by the Borrower Agent, for and on behalf the Borrowers, to change or continue the Interest Type of a Borrowing in accordance with Section 2.07.

“Interest Expense” means, for any fiscal period, all expense of the Parent or any of its Subsidiaries for such fiscal period classified as interest expense for such period, including interest on capitalized interest and interest under “synthetic” leases, in accordance with GAAP; *provided* that Interest Expense shall not include interest expense, if any, in respect of Hedging Agreements that would otherwise be included pursuant to Financial Accounting Standard 133.

“Interest Payment Date” means (a) with respect to any Base Rate Loan, the last Business Day of each calendar quarter in respect of the quarter then ending and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, if such Interest Period is longer than three months, each day during such Interest Period that occurs at intervals of three months’ duration after the first day of such Interest Period.

“Interest Period” means, with respect to any Eurodollar Borrowing, the period beginning on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower Agent, for and on behalf the Borrowers, may elect; *provided* that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be deemed to be the effective date of the most recent conversion or continuation of such Borrowing.

“Interest Type”, when used with respect to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Investment” means, for any Person: (a) the acquisition (whether for cash, Property, services or securities or otherwise) of capital stock, bonds, notes, debentures, partnership or other ownership interests or other securities of any other Person or any agreement to make any such acquisition (including, without limitation, any “short sale” or any sale of any securities at a time when such securities are not owned by the Person entering into such sale); (b) the making of any deposit with, or advance, loan or other extension of credit or capital contribution to, any other Person (including the purchase of Property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such Property to such Person), but excluding any such advance, loan or extension of credit having a term not exceeding 90 days arising in connection with the sale of inventory or supplies by such Person in the ordinary course of business; (c) the entering into of any Guarantee of, or other contingent obligation with respect to, Debt or other liability of any other Person and (without duplication) any amount committed to be advanced, lent or extended to such Person; or (d) the entering into of any Hedging Agreement.

"James River" means James River Group, Inc., a Delaware corporation, its successors and permitted assigns.

"James River Casualty" means James River Casualty Company, a regulated insurance company domiciled in the State of Virginia.

"James River Insurance" means James River Insurance Company, a regulated insurance company domiciled in the State of Ohio.

"JRG Reinsurance" means JRG Reinsurance Company Ltd., a regulated insurance company domiciled in Bermuda.

"Law" means any law (including common law), constitution, statute, treaty, regulation, rule, ordinance, code, guideline, release, ruling, or order of, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, or any agreement with, any Governmental Authority.

"LC Disbursement" means a payment made by a Letter of Credit Issuer in respect of a drawing under a Letter of Credit.

"LC Exposure" means, as applicable, Secured LC Exposure or Unsecured LC Exposure.

"LC Reimbursement Obligations" means, as applicable, Secured Facility LC Reimbursement Obligations or Unsecured Facility LC Reimbursement Obligations.

"Lender Affiliate" means, (a) with respect to any Lender, (i) an Affiliate of such Lender or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by such Lender or an Affiliate of such Lender and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"Lender Parties" means the Lenders, the Letter of Credit Issuers and the Administrative Agent.

“Lenders” means the Persons listed on Schedule 2.01(a) and Schedule 2.01(b) and any other Person that shall have become a party hereto pursuant to an Assignment or Section 2.11, other than any such Person that ceases to be a party hereto pursuant to an Assignment.

“Letter of Credit” means a Secured Facility Letter of Credit or an Unsecured Facility Letter of Credit.

“Letter of Credit Issuer” means KeyBank National Association or any of its Affiliates (and their successors) and each other Lender or Lender Affiliate that is requested by the Borrower Agent, for and on behalf the Borrowers, and agrees to be a Letter of Credit Issuer hereunder and is approved by the Administrative Agent (such approval not to be unreasonably withheld or delayed).

“Leverage Ratio” means, as of the end of any Fiscal Quarter, the ratio of (a) Adjusted Consolidated Debt as of such Fiscal Quarter-end to (b) Total Capitalization as of such Fiscal Quarter-end.

“LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, the per annum rate of interest, determined by the Administrative Agent in accordance with its usual procedures (which determination shall be conclusive and binding absent manifest error) as of approximately 11:00 a.m. (London time) two (2) Business Days prior to the beginning of such Interest Period pertaining to such Eurodollar Borrowing, equal to the British Bankers Association (or the successor thereto if the British Bankers’ Association no longer is making such rate available) LIBOR Rate (“BBA LIBOR”), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market), having a maturity comparable to such Interest Period. In the event that such a rate quotation is not available for any reason, then the LIBO Rate shall be the rate, determined by the Administrative Agent as of approximately 11:00 a.m. (London time) two (2) Business Days prior to the beginning of such Interest Period pertaining to such Eurodollar Borrowing, to be the average (rounded upwards, if necessary, to the nearest one sixteenth of one percent (1/16th of 1%)) of the per annum rates of interest at which dollar deposits in immediately available funds, approximately equal in principal amount to such Eurodollar Borrowing and for a maturity comparable to the Interest Period, are offered to KeyBank National Association by prime banks in the London interbank market.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Loan Documents” means this Agreement, any promissory note issued by the Borrowers pursuant to Section 2.09(e), the Letters of Credit and any related reimbursement agreement, each

Payment Guaranty, the Security Documents, and any certificate or writing required to be delivered by a Loan Party pursuant to Article 2 or Article 5.

"Loan Parties" means, collectively, the Borrowers and the Guarantors.

"Loans" means loans made by the Lenders under the Unsecured Facility pursuant to Section 2.01(b) and Section 2.02.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, properties, assets, financial condition, contingent liabilities or material agreements of the Parent and its Subsidiaries taken as a whole, (b) the ability of a Loan Party to perform any of its obligations under any Loan Document or (c) the rights of or benefits available to any Lender Party under, or the validity or enforceability of, any Loan Document.

"Material Debt" means Debt (other than obligations in respect of the Loans and the Letters of Credit) or obligations in respect of one or more Hedging Agreements, of any one or more of the Parent and its Subsidiaries in an aggregate principal amount exceeding $5,000,000. For purposes of determining Material Debt, the "principal amount" of the obligations of the Parent or any Subsidiary in respect of any Hedging Agreement at any time will be the maximum aggregate amount (after giving effect to any netting agreements) that the Parent or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Material Insurance Subsidiary" means a Material Subsidiary that is also an Insurance Subsidiary. As of the date of this Agreement, JRG Reinsurance, James River Insurance and Stonewood Insurance constitute the Material Insurance Subsidiaries.

"Material Subsidiary" means a Subsidiary that holds, directly or indirectly, more than 5% of the Consolidated assets of the Parent and its Subsidiaries at such time or that accounts for more than 5% of the Consolidated gross income of the Parent and its Subsidiaries at such time, in each instance determined in accordance with GAAP; *provided* that the aggregate consolidated gross income or assets for all Subsidiaries that are not Material Subsidiaries shall not as of the end of any Fiscal Quarter exceed 10% of the Consolidated gross income or Consolidated assets of the Parent and its Subsidiaries. To conform to the preceding sentence, the Parent shall designate additional Material Subsidiaries (or may reclassify existing Material Subsidiaries from being such) in a writing delivered to the Administrative Agent concurrently with its delivery of quarterly or annual financial statements pursuant to Section 5.01. As of the date of this Agreement, James River, JRG Reinsurance, James River Insurance, Stonewood Insurance and Holdings II constitute the Material Subsidiaries.

"Maturity Date" means the Revolving Availability Termination Date.

"Minimum Collateral Amount" means, at any time, (a) with respect to Cash Collateral consisting of cash or deposit account balances, an amount equal to 105% of the Fronting Exposure of all Letter of Credit Issuers with respect to Letters of Credit issued and outstanding at such time and (b) otherwise, an amount determined by the Administrative Agent and the Letter of Credit Issuers in their sole discretion.

“Minimum Net Worth” means, for any Fiscal Quarter, the minimum Consolidated Net Worth required to be maintained by the Parent as of the end of such Fiscal Quarter pursuant to Section 6.12.

“Moody’s” means Moody’s Investors Service, Inc. and its successors and assigns or, if it shall be dissolved or shall no longer assign credit ratings to long-term debt, then any other nationally recognized statistical rating agency designated by the Administrative Agent.

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Multiple Employer Plan” means an employee benefit plan, other than a Multiemployer Plan, to which the Parent or any ERISA Affiliate, and one or more employers other than the Parent or an ERISA Affiliate, is making or accruing an obligation to make contributions or, in the event that any such plan has been terminated, to which the Parent or an ERISA Affiliate made or accrued an obligation to make contributions during any of the five plan years preceding the date of termination of such plan.

“NAIC” means the National Association of Insurance Commissioners and any successor thereto.

“Non-Defaulting Lender” shall mean, at any time, each Lender that is not a Defaulting Lender at such time.

“Other Taxes” means any and all present or future recording, stamp, documentary, excise, transfer, sales, property or similar taxes, charges or levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

“Parent” means Franklin Holdings (Bermuda), Ltd., a Bermuda company, and its successors and permitted assigns.

“Participants” has the meaning specified in Section 9.04(e).

“Payment Guaranty” has the meaning specified in Section 4.01(g).

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Percentage” means, with respect to any Lender, as applicable, (a) the percentage of the Total Secured Facility Commitment represented by such Lender’s Secured Facility Commitment or (b) the percentage of the Total Unsecured Facility Commitment represented by such Lender’s Unsecured Facility Commitment. If, as the case may be, the Secured Facility Commitments or the Unsecured Facility Commitments have terminated or expired, the Percentages will be determined based on, respectively, the Secured Facility Commitments or the Unsecured Facility Commitments most recently in effect, adjusted to give effect to any assignments.

"**Permitted Acquisition**" means any Acquisition by the Parent or a Subsidiary if all of the following conditions (to the extent, as to clauses (c) and (d), below, applicable to such Acquisition) are met:

(a) no Default exists immediately prior to, and after giving effect to, the consummation of such Acquisition;

(b) all transactions related to such Acquisition are consummated in compliance, in all material respects, with applicable law;

(c) in the case of an Acquisition of Equity Interests in a Person, after giving effect to such Acquisition, 100% of the Equity Interests in such Person, and any other Subsidiary resulting from such Acquisition, shall be owned directly or indirectly by the Parent;

(d) in the case of an Acquisition of assets of a Person, 100% of the Equity Interests in any Subsidiary formed for the purpose of or resulting from such Acquisition shall be owned directly or indirectly by the Parent;

(e) such Acquisition is not actively opposed by the board of directors (or similar governing body) of the selling Person or the Person whose Equity Interests are to be acquired;

(f) without limiting the generality of clause (a), above, (i) after giving effect to such Acquisition, the Parent and its Subsidiaries shall be in compliance with the requirements of Sections 6.15 and 6.17, and (ii) if such Acquisition is in the form of a merger, consolidation or amalgamation, such merger, consolidation or amalgamation shall conform to the requirements of Section 6.03(d);

(g) if the aggregate consideration (including assumed Debt) for such Acquisition and all other Permitted Acquisitions consummated within the preceding 365-day period exceeds $25,000,000, the Borrower Agent shall have delivered to the Administrative Agent at least twenty (20) days prior to the consummation of such Acquisition (i) copies of the most recent drafts of the purchase agreement (or equivalent agreement otherwise named) and related material documents pursuant to which such Acquisition is to be effected (which draft purchase agreement and other documents the Borrower Agent shall promptly supplement with modifications thereto that effect material changes in terms of such Acquisition and, concurrently with consummation thereof, the final forms of such purchase agreement and other documents) and (ii) a certificate of a Financial Officer showing to the reasonable satisfaction of the Administrative Agent that the Borrowers are (A) in compliance on a *pro forma* basis after giving effect to such Acquisition, with the covenants contained in Sections 6.11 through 6.14, inclusive, recomputed as of the last day of the most recently ended Fiscal Quarter for which financial statements are available as if such Acquisition had occurred on such last day and (B) in compliance with the provisions of clauses (a) through (f), above, inclusive, which certificate the Administrative Agent shall forward to the Lenders promptly following receipt thereof by the Administrative Agent;

(h) with respect to all Acquisitions other than those described in clause (g), above, the Borrower Agent shall have delivered to the Administrative Agent written notice of such Acquisition, accompanied by such information relating thereto as the Administrative Agent may reasonably request, promptly following the consummation of such Acquisition;

(i) the aggregate consideration (including assumed Debt) for such Acquisition shall not exceed $25,000,000; and

(j) the aggregate consideration (including assumed Debt) for such Acquisition and all other Permitted Acquisitions consummated since the Effective Date shall not exceed $75,000,000.

"Permitted Investments" means any of the following: (a) any investment in direct obligations of the United States of America or any agency thereof; (b) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 90 days of the date of acquisition thereof issued by any Lender or a bank or trust company which is organized under the laws of the United States of America, any State thereof or any foreign country recognized by the United States of America, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of $500,000,000 (or the foreign currency equivalent thereof) and whose long-term debt is rated "A-" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Exchange Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor; (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with a Lender or a bank meeting the qualifications described in clause (b) above; (d) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Parent) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the times as of which any investment therein is made of "P-l" (or higher) by Moody's or "A-1" (or higher) by S&P; (e) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's; and (f) as to any Insurance Subsidiary, any other investment permitted by its Applicable Insurance Regulatory Authority (which other investments, by way of clarification and not limitation, shall be deemed not to include the Equity Interests of a Subsidiary).

"Permitted Liens" means:

(a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.05;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.05;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations (including, without limitation, deposits made in the ordinary course of business to cash collateralize letters of credit described in the parenthetical in clause (i) of the definition of "Debt");

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, and Liens imposed by statutory or common law relating to banker's liens or rights of setoff or similar rights relating to deposit accounts, in each case in the ordinary course of business;

(e) Liens arising under escrows, trusts, custodianships, separate accounts, funds withheld procedures, and similar deposits, arrangements, or agreements established with respect to insurance policies, annuities, guaranteed investment contracts and similar products underwritten by, or Reinsurance Agreements entered into by, any Insurance Subsidiary in the ordinary course of business;

(f) deposits with insurance regulatory authorities in the ordinary course of business (which deposits may be in the form of cash collateralized letters of credit);

(g) banker's liens, rights of set-off or similar rights in favor of a depository institution with respect to deposit accounts maintained with a depository institution in the ordinary course of business and securing only obligations with respect to the maintenance of such accounts; and

(h) easements, zoning restrictions, rights-of-way, licenses, reservations, minor irregularities of title and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligation and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Parent or any Subsidiary;

provided that, except as provided in clause (c), above, the term "Permitted Liens" shall not include any Lien that secures Debt.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (except a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Internal Revenue Code or Section 302 of

ERISA, and in respect of which the Borrower or any ERISA Affiliate (i) is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) a "contributing sponsor" as defined in Section 400 l(a)(13) of ERISA, or (ii) with respect to which the Borrower or any ERISA Affiliate otherwise could incur liability under Title IV of ERISA or Section 412 of the Internal Revenue Code or Section 302 of ERISA.

"Prevailing Eastern Time" means "eastern standard time" as defined in 15 USC §263 as modified by 15 USC §260a.

"Pricing Schedule" means the Pricing Schedule attached hereto.

"Prime Rate" means, for any day, the rate of interest per annum then most recently publicly announced by KeyBank National Association as its "prime" rate (or equivalent rate otherwise named) in effect at its principal office in Cleveland, Ohio, which prime rate is not necessarily the lowest rate of interest charged by KeyBank National Association to commercial borrowers. Each change in the Prime Rate will be effective for purposes hereof from and including the date such change is publicly announced as being effective.

"Redeemed Investors" means (a) the Sunlight Investors (as defined in the Shareholders Agreement), and (b) the successor to Lehman Brothers Offshore Partner Ltd., a Bermuda exempted company.

"Register" has the meaning specified in Section 9.04(c).

"Regulatory Condition Satisfaction" has the meaning specified in Section 4.01(l).

"Reinsurance Agreement" means any agreement, contract, treaty or other arrangement providing for Ceded Reinsurance by any Insurance Subsidiary or any Subsidiary of such Insurance Subsidiary in the ordinary course of its business.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and its Affiliates.

"Required Lenders" means, at any time, both (a) Lenders having aggregate Secured Facility Exposures and unused Secured Facility Commitments representing more than 50% of the sum of all Secured Facility Exposures and unused Secured Facility Commitments at such time and (b) Lenders having aggregate Unsecured Facility Exposures and unused Unsecured Facility Commitments representing more than 50% of the sum of all Unsecured Facility Exposures and unused Unsecured Facility Commitments at such time; *provided* that the outstanding Exposure and unused Commitment of any Defaulting Lender shall be disregarded in determining Required Lenders at any time; and *provided*, *further*, that (i) if the matter directly affects only those Lenders having Secured Facility Exposures and unused Secured Facility Commitments, "Required

Lenders" shall be determined solely by reference to clause (a) of this definition, and (ii) if the matter directly affects only those Lenders having Unsecured Facility Exposures and unused Unsecured Facility Commitments, "Required Lenders" shall be determined solely by reference to clause (b) of this definition.

"Restricted Payment" means, without duplication, (a) any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interest in the Parent or (b) any payment (whether in cash, securities or other property) or incurrence of an obligation by the Parent or any of its Subsidiaries, including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Equity Interest in the Parent.

"Retrocession Agreement" means any agreement, contract, treaty or other arrangement (other than Surplus Relief Reinsurance) whereby any Insurance Subsidiary or any Subsidiary of such Insurance Subsidiary in the ordinary course of its business cedes reinsurance to other insurers (other than to another Insurance Subsidiary or any of its Subsidiaries).

"Revolving Availability Period" means the period from and including the Effective Date to but excluding the Revolving Availability Termination Date (or, if earlier, the date on which all outstanding Commitments terminate).

"Revolving Availability Termination Date" means June 5, 2016 (or if such date is not a Business Day with respect to Eurodollar Loans, the next preceding day that is a Business Day with respect to Eurodollar Loans).

"Risk-Based Capital Ratio" means, for any Domestic Insurance Subsidiary, the risk-based capital ratio for such Domestic Insurance Subsidiary using the NAIC Company Action Level formula, as amended, modified, or supplemented from time to time by the NAIC.

"**Sale-Leaseback Transaction"** has the meaning specified in Section 6.07.

"SAP" means, with respect to any Insurance Subsidiary, the accounting procedures and practices prescribed or permitted by the Applicable Insurance Regulatory Authority, applied on a basis consistent with those that, in accordance with the last sentence of Section 1.04(a), are to be used in making the calculations for purposes of determining compliance with this Agreement.

"S&P" means Standard & Poor's Financial Services LLC, and its successors and assigns or, if it shall be dissolved or shall no longer assign credit ratings to long-term debt, then any other nationally recognized statistical rating agency designated by the Administrative Agent.

"SEC" means the United States Securities and Exchange Commission.

"Secured Facility" means the secured revolving credit facility described and defined in Section 2.01(a).

"Secured Facility Commitment" means, with respect to each Lender, the commitment of such Lender to acquire participations in Secured Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Secured Exposure under the Secured Facility, as such commitment may be (a) reduced from time to time pursuant to Section 2.08, (b) increased from time to time pursuant to Section 2.11 and (c) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Secured Facility Commitment is set forth on Schedule 2.01(a), or in the Assignment pursuant to which such Lender shall have assumed its initial Commitment, as applicable. The aggregate amount of the Secured Facility Commitments as of the Effective Date is $62,500,000.

"Secured Facility Exposure" means, with respect to any Lender at any time, such Lender's Secured LC Exposure at such time.

"Secured Facility Letter of Credit" means any letter of credit issued under the Secured Facility pursuant to this Agreement and shall include, without limitation, each of the Existing Letters of Credit.

"Secured LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all Secured Facility Letters of Credit outstanding at such time plus (b) the aggregate amount of all Secured Facility LC Reimbursement Obligations that have not yet been reimbursed by or on behalf of the Borrowers at such time. The Secured LC Exposure of any Lender at any time will be its Percentage of the total Secured LC Exposure at such time.

"Secured Facility LC Reimbursement Obligations" means, at any time, all obligations of the Borrowers to reimburse the Letter of Credit Issuers for amounts paid by any of them in respect of drawings under Secured Facility Letters of Credit, including any portion of such obligations to which Lenders have become subrogated by making payments to any Letter of Credit Issuer pursuant to Section 2.05(e).

"Security Documents" means security agreements, control agreements and related security documents executed and delivered by the Borrowers and any applicable depository bank or securities intermediary, in form and substance reasonably satisfactory to the Administrative Agent, that grant to the Administrative Agent, for the benefit of the Lender Parties, a perfected first priority Lien and security interest in Eligible Collateral.

"Shareholders Agreement" means the Amended and Restated Investor Shareholders Agreement, dated as of July 29, 2008, by and among (a) the Parent, (b) D.E. Shaw Investors (as defined therein), (c) the Sunlight Investors (as defined therein), (d) Lehman Brothers Offshore Partner Ltd., a Bermuda exempted company, and (e) The Goldman Sachs Group, Inc., a Delaware corporation, as amended restated, modified or supplemented from time to time in accordance with its terms and the terms of Section 6.16.

"Statutory Reserve Adjustment" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Federal Reserve Board to which the Administrative Agent is subject with respect to eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Federal Reserve Board). Such reserve percentages will include those imposed pursuant to such Regulation D. Eurodollar Loans will be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Adjustment will be adjusted automatically on and as of the effective date of any change in any applicable reserve percentage.

"Statutory Statement" means, as to any Insurance Subsidiary, a statement of the condition and affairs of such Insurance Subsidiary, prepared in accordance with statutory accounting practices required or permitted by the Applicable Insurance Regulatory Authority, and filed with the Applicable Insurance Regulatory Authority.

"Statutory Surplus" means, as at any date, with respect to an insurance company domiciled in the United States, the aggregate amount of surplus as regards policyholders (determined without duplication in accordance with SAP) of such insurance company, as set forth on page 3, line 38, of the most recent Statutory Statement of such insurance company (or equivalent page, line, or statement, to the extent that any thereof is modified or replaced).

"Stonewood General" means Stonewood General Insurance Company, a regulated insurance company domiciled in the State of Ohio.

"Stonewood Insurance" means Stonewood Insurance Company, a regulated insurance company domiciled in the State of North Carolina.

"Stonewood National" means Stonewood National Insurance Company, a regulated insurance company domiciled in the State of Ohio.

"Subordinated Debt" means the Debt of a Loan Party evidenced by the Trust Preferred Securities, Notes and any other Debt of a Loan Party (a) no part of the principal of which is required to be paid (whether by way of mandatory sinking fund, mandatory redemption, mandatory prepayment or otherwise) prior to the date that is twelve months after the Maturity Date and (b) that has been subordinated to the Loans and other obligations of such Loan Party under the Loan Documents in right and time of payment upon terms that are satisfactory to the Administrative Agent, which terms may, in the Administrative Agent's determination, include (without limitation) limitations or restrictions on the right of the holder of such Debt to receive payments and exercise remedies. The Administrative Agent shall deliver a copy of the agreement or other writing containing such subordination terms to the Lenders at least five (5) Business Days prior to the effectiveness thereof.

"subsidiary" means, with respect to any Person (the "**parent**") at any date, (a) any corporation, limited liability company, partnership or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date and (b) any other corporation, limited liability company, partnership or other entity (i) of which securities or other ownership interests (A) representing more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership voting interests or (B) otherwise having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions, are, as of such date, owned, controlled or held, or (ii) that is otherwise Controlled (pursuant to clause (b) of the definition of "Control") as of such date, by the parent and/or one or more of its subsidiaries.

"Subsidiary" means any subsidiary of a Loan Party; *provided* that, unless the context indicates otherwise, "Subsidiary" means a subsidiary of the Parent.

"Surplus Relief Reinsurance" means any transaction in which any Insurance Subsidiary or any Subsidiary of such Insurance Subsidiary cedes business under a reinsurance agreement that would be considered a "financing-type" reinsurance agreement as determined by the independent certified public accountants of such Insurance Subsidiary in accordance with principles published by the Financial Accounting Standards Board or the Second Edition of the AICPA Audit Guide for Stock Life Insurance Companies (pp. 91-92 or equivalent provisions), as the same may be revised from time to time.

"Taxes" means any and all present or future taxes, levies, assessments, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Total Capitalization" means, as of any date, the aggregate of, without duplication, (a) Consolidated Debt of the Parent, of the type described in any or all of clauses (a), (b), (c), (d), (e) and (h) of the definition of "Debt", on such date, plus (b) Consolidated Net Worth of the Parent, on such date.

"Total Commitment" means, at any date, the aggregate of all of the Commitments of all of the Lenders at such date.

"Total Outstanding Secured Facility Amount" means, at any date, the aggregate Secured Facility Exposures of all Lenders at such date.

"Total Outstanding Unsecured Facility Amount" means, at any date, the aggregate Unsecured Facility Exposures of all Lenders at such date.

"Total Secured Facility Commitment" means, at any date, the aggregate of the Secured Facility Commitments of all Lenders at such date.

"Total Unsecured Facility Commitment" means, at any date, the aggregate of the Unsecured Facility Commitments of all Lenders at such date.

"Trailing Fixed Charges" means, as of the end of any Fiscal Quarter, Fixed Charges for such Fiscal Quarter, plus Fixed Charges for the three (3) immediately preceding Fiscal Quarters.

"Trust Preferred Securities" means mandatorily redeemable preferred securities issued by one or more Delaware business trusts that are Affiliates of the Parent or any Subsidiary (including, without limitation, Effective Date Trust Preferred Securities), to which trusts the such Subsidiary has issued Trust Preferred Securities Notes; *provided* that no such preferred securities shall be mandatorily redeemable earlier than June 5, 2017.

"United States" means the United States of America.

"Unsecured Facility" means the unsecured revolving credit facility described and defined in Section 2.01(b).

"Unsecured Facility Commitment" means, with respect to each Lender, the commitment of such Lender to make unsecured Loans and to acquire participations in unsecured Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Unsecured Exposure under the Unsecured Facility, as such commitment may be (a) reduced from time to time pursuant to Section 2.08, (b) increased from time to time pursuant to Section 2.11 and (c) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Unsecured Facility Commitment is set forth on Schedule 2.01(b), or in the Assignment pursuant to which such Lender shall have assumed its initial Commitment, as applicable. The aggregate amount of the Unsecured Facility Commitments as of the Effective Date is $62,500,000.

"Unsecured Facility Exposure" means, with respect to any Lender at any time, the sum of (a) the aggregate outstanding principal amount of such Lender's Loans at such time and (b) such Lender's Unsecured LC Exposure at such time.

"Unsecured Facility Letter of Credit" means any letter of credit issued under the Unsecured Facility pursuant to this Agreement.

"Unsecured LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all Unsecured Facility Letters of Credit outstanding at such time plus (b) the aggregate amount of all Unsecured Facility LC Reimbursement Obligations that have not yet been reimbursed by or on behalf of the Borrowers at such time. The Unsecured LC Exposure of any Lender at any time will be its Percentage of the total Unsecured LC Exposure at such time.

"Unsecured Facility LC Reimbursement Obligations" means, at any time, all obligations of the Borrowers to reimburse the Letter of Credit Issuers for amounts paid by any of them in respect of drawings under Unsecured Facility Letters of Credit, including any portion of such obligations to which Lenders have become subrogated by making payments to any Letter of Credit Issuer pursuant to Section 2.05(e).

"U.S. Person" means any Person that is a "United States person" as defined in Section 7701(a)(30) of the Internal Revenue Code.

“USA PATRIOT Act” means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

“Wholly Owned Subsidiary” means, with respect to any Person, any corporation, partnership or other entity of which all of the equity securities or other ownership interests (other than, in the case of a corporation, directors’ qualifying shares) are directly or indirectly owned or controlled by such Person or one or more Wholly Owned Subsidiaries of such Person or by such Person and one or more Wholly Owned Subsidiaries of such Person.

Section 1.02. *Classification of Loans and Borrowings.* For purposes of this Agreement, Loans and Borrowings may be classified by Interest Type (e.g., a “Eurodollar Loan” or a “Eurodollar Borrowing”).

Section 1.03. *Terms Generally.* The definitions of terms herein (including those incorporated by reference to another document) apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun includes the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise, (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the word “property” shall be construed to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

Section 1.04. *Accounting Terms; Changes in GAAP.*

(a) Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Administrative Agent hereunder shall (unless otherwise disclosed to the Administrative Agent in writing at the time of delivery thereof in the manner described in subsection (b) below) be prepared, in accordance with GAAP or with SAP applied on a basis consistent with those used in the preparation of the latest financial statements furnished to the Administrative Agent hereunder (which, prior to the delivery of the first financial statements under Section 5.01 hereof, shall mean the audited, or annual statutory, financial statements as at

December 31, 2012 referred to in Section 3.04 hereof). All calculations made for the purposes of determining compliance with this Agreement shall (except as otherwise expressly provided herein) be made by application of GAAP or with SAP applied on a basis consistent with those used in the preparation of the latest annual or quarterly financial statements furnished to the Administrative Agent pursuant to Section 5.01 hereof (or, prior to the delivery of the first financial statements under Section 5.01 hereof, used in the preparation of the audited, or annual statutory, financial statements as at December 31, 2012 referred to in Section 3.04 hereof) unless (i) the Parent shall have objected to determining such compliance on such basis at the time of delivery of such financial statements or (ii) the Required Lenders (through the Administrative Agent) shall so object in writing within 30 days after delivery of such financial statements, in either of which events such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which such objection shall not have been made (which, if objection is made in respect of the first financial statements delivered under Section 5.01 hereof, shall mean the audited, or annual statutory, financial statements referred to in Section 3.04 hereof); *provided* that, if any change in GAAP by reason of a change from GAAP to IFRS or, if applicable, portions thereof (as provided in the definition of "GAAP") would affect in any material respect the computation of any ratio or other financial covenant, basket, calculation or requirement set forth herein or in any other Loan Document, the Administrative Agent and the Parent shall endeavor to negotiate in good faith a modification of such ratio, covenant, basket, calculation or requirement to preserve the original intent thereof in light of such change from GAAP to IFRS or, if applicable, a portions thereof (subject, however, to the approval of the Required Lenders); and until, if ever, such modification shall have been effected by an amendment to such ratio, covenant, basket, calculation or requirement approved by the Parent and the Required Lenders as provided in Section 9.02 hereof, (i) such ratio, covenant, basket, calculation or requirement shall continue to be computed in accordance with GAAP prior to such change to IFRS (or, if applicable, portions thereof) and (ii) the Parent shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio, covenant, basket, calculation or requirement made before and after giving effect to such change from GAAP to IFRS (or, if applicable, portions thereof).

(b) The Parent shall deliver to the Administrative Agent at the same time as the delivery of any annual or quarterly financial statement under Section 5.01 hereof (i) a description in reasonable detail of any material variation between the application of accounting principles, or statutory accounting practices, employed in the preparation of such statement and the application of accounting principles, or statutory accounting practices, employed in the preparation of the next preceding annual or quarterly financial statements as to which no objection has been made in accordance with the last sentence of subsection (a) above and (ii) reasonable estimates of the difference between such statements arising as a consequence thereof.

(c) To enable the ready and consistent determination of compliance with the covenants set forth in Article 6 hereof, the Parent shall not change the last day of its fiscal year from December 31, or the last days of the first three fiscal quarters in each of its fiscal years from March 31, June 30 and September 30 of each year, respectively.

ARTICLE 2

THE CREDITS

Section 2.01. *Commitments.* (a) Subject to the terms and conditions set forth in this Agreement, each Lender having a Secured Facility Commitment agrees, from time to time during the Revolving Availability Period, to purchase participations in Secured Facility Letters of Credit, on a secured basis (the **"Secured Facility"**); *provided* that no Secured Facility Letter of Credit shall at any time result in (i) such Lender's Secured Facility Exposure exceeding the lesser of (A) its Secured Facility Commitment and (B) its Percentage of the aggregate Collateral Value of the Eligible Collateral then held by the Administrative Agent, or (ii) the Total Outstanding Secured Facility Amount exceeding the lesser of (A) the Total Secured Facility Commitment then in effect and (B) the aggregate Collateral Value of the Eligible Collateral then held by the Administrative Agent; *provided* that, notwithstanding anything to the contrary herein or in any other Loan Document, Eligible Collateral pledged by JRG Reinsurance shall not secure the Debt or other obligations of any other Borrower under this Agreement and the other Loan Documents and shall not be included as Eligible Collateral in the computation of Collateral Value for any Letters of Credit issued for the account of any other Borrower. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrowers may request Secured Facility Letters of Credit. Loans shall not be available under the Secured Facility.

(b) Subject to the terms and conditions set forth in this Agreement, each Lender having an Unsecured Facility Commitment agrees, from time to time during the Revolving Availability Period, to make Loans to the Borrowers and purchase participations in Unsecured Facility Letters of Credit, in each case on an unsecured basis (the **"Unsecured Facility"**); *provided* that no Loan and no Unsecured Facility Letter of Credit shall at any time result in (i) such Lender's Unsecured Facility Exposure exceeding its Unsecured Facility Commitment or (ii) the Total Outstanding Unsecured Facility Amount exceeding the Total Unsecured Facility Commitment then in effect. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrowers may borrow, prepay and reborrow Loans and request Unsecured Facility Letters of Credit.

(c) Notwithstanding anything to the contrary contained this Agreement (including this Section 2.01), any Note, or any other Loan Document, (i) JRG Reinsurance shall be liable only for that portion of the Secured Facility Exposure that consists of unpaid Secured LC Exposure with respect to Letters of Credit issued for the account of JRG Reinsurance, and (ii) JRG Reinsurance shall be liable only for that portion of the Unsecured Facility Exposure that consists of unpaid Loans advanced to JRG Reinsurance and unpaid Unsecured LC Exposure with respect to Letters of Credit issued for the account of JRG Reinsurance.

(d) The Commitments of the Lenders under each of the Secured Facility and the Unsecured Facility are several, i.e., the failure of any Lender to perform its obligations under either Facility shall not relieve any other Lender of its obligations thereunder, and no Lender shall be responsible for any other Lender's failure to perform its obligations hereunder.

Section 2.02. *Revolving Loans.* (a) Each Loan shall be made as part of a Borrowing consisting of Loans of the same Interest Type made by the Lenders ratably in accordance with their respective Unsecured Facility Commitments, as the Borrower Agent may request (subject to Section 2.14) in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan. Any exercise of such option shall not affect the Borrowers' obligation to repay such Loan as provided herein.

(b) At the beginning of each Interest Period for any Eurodollar Borrowing, the aggregate amount of such Borrowing shall be an integral multiple of $500,000 and not less than $2,000,000. When each Base Rate Borrowing is made, the aggregate amount of such Borrowing shall be an integral multiple of $100,000 and not less than $1,000,000; *provided* that a Base Rate Borrowing may be in an aggregate amount that (i) is equal to the entire unused balance of the Unsecured Facility Commitments or (ii) is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e). Borrowings of more than one Interest Type may be outstanding at the same time; *provided* that there shall not at any time be more than a total of five (5) Eurodollar Borrowings outstanding.

(c) Notwithstanding any other provision hereof, the Borrowers will not be entitled to request, or to elect to convert or continue, any Eurodollar Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

Section 2.03. *Requests to Borrow Loans.* To request a Borrowing, the Borrower Agent shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., Prevailing Eastern Time, three Business Days before the date of the proposed Borrowing or (b) in the case of a Base Rate Borrowing, not later than 11:00 a.m., Prevailing Eastern Time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery, telecopy or e-mail transmission to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower Agent. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of such Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be a Base Rate Borrowing or a Eurodollar Borrowing;

(iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of "Interest Period"; and

(v) the location and number of the Borrowers' account to which funds are to be disbursed, which shall comply with the requirements of Section 2.06.

If no election as to the Interest Type of a Borrowing is specified, the requested Borrowing will be a Base Rate Borrowing. If no Interest Period with respect to a requested Eurodollar

Borrowing is specified, the Borrower Agent will be deemed to have selected an Interest Period of one month's duration. Promptly after it receives a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender as to the details of such Borrowing Request and the amount of such Lender's Loan to be made pursuant thereto.

Section 2.04. *James River as a Borrower*. The Borrower Agent may request that James River be added as an additional Borrower hereunder by delivering written notice of such request to the Administrative Agent (the "James River Request") not less than forty-five (45) days, nor more than seventy-five (75) days prior to the effectiveness of such addition of James River, so long as no Default exists on the date of the James River Request or on the date of such effectiveness. After the Borrower Agent has delivered the James River Request to the Administrative Agent, James River, by execution of a Borrower Joinder Agreement in the form of Exhibit C hereto, and upon acceptance of such Borrower Joinder Agreement by the Administrative Agent, and the Administrative Agent's notice to the Lenders, the Letter of Credit Issuer and the Borrower Agent confirming the Administrative Agent's determination, in its sole discretion, that James River has satisfied all conditions and completed all deliveries specified in the Borrower Joinder Agreement (which notice shall be accompanied by a copy of the executed Borrower Joinder Agreement), this Agreement shall be deemed amended so that James River shall become for all purposes a party to this Agreement as a Borrower, as if it were an original signatory hereto and shall be admitted as a Borrower hereunder. This Agreement shall be binding for all purposes upon James River as if James River was an original signatory hereto. The Borrower Joinder Agreement shall require, among other things, (i) a supplement to the Schedules provided by the Loan Parties in connection with this Agreement to reflect James River as an additional Borrower, (ii) to the extent acceptable to the Administrative Agent in its sole discretion, an update of certain previously delivered Schedules to the date of the Borrower Joinder Agreement to reflect any change in the disclosures therein made, and (iii) the delivery of new promissory notes executed and delivered by each of the Parent, JRG Reinsurance, and James River. Upon and subject to the effectiveness of such addition of James River as a Borrower, James River shall cease to be a Guarantor hereunder.

Section 2.05. *Letters of Credit.* (a) Upon the effectiveness of this Agreement, each Existing Letter of Credit shall constitute a "Secured Facility Letter of Credit" for all purposes of this Agreement, issued, for purposes of this Section 2.05, on the Effective Date (*provided* that any and all issuance fees accrued to the Effective Date in respect thereof pursuant to the Existing JRG Facility shall have been paid in full on or before the Effective Date; and *provided further* that fees may be due upon presentment of drafts); all of the risk participation exposures in respect of the Existing Letters of Credit shall be deemed to be assumed by the Lenders holding Secured Facility Commitments ratably according to their respective Secured Facility Commitments; and the Borrowers, the Administrative Agent and the Letter of Credit Issuer hereby agree that, from and after such date, the terms of this Agreement shall apply to the Existing Letters of Credit, superseding any other agreement theretofore applicable to them to the extent inconsistent with the terms hereof. Subject to the terms and conditions set forth herein, the Borrowers may, by and through the Borrower Agent, request the issuance of Letters of Credit for its own account or for the account of a Subsidiary, in a form reasonably acceptable to the Administrative Agent and the applicable Letter of Credit Issuer, from time to time during the Revolving Availability Period. If the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower Agent to, or otherwise entered into by the Borrowers with, the applicable Letter of

Credit Issuer relating to any Letter of Credit are not consistent with the terms and conditions of this Agreement, the terms and conditions of this Agreement shall control.

(b) To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower Agent shall hand deliver or telecopy (or transmit by electronic communication, if arrangements and a distribution list for doing so have been approved by the applicable Letter of Credit Issuer) to the applicable Letter of Credit Issuer and the Administrative Agent (reasonably, and in any event not later than three (3) Business Days, in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of, as the case may be a Secured Facility Letter of Credit or an Unsecured Facility Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying (i) whether such Letter of Credit is requested under the Secured Facility or the Unsecured Facility, (ii) the requested date of issuance, amendment, renewal or extension (which shall be a Business Day), (iii) the date on which such Letter of Credit is to expire (which shall comply with Section 2.05(c)), (iv) the amount of such Letter of Credit, (v) the name and address of the beneficiary thereof and (vi) such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by such Letter of Credit Issuer, the Borrower Agent also shall submit a letter of credit application on such Letter of Credit Issuer's standard form (with such changes as are agreed by such Letter of Credit Issuer and the Borrower Agent) in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrowers shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension, (A) if such Letter of Credit is a Secured Facility Letter of Credit, the Total Outstanding Secured Facility Amount shall not exceed the lesser of (1) the Total Secured Facility Commitment then in effect and (2) the aggregate Collateral Value of the Eligible Collateral then held by the Administrative Agent, and (B) if such Letter of Credit is a Secured Facility Letter of Credit, the Total Outstanding Secured Facility Amount shall not exceed the Total Unsecured Facility Commitment then in effect.

(c) Each Letter of Credit shall expire at or before the close of business on the earlier of (i) the date that is one (1) year after such Letter of Credit is issued (or, in the case of any renewal or extension thereof, not later than one (1) year after such renewal or extension) and (ii) the date that is ten (10) Business Days (or such lesser period as the Letter of Credit Issuer may agree in its sole discretion) before the Maturity Date. If the Borrower Agent so requests, a Letter of Credit shall have an automatic renewal provision; *provided* that any Letter of Credit that has an automatic renewal provision must permit the Letter of Credit Issuer thereof to prevent any such renewal by giving prior notice to the beneficiary thereof not later than thirty (30) days prior to the renewal date of such Letter of Credit, and no such automatic renewal shall cause the expiry date to be later than the date that is ten (10) Business Days (or such lesser period as the Letter of Credit Issuer may agree in its sole discretion) before the Maturity Date. Once any such Letter of Credit that has automatic renewal provisions has been issued, the Lenders shall be deemed to have authorized (but may not require) such Letter of Credit Issuer to permit at any time the renewal of such Letter of Credit to an expiry date not later than the date that is ten (10) Business Days (or such lesser period as the Letter of Credit Issuer may agree in its sole discretion) before the Maturity Date.

(d) Effective upon the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the applicable Letter of Credit Issuer or the Lenders, such Letter of Credit Issuer grants to each Lender, and each Lender acquires from such Letter of Credit Issuer, a participation in such Letter of Credit equal to such Lender's Percentage of the aggregate amount available to be drawn thereunder. Pursuant to such participations, each Lender agrees to pay to the Administrative Agent, for the account of such Letter of Credit Issuer, such Lender's Percentage of (i) each LC Disbursement made by such Letter of Credit Issuer and not reimbursed by the Borrowers on the date due as provided in Section 2.05(e) and (ii) any reimbursement payment required to be refunded to the Borrowers for any reason. Each Lender's obligation to acquire participations and make payments pursuant to this subsection is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or any reduction or termination of the Commitments, and each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) If any Letter of Credit Issuer makes any LC Disbursement under a Letter of Credit, the Borrowers shall reimburse such LC Disbursement by paying an amount equal to such LC Disbursement to the Administrative Agent not later than 2:00 p.m., Prevailing Eastern Time, on (i) the Business Day that the Borrower Agent receives written notice of such LC Disbursement, if such notice is received before 11:00 a.m., Prevailing Eastern Time, on the day of receipt or (ii) the next Business Day, if such notice is not received before 11:00 a.m. on the day of receipt; *provided that*, if such LC Disbursement is at least $100,000, the Borrower Agent may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be made with the proceeds of a Base Rate Loan in an equivalent amount and, to the extent so financed, the Borrowers' obligation to make such payment shall be discharged and replaced by the resulting Base Rate Loan. If the Borrowers fail to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrowers in respect thereof and such Lender's Percentage thereof. Promptly after it receives such notice, each Lender shall pay to the Administrative Agent its Percentage of the payment then due from the Borrowers, in the same manner as is provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06(b) shall apply, *mutatis mutandis*, to such payment obligations of the Lenders), and the Administrative Agent shall promptly pay to such Letter of Credit Issuer the amounts so received by it from the Lenders. If a Lender makes a payment pursuant to this subsection to reimburse such Letter of Credit Issuer for any LC Disbursement (other than by funding Base Rate Loans as contemplated above), (i) such payment will not constitute a Loan and will not relieve the Borrowers of their obligation to reimburse such LC Disbursement and (ii) such Lender will be subrogated to its pro rata share of such Letter of Credit Issuer's claim against the Borrowers for such reimbursement. Promptly after the Administrative Agent receives any payment from the Borrowers pursuant to this subsection, the Administrative Agent will distribute such payment to such Letter of Credit Issuer or, if Lenders have made payments pursuant to this subsection to reimburse such Letter of Credit Issuer, then to such Lenders and such Letter of Credit Issuer as their interests may appear.

(f) The obligation of the Borrowers to reimburse LC Disbursements as provided in Section 2.05(e) shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by any Letter of Credit Issuer under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrowers' obligations hereunder. None of the Administrative Agent, the Lenders, the Letter of Credit Issuers and their respective Related Parties shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Letter of Credit Issuers. In the absence of gross negligence or willful misconduct on the part of a Letter of Credit Issuer (as finally determined by a court of competent jurisdiction), such Letter of Credit Issuer shall be deemed to have exercised care in each such determination. Without limiting the generality of the foregoing, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, a Letter of Credit Issuer may, in its sole discretion, either (A) accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary or (B) refuse to accept and make payment upon such documents if such documents do not strictly comply with the terms of such Letter of Credit.

(g) Each Letter of Credit Issuer shall, promptly after its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. Such Letter of Credit Issuer shall promptly notify the Administrative Agent and the Borrower Agent by telephone (confirmed by telecopy) of such demand for payment and whether such Letter of Credit Issuer has made or will make an LC Disbursement pursuant thereto; *provided* that any failure to give or delay in giving such notice will not relieve the Borrowers of their obligation to reimburse such Letter of Credit Issuer and the Lenders with respect to any such LC Disbursement.

(h) Unless the Borrowers reimburse an LC Disbursement in full on the day it is made (if notice is given to the Borrower Agent before 11:00 a.m., Prevailing Eastern Time, on the day the LC Disbursement is made or, otherwise, on the next Business Day), the unpaid amount thereof shall bear interest, for each day from and including the day on which such LC Disbursement is made to but excluding the day on which the Borrowers reimburse such LC Disbursement, at the rate per annum then applicable to Base Rate Loans; *provided* that, if the Borrowers fail to reimburse such LC Disbursement when due pursuant to Section 2.05(e), then Sections 2.13(c) and 2.13(d) shall apply. Interest accrued pursuant to this subsection shall be for the account of the applicable Letter of Credit Issuer, except that a pro rata share of interest accrued on and after the day that any Lender reimburses such Letter of Credit Issuer for a portion of such LC Disbursement pursuant to Section 2.05(e) shall be for the account of such Lender.

Section 2.06. *Funding of Loans.* (a) Each Lender making a Loan hereunder shall wire the principal amount thereof in immediately available funds, by 1:00 p.m., Prevailing Eastern Time, on the proposed date of such Loan, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent shall make such funds available to the Borrowers by promptly crediting the amounts so received, in like funds, to an account of the Borrowers maintained with the Administrative Agent in Cleveland, Ohio and designated by the Borrower Agent in the applicable Borrowing Request; *provided* that Base Rate Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e) will be remitted by the Administrative Agent to the applicable Letter of Credit Issuer.

(b) Unless the Administrative Agent receives notice from a Lender before the proposed date of any Borrowing that such Lender will not make its share of such Borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.06(a) and may, in reliance on such assumption, make a corresponding amount available to the Borrowers. In such event, if a Lender has not in fact made its share of such Borrowing available to the Administrative Agent, such Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the day such amount is made available to the Borrowers to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate reasonably determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrowers, the interest rate applicable to Base Rate Loans. If such Lender pays such amount to the Administrative Agent, such amount shall constitute such Lender's Loan included in such Borrowing.

Section 2.07. *Interest Elections.* (a) Each Borrowing of Loans initially shall be of the Interest Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrowers may, by and through the Borrower Agent, elect to convert such Borrowing to a different Interest Type or, in the case of a Eurodollar Borrowing, to continue such Borrowing for one or more additional Interest Periods, all as provided in this Section. The Borrower Agent may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower Agent shall notify the Administrative Agent thereof by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower Agent were requesting that a Borrowing of the Interest Type resulting from such election be made on the effective date of such election. Each such telephonic Interest Election shall be irrevocable and shall be confirmed promptly by hand delivery, telecopy or e-mail transmission to the Administrative Agent of a written Interest Election in a form approved by the Administrative Agent and signed by the Borrower Agent.

(c) Each telephonic and written Interest Election shall specify the following information in compliance with Section 2.02 and subsection (e) of this Section:

(i) the Borrowing to which such Interest Election applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be a Base Rate Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is to be a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of "Interest Period".

If an Interest Election requests a Eurodollar Borrowing but does not specify an Interest Period, the Borrowers will be deemed to have selected an Interest Period of one month's duration.

(d) Promptly after it receives an Interest Election, the Administrative Agent shall advise each Lender as to the details thereof and such Lender's portion of each resulting Borrowing.

(e) If the Borrower Agent fails to deliver a timely Interest Election with respect to a Eurodollar Borrowing before the end of an Interest Period applicable thereto, such Borrowing (unless repaid) will be converted to a Base Rate Borrowing at the end of such Interest Period. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower Agent, then, so long as an Event of Default is continuing, (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) each Eurodollar Borrowing (unless repaid) will be converted to a Base Rate Borrowing at the end of the Interest Period applicable thereto on the date of such notice.

Section 2.08. *Termination or Reduction of Commitments.* (a) Unless previously terminated, all of the Commitments will terminate on the Revolving Availability Termination Date.

(b) The Borrowers may at any time terminate the Secured Facility Commitments or the Unsecured Facility Commitments (or both) in whole or from time to time reduce the Secured Facility Commitments or the Unsecured Facility Commitments (or both) in part; *provided* that (i) the amount of each reduction (as distinct from termination in whole) of the Commitments a Facility shall be an integral multiple of $1,000,000 and not less than $5,000,000, (ii) the Borrowers shall not terminate or reduce the Secured Facility Commitments if, after giving effect thereto, the total Secured Facility Exposures would exceed the Total Secured Facility Commitment, (iii) the Borrowers shall not terminate or reduce the Unsecured Facility Commitments if, after giving effect thereto and to any concurrent prepayment of Loans pursuant to Section 2.10, the total Unsecured Facility Exposures would exceed the Total Unsecured Facility Commitment, and (iv) the Borrowers shall not reduce (as distinct from terminate in whole) the Commitments if, after giving effect thereto, the outstanding Commitments would be less than $50,000,000.

(c) The Borrower Agent shall notify the Administrative Agent of any election to terminate or reduce any Commitments under Section 2.08(b), at least five (5) Business Days before the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly after it receives any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower Agent pursuant to this Section will be irrevocable; *provided* that any such notice terminating any Commitments may state that it is conditioned on the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower Agent (by notice to the Administrative Agent on or before the specified effective date) if such condition is not satisfied. Any termination or reduction of the Secured Facility Commitments will be permanent and will be made ratably among the Lenders in accordance with their respective Secured Facility Commitments; and any termination or reduction of the Unsecured Facility Commitments will be permanent and will be made ratably among the Lenders in accordance with their respective Unsecured Facility Commitments.

Section 2.09. *Payment at Maturity; Evidence of Debt.* (a) Subject, with respect to JRG Reinsurance, to Section 2.01(c), each Borrower jointly and severally unconditionally promises to pay to the Administrative Agent on the Maturity Date, for the account of each Lender, the then unpaid principal amount of such Lender's Loans.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrowers to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Interest Type thereof and each Interest Period (if any) applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrowers to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to subsections (b) and (c) of this Section shall be *prima facie* evidence of the existence and amounts of the obligations recorded therein; *provided* that any failure by any Lender or the Administrative Agent to maintain such accounts or any error therein shall not affect the Borrowers' joint and several obligation to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note; *provided* that a Lender's obtaining or not obtaining such a promissory note shall not impair or otherwise affect the provisions of subsections (b), (c) and (d) of this Section. In such event, the Borrowers shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.10. *Optional and Mandatory Prepayments.* (a) *Optional Prepayments.* The Borrowers will have the right at any time to prepay any Borrowing in whole or in part without premium or penalty, but subject to the provisions of this Section and Section 2.16 *provided* that the aggregate amount of each such prepayment shall be an integral multiple of $50,000 and not less than $250,000.

(b) *Mandatory Increase of Collateral or Prepayments.* (i) If at any date the Total Outstanding Secured Facility Amount exceeds the lesser of (A) the Total Secured Facility Commitment and (B) the aggregate Collateral Value of the Eligible Collateral then held by the Administrative Agent, in each case determined as of such date, then not later than the next succeeding Business Day, the Borrowers shall be required to deposit with the Administrative Agent additional Eligible Collateral having a Collateral Value equal to such excess until the Total Outstanding Secured Facility Amount does not exceed the Total Secured Facility Commitment; and (ii) if at any date the Total Outstanding Unsecured Facility Amount exceeds the Total Unsecured Facility Commitment, determined as of such date, then not later than the next succeeding Business Day, the Borrowers shall be required to prepay the Loans in an amount equal to such excess until the Total Outstanding Unsecured Facility Amount does not exceed the Total Unsecured Facility Commitment.

(c) *Allocation of Prepayments.* Before any optional or mandatory prepayment of Borrowings hereunder, the Borrower Agent shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to Section 2.10(f).

(d) *Partial Prepayments.* Each partial prepayment of a Borrowing shall be in an amount such that the remaining unpaid amount of such Borrowing would be permitted under Section 2.02(b) for a Borrowing of the same Interest Type, except as needed to apply fully the required amount of a mandatory prepayment. Each partial prepayment of a Borrowing shall be applied ratably to the Loans included in such Borrowing.

(e) *Accrued Interest.* Each prepayment of a Borrowing shall be accompanied by accrued interest to the extent required by Section 2.13.

(f) *Notice of Prepayments.* Except with respect to a prepayment under Section 2.10(b), the Borrower Agent shall notify the Administrative Agent by telephone (confirmed by telecopy or e-mail transmission) of any prepayment of any Borrowing hereunder (i) in the case of a Eurodollar Borrowing, not later than noon, Prevailing Eastern Time, three Business Days before the date of prepayment and (ii) in the case of a Base Rate Borrowing, not later than noon, Prevailing Eastern Time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and, in the case of a mandatory prepayment, a reasonably detailed calculation of the amount of such prepayment; *provided* that, if a notice of optional prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.08(c), then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.08(c). Promptly after it receives any such notice, the Administrative Agent shall advise the Lenders of the contents thereof.

Section 2.11. *Optional Increase in Commitments.* At any time prior to the date that is thirty (30) days prior to the Revolving Availability Termination Date, if no Default shall have occurred and be continuing (or would result after giving effect thereto), the Borrowers, may, if they so elect, increase the aggregate amount of the Secured Facility Commitments (each such increase to be in an aggregate amount that is an integral multiple of $5,000,000) or of the Unsecured Facility Commitments (each such increase to be in an aggregate amount that is an integral multiple of $5,000,000) or a combination of both (in such proportion as the Parent shall specify), either by designating a financial institution not theretofore a Lender to become a Lender (such designation to be effective only with the prior written consent of the Administrative Agent and the Letter of Credit Issuer, which consent will not be unreasonably withheld or delayed, and only if such financial institution accepts a Commitment in an aggregate amount that is an integral multiple of $5,000,000), or by agreeing with one or more existing Lenders that such Lenders' respective, as applicable, Secured Facility Commitment or Unsecured Facility Commitment shall be increased. Upon execution and delivery by the Borrowers and such Lender or other financial institution of an instrument (a **"Commitment Acceptance")** in form reasonably satisfactory to the Administrative Agent, such existing Lender shall have a Commitment or Commitments as therein set forth or such other financial institution shall become a Lender with a Commitment or Commitments as therein set forth and with all the rights and obligations of a Lender with such a Commitment or Commitments hereunder, and any such other financial institution shall be deemed to be a Lender for all purposes of this Agreement and the other Loan Documents without any amendment hereto or thereto and without the consent of any other party (other than those required above in this Section 2.11); *provided:*

(a) that the Borrower Agent shall provide prompt notice of such increase to the Administrative Agent, who shall promptly notify the Lenders;

(b) that the Borrower Agent shall have delivered to the Administrative Agent a copy of the Commitment Acceptance;

(c) that the amount of such increase, together with all other increases in the aggregate amount of the Commitments pursuant to this Section 2.11 since the date of this Agreement, does not exceed $50,000,000 (and thus the aggregate amount of all of the Commitments under this Agreement after giving effect to any such increase does not exceed $175,000,000);

(d) that, before and after giving effect to such increase, the representations and warranties of the Borrowers contained in Article 3 of this Agreement shall be true and correct in all material respects; *provided* that any representation and warranty that is qualified as to "materiality", "Material Adverse Effect" or similar language shall be true and correct (after giving effect to such qualification therein) in all respects as of such date; and

(e) that the Administrative Agent shall have received such evidence (including an opinion of Borrowers' counsel) as it may reasonably request to confirm the Borrowers' due authorization of the transactions contemplated by this Section 2.11 and the validity and enforceability of the obligations of the Borrowers and the Guarantors resulting therefrom.

On the date of any such increase, the Borrowers shall be deemed to have represented to the Administrative Agent and the Lenders that the conditions set forth in clauses (a) through (e) above have been satisfied.

Upon any increase in the aggregate amount of the Commitments pursuant to this Section 2.11:

(A) within five (5) Business Days, in the case of any Base Rate Borrowings then outstanding, and at the end of the then current Interest Period with respect thereto, in the case of any Eurodollar Borrowings then outstanding, the Borrowers shall prepay such Borrowing in its entirety and, to the extent the Borrowers elect to do so and subject to the conditions specified in Article 4, the Borrowers shall reborrow Loans from the Lenders in proportion to their respective Unsecured Facility Commitments after giving effect to such increase, until such time as all outstanding Loans are held by the Lenders in such proportion; *provided* that, at the request of the Borrowers, such repayments and reborrowings shall be effected through deemed repayments and reborrowings, with the Lenders making adjustments in cash among themselves with respect to the Loans then being deemed repaid and reborrowed and amounts of principal, interest, commitment fees and other amounts paid or payable with respect thereto as shall be necessary, in the opinion of the Administrative Agent, in order to reallocate among the Lenders the outstanding principal of the Loans and other outstanding amounts, based on the revised Percentages resulting from such increase in the aggregate amount of the Unsecured Facility Commitments; and

(B) each existing Lender whose, as applicable, Secured Facility Commitment or Unsecured Facility Commitment has not increased pursuant to this Section 2.11 (each, a **"Non-increasing Lender"**) shall be deemed, without further action by any party hereto, to have sold to each Lender whose, as applicable, Secured Facility Commitment or Unsecured Facility Commitment has been assumed or increased under this Section 2.11 (each, an **"Increased Commitment Lender"**), and each Increased Commitment Lender shall be deemed, without further action by any party hereto, to have purchased from each Non-Increasing Lender, a participation (on the terms specified in Section 2.04(e) and 2.05(d), respectively) in each, as applicable, Secured LC Exposure or Unsecured LC Exposure in which such Non-Increasing Lender has acquired a participation in an amount equal to such Increased Commitment Lender's Percentage thereof, until such time as all, as applicable, Secured LC Exposures or Unsecured LC Exposures are held by the Lenders in proportion to their respective, as applicable, Secured Facility Commitments or Unsecured Facility Commitments after giving effect to such increase.

Section 2.12. *Fees.* (a) The Borrowers shall pay to the Administrative Agent for the account of each Lender a commitment fee, which shall accrue during the Revolving Availability Period at the Applicable Rate on each of (i) the average daily Unused Secured Facility Commitment of such Lender and (ii) the average daily Unused Unsecured Facility Commitment of such Lender, in each case during the period from and including the Effective Date to the date on which such Commitment terminates. Such commitment fee shall be payable in arrears on the last Business Day of each calendar quarter in respect of the quarter then ending and, with respect to the Commitment of a Lender, on the earlier date on which the Commitment of such Lender shall be terminated or assigned in whole. As used herein a Lender's **"Unused Secured Facility Commitment"** shall mean, as of any day, an amount equal to (A) such Lender's Secured Facility Commitment, minus (B) such Lender's Secured Facility Exposure; and a Lender's **"Unused Unsecured Facility Commitment"** shall mean, as of any day, an amount equal to (C) such Lender's Unsecured Facility Commitment, minus (D) such Lender's Unsecured Facility Exposure.

(b) The Borrowers shall pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue for each day, (A) with respect to Secured Facility Letters of Credit, at the rate of one-half percent (0.50%) per annum and (B) with respect to Unsecured Facility Letters of Credit, at the Applicable Rate that applies to Eurodollar Loans as of the date of issuance (or renewal or extension) of each Letter of Credit, in each case on the amount of such Lender's LC Exposure in respect of such Letter of Credit (excluding any portion thereof attributable to unreimbursed LC Disbursements), during the period from the Effective Date to the later of the date on which such Lender's, as the case may be, Secured Facility Commitment or Unsecured Facility Commitment terminates and the date on which such Lender ceases to have any, as the case may be, Secured LC Exposure or Unsecured LC Exposure in respect of such Letter of Credit and (ii) to each Letter of Credit Issuer a fronting fee in the amount of one-eighth percent (0.125%) of the amount of each Letter of Credit at issuance issued by it, as well as the fees separately agreed upon by the Borrowers, by and through the Borrower Agent, and such Letter of Credit Issuer with respect to issuing, amending, renewing or extending any Letter of Credit or processing drawings thereunder; *provided* that upon and during the continuance of an Event of Default, the participation fee payable under clause (i), above, shall, after as well as before judgment, be computed at (A) with respect to Secured Facility Letters of Credit, two and one-half percent (2.50%) per annum and (B) (A) with respect to Unsecured Facility Letters of Credit a rate per annum equal to, two percent (2.00%) plus such Applicable Rate. Accrued participation fees and fronting fees shall be payable in arrears on the last Business Day of each calendar quarter in respect of the quarter then ending (commencing on the first such date to occur after the Effective Date) and, with respect to a Lender, on the earlier date on which, as the case may be, the Secured Facility Commitment or the Unsecured Facility Commitment of such Lender shall be terminated or assigned in whole; *provided* that all such fees accrued to the date on which, as the case may be, the Secured Facility Commitments or the Unsecured Facility Commitments terminate will be payable on such date, and any such fees accruing after such date will be payable on demand. Any other fees payable to the Letter of Credit Issuers pursuant to this subsection will be payable within 10 days after demand. All such participation fees and fronting fees will be computed on the basis of a year of 360 days and will be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrowers shall pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon by the Borrowers and the Administrative Agent.

(d) The Borrowers shall pay to the Administrative Agent (to the extent applicable, for its own account, for the account of the Arranger and for the account of each Lender) on the Effective Date such fees as are specified in the fee letter between the Parent and the Arranger dated March 21, 2013.

(e) All fees payable hereunder shall be computed on the basis of a year of 360 days and will be payable for the actual number of days elapsed and shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the applicable Letter of Credit Issuer, in the case of fees payable to it) for distribution, in the case of commitment fees and utilization fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

Section 2.13. *Interest.* (a) The Loans comprising each Base Rate Borrowing shall bear interest for each day at the Alternate Base Rate, plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest for each Interest Period in effect for such Borrowing at the Adjusted LIBO Rate for such Interest Period, plus the Applicable Rate.

(c) [Reserved].

(d) Notwithstanding the foregoing, upon and during the continuance of an Event of Default, and continuing for so long as an Event of Default exists, (i) each Loan shall bear interest, after as well as before judgment, at a rate per annum equal to two percent (2.00%) plus the rate that otherwise would be applicable to such Loan as provided in the preceding subsections of this Section, and (ii) any other sum then due and payable hereunder shall bear interest, after as well as before judgment, at a rate per annum equal to two percent (2.00%) plus the Alternate Base Rate plus the Applicable Rate for Base Rate Loans.

(e) Interest accrued on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and upon termination of the Unsecured Facility Commitments; *provided* that (i) interest accrued pursuant to Section 2.13(d) shall be payable on demand, (ii) upon any repayment of any Loan (except a prepayment of a Base Rate Loan before the end of the Revolving Availability Period), interest accrued on the principal amount repaid shall be payable on the date of such repayment and (iii) upon any conversion of a Eurodollar Loan before the end of the current Interest Period therefor, interest accrued on such Loan shall be payable on the effective date of such conversion.

(f) All interest hereunder will be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate will be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case will be payable for the actual number of days elapsed (including the first day but excluding the last day). Each applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and its determination thereof will be conclusive absent demonstrable error.

Section 2.14. *Alternate Rate of Interest.* If before the beginning of any Interest Period for a Eurodollar Borrowing:

(a) Reuters is no longer quoting rates for BBA LIBOR (as defined in the definition of LIBO Rate) and there is no substitute or successor thereto as provided in Section 1.01, and if deposits in dollars in the applicable amounts are not being offered by KeyBank National Association in the London interbank market for such Interest Period; or

(b) Lenders having 50% or more of the aggregate principal amount of the Loans to be included in such Borrowing advise the Administrative Agent that the Adjusted LIBO Rate for such Interest Period, after giving effect to Section 2.15, will not adequately and fairly reflect the cost to such Lenders of making or maintaining such Loans for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower Agent and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower Agent and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing will be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing will be made as a Base Rate Borrowing.

Section 2.15. *Increased Costs; Capital Adequacy.* (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or any Letter of Credit Issuer;

(ii) subject any Lender or any Letter of Credit Issuer to any Tax of any kind whatsoever with respect to this Agreement, any Letter of Credit or any Eurodollar Loan made by it, or change the basis of taxation of any payments to such Lender or such Letter of Credit Issuer in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 2.17 and the imposition of, or any change to, the rate of any Excluded Tax payable by such Lender or such Letter of Credit Issuer); or

(iii) impose on any Lender or any Letter of Credit Issuer or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make Eurodollar Loans) or to increase the cost to such Lender or such Letter of Credit Issuer of participating in, issuing or maintaining any Letter of Credit or to reduce any amount received or receivable by such Lender or such Letter of Credit Issuer hereunder (whether of principal, interest or otherwise), then the Borrowers shall pay to such Lender or such Letter of Credit Issuer, as the case may be, such additional amount or amounts as will compensate it for such additional cost incurred or reduction suffered.

(b) If any Lender or any Letter of Credit Issuer determines that any Change in Law regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Lender's or such Letter of Credit Issuer's capital or on the capital of such Lender's or such Letter of Credit Issuer's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by such Letter of Credit Issuer, to a level below that which such Lender or such Letter of Credit Issuer or such Lender's or such Letter of Credit Issuer's holding company reasonably could have achieved but for such Change in Law (taking into consideration such Lender's or such Letter of Credit Issuer's policies and the policies of such Lender's or such Letter of Credit Issuer's holding company with respect to capital adequacy), then from time to time following receipt of the certificate referred to in subsection (c) of this Section, the Borrowers shall pay to such Lender or such Letter of Credit Issuer, as the case may be, such additional amount or amounts as will compensate it or its holding company for any such reduction suffered.

(c) A certificate of a Lender or a Letter of Credit Issuer setting forth the amount or amounts necessary to compensate it or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section shall be delivered to the Borrower Agent and shall be rebuttably presumed to be correct. Each such certificate shall contain a representation and warranty on the part of such Lender or Letter of Credit Issuer to the effect that such Lender or Letter of Credit Issuer has complied with its obligations pursuant to Section 2.21 hereof in an effort to eliminate or reduce such amount. The Borrowers shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay by any Lender or Letter of Credit Issuer to demand compensation pursuant to this Section will not constitute a waiver of its right to demand such compensation; *provided* that the Borrowers will not be required to compensate a Lender pursuant to this Section for any increased cost or reduction incurred more than one year before it notifies the Borrower Agent of the Change in Law giving rise to such increased cost or reduction and of its intention to claim compensation therefor. However, if the Change in Law giving rise to such increased cost or reduction is retroactive, then the one year period referred to above will be extended to include the period of retroactive effect thereof.

(e) Within four (4) months following the date such certificate is furnished claiming compensation by any such Lender (an "**Affected Lender**", which term shall also include a Lender making a demand under Section 2.17), the Borrowers may replace the Affected Lender pursuant to the provisions of Section 9.15.

Section 2.16. *Break Funding Payments.* If (a) any principal of any Eurodollar Loan is repaid on a day other than the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) any Eurodollar Loan is converted on a day other than the last day of an Interest Period applicable thereto, (c) the Borrowers fail to borrow, convert, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.10(f) and is revoked in accordance therewith), or (d) any Eurodollar Loan is assigned on a day other than the last day of an Interest Period applicable thereto as a result of a request by the Borrower Agent pursuant to Section 2.19, then the Borrowers shall compensate each Lender for its loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost and expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the end of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have begun on the date of such failure), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the beginning of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower Agent and shall be conclusive absent demonstrable error. The Borrowers shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

Section 2.17. *Taxes.* (a) All payments by the Borrowers under the Loan Documents shall be made free and clear of and without deduction or withholding for any Indemnified Taxes or Other Taxes; *provided* that, if the Borrowers shall be required to deduct or withhold any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable will be increased as necessary so that, after all required deductions and withholdings (including deductions applicable to additional sums payable under this Section) are made, each relevant Lender Party receives an amount equal to the sum it would have received had no such deductions or withholdings been made, (ii) the Borrowers shall make such deductions or withholdings and (iii) the Borrowers shall pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrowers shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrowers shall indemnify each Lender Party, within ten (10) days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by such Lender Party with respect to any payment by or obligation of the Borrowers under the Loan Documents (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto (unless such penalties, interest or expenses arise by reason of the gross negligence or willful misconduct of such Lender), whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of any such payment delivered to the Borrower Agent by a Lender Party on its own behalf, or by the Administrative Agent on behalf of a Lender Party, shall be conclusive absent demonstrable error. If the Borrowers have indemnified any Lender Party pursuant to this Section 2.17(c), such Lender Party shall take such steps as the Borrower Agent shall reasonably request (at the Borrowers' expense) to assist the Borrowers in recovering the Indemnified Taxes or Other Taxes and any penalties or interest attributable thereto; *provided* that no Lender Party shall be required to take any action pursuant to this Section 2.17(c) unless, in the reasonable judgment of such Lender Party, such action (i) would not subject such Lender Party to any unreimbursed cost or expense and (ii) would not otherwise be disadvantageous to such Lender Party.

(d) As soon as practicable after the Borrowers pay any Indemnified Taxes or Other Taxes to a Governmental Authority, the Borrower Agent shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) The Administrative Agent and each Lender shall deliver to the Borrower Agent (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, rule or regulation, such properly completed and executed documentation prescribed by applicable law, rule or regulation or reasonably requested by the Borrower Agent or the Administrative Agent as will permit payments to be made hereunder or under any other Loan Document without withholding or at a reduced rate of withholding. Without limiting the generality of the foregoing, each Foreign Lender shall to the extent requested by the Borrower Agent (i) furnish either (a) two (2) accurate and complete originally executed U.S. Internal Revenue Service Forms W-8BEN (or successor form) (b) two (2) accurate and complete originally executed U.S. Internal Revenue Service Forms W-8ECI (or successor form) or (c) two (2) accurate and complete originally executed U.S. Internal Revenue Service Forms W-8IMY and all requisite supporting documentation, certifying, in each case, to such Foreign Lender's legal entitlement to an exemption or reduction from U.S. federal withholding tax with respect to all interest payments hereunder, and (ii) to the extent it may lawfully do so at such times, upon reasonable request by the Borrower Agent or the Administrative Agent, provide a new Form W-8BEN (or successor form), Form W-8ECI (or successor form) or Form W-8IMY (or successor form) upon the expiration or obsolescence of any previously delivered form to reconfirm any complete exemption from, or any entitlement to a reduction in, U.S. federal withholding tax with respect to any interest payment hereunder; *provided* that any Foreign Lender that is not a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code and is claiming the "portfolio interest exemption" under Section 881(c) of the Internal Revenue Code shall also furnish a "Non-Bank Certificate" in the form from time to time specified by, as applicable, the Administrative Agent or the Borrower Agent if it is furnishing a Form W-8BEN. If a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrower Agent and the Administrative Agent, at such time or times reasonably requested by the Borrower Agent or the Administrative Agent, such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower Agent or the Administrative Agent as may be necessary for the Borrowers and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of the immediately preceding sentence, "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(f) The Administrative Agent and each Lender that is not a Foreign Lender shall furnish two accurate and complete originally executed U.S. Internal Revenue Service Forms W-9 (or successor form) certifying that such Lender is exempt from U.S. federal backup withholding tax.

(g) The provisions of this Section 2.17 shall survive the termination of this Agreement and repayment of the Loans.

(h) Within four (4) months following the date the Administrative Agent or a Lender shall make a written demand for Taxes or Other Taxes pursuant to this Section 2.17, the Borrowers may replace the Affected Lender pursuant to the provisions of Section 9.15.

Section 2.18. *Payments Generally; Pro Rata Treatment; Sharing of Set-Offs.* (a) The Borrowers shall make each payment required to be made by them under the Loan Documents (whether of principal, interest or fees, reimbursement of LC Disbursements, or amounts payable under Section 2.15, 2.16 or 2.17(c) or otherwise) before the time expressly required under the relevant Loan Document for such payment (or, if no such time is expressly required, before noon, Prevailing Eastern Time), on the date when due, in immediately available funds, without set-off or counterclaim. Any amount received after such time on any day may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 127 Public Square, 6th Floor, Cleveland, Ohio 44114 (or such other address as may from time to time be designated by the Administrative Agent to the Borrower Agent in writing), except payments to be made directly to a Letter of Credit Issuer as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. The Administrative Agent shall distribute any such payment received by it for the account of any other Person to the appropriate recipient promptly after receipt thereof. Unless otherwise specified herein, if any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment will be extended to the next succeeding Business Day and, if such payment accrues interest, interest thereon will be payable for the period of such extension. All payments under each Loan Document shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, to pay principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or any of its participations in LC Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and participations in LC Disbursements; *provided* that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this subsection shall not apply to (A) any payment made by the Borrowers pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender) or (B) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans and LC Disbursements to any assignee or participant, other than to the Borrowers or any Subsidiary or Affiliate thereof (as to which the provisions of this subsection shall apply). Each Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Borrower in the amount of such participation.

(d) Unless, before the date on which any payment is due to the Administrative Agent for the account of one or more Lender Parties hereunder, the Administrative Agent receives from the Borrower Agent notice that the Borrowers will not make such payment, the Administrative Agent may assume that the Borrowers have made such payment on such date in accordance herewith and may, in reliance on such assumption, distribute to each relevant Lender Party the amount due to it. In such event, if the Borrowers have not in fact made such payment, each Lender Party severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender Party with interest thereon, for each day from and including the day such amount is distributed to it to but excluding the day it repays the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender fails to make any payment required to be made by it pursuant to Section 2.04(e), 2.06(b), 2.18(d) or 9.03(d), the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

Section 2.19. *Defaulting Lenders.* (a) Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as such Lender is no longer a Defaulting Lender, to the extent permitted by applicable law:

(i) Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in the definition of Required Lenders.

(ii) Any payment of principal, interest, fees or other amounts received by the Administrative Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article 7 or otherwise) or received by the Administrative Agent from a Defaulting Lender pursuant to Section 9.09 shall be applied at such time or times as may be determined by the Administrative Agent as follows: *first*, to the payment on a pro rata basis of any amounts owing by such Defaulting Lender to the Administrative Agent hereunder; *second*, to the payment on a pro rata basis of any amounts owing by such Defaulting Lender to any Letter of Credit Issuer hereunder; *third*, to Cash Collateralize the Letter of Credit Issuers' Fronting Exposure with respect to such Defaulting Lender in accordance with Section 2.20; *fourth*, as the Borrower Agent may request (so long as no Default exists), to the funding of any Loan in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; *fifth*, if so determined by the Administrative Agent and the Borrower Agent, to be held in a deposit account and released pro rata in order to (A) satisfy such Defaulting Lender's potential future funding obligations with respect to Loans under this Agreement and (B) Cash Collateralize the Letter of Credit Issuers' future Fronting Exposure with respect to such Defaulting Lender with respect to future Letters of Credit issued under this Agreement, in accordance with Section 2.20; *sixth*, to the payment of any amounts owing to the Lenders, the Letter of Credit Issuers as a result of any judgment of a court of competent jurisdiction obtained by any Lender against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; *seventh*, so long as no Default exists, to the payment of any amounts owing to the Borrowers as a result of any judgment of a court of competent jurisdiction obtained by the Borrowers against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; and *eighth*, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; *provided* that if (1) such payment is a payment of the principal amount of any Loans or LC Disbursements in respect of which such Defaulting Lender has not fully funded its appropriate share, and (2) such Loans were made or the related Letters of Credit were issued at a time when the conditions set forth in Article 4 were satisfied or waived, such payment shall be applied solely to pay the Loans of all Non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Loans of such Defaulting Lender until such time as all Loans and funded and unfunded participations in LC Exposure are held by the Lenders pro rata in accordance with their Percentages without giving effect to Section 2.19(a)(iv), below. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 2.19(a)(ii) shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) (A) No Defaulting Lender shall be entitled to receive any commitment fee under Section 2.12(a) for any period during which that Lender is a Defaulting Lender (and the Borrowers shall not be required to pay any such fee that otherwise would have been required to have been paid to that Defaulting Lender).

(B) Each Defaulting Lender shall be entitled to receive Letter of Credit participation fees under Section 2.12(b) for any period during which that Lender is a Defaulting Lender only to the extent allocable to its Percentage of the stated amount of Letters of Credit for which it has provided Cash Collateral pursuant to Section 2.20.

(C) With respect to any commitment fee under Section 2.12(a) or any Letter of Credit participation fee under Section 2.12(b) not required to be paid to any Defaulting Lender pursuant to clause (A) or (B) above the Borrowers shall (1) pay to each Non-Defaulting Lender that portion of any such fee otherwise payable to such Defaulting Lender with respect to such Defaulting Lender's participation in LC Exposure that has been reallocated to such Non-Defaulting Lender pursuant to clause (iv) below, (2) pay to each Letter of Credit Issuer the amount of any such fee otherwise payable to such Defaulting Lender to the extent allocable to such Letter of Credit Issuer's Fronting Exposure to such Defaulting Lender, and (3) not be required to pay the remaining amount of any such fee.

(iv) All or any part of such Defaulting Lender's participation in LC Exposure shall be reallocated among the Non-Defaulting Lenders having, as applicable, Secured Facility Commitments and Unsecured Facility Commitments in accordance with their respective Percentages (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (A) the conditions set forth in Section 4.02 are satisfied at the time of such reallocation (and, unless the Borrower Agent shall have otherwise notified the Administrative Agent at such time, the Borrowers shall be deemed to have represented and warranted that such conditions are satisfied at such time), and (B) such reallocation does not cause the Secured Facility Exposure or the Unsecured Facility Exposure of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's, respectively, Secured Facility Commitment or Unsecured Facility Commitment. No reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender's increased exposure following such reallocation.

(v) If the reallocation described in clause (iv) above cannot, or can only partially, be effected, the Borrowers shall, without prejudice to any right or remedy available to them hereunder or under Law, Cash Collateralize the Letter of Credit Issuers' Fronting Exposure in accordance with the procedures set forth in Section 2.20.

(b) If the Borrowers, the Administrative Agent and each Letter of Credit Issuer agree in writing that a Lender is no longer a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice, and subject to any conditions set forth therein, that Lender will, to the extent applicable, purchase at par that portion of outstanding Loans of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Loans to be held pro rata by the Lenders in accordance with their Percentages (without giving effect to Section 2.19(a) above), whereupon such Lender will cease to be a Defaulting Lender; *provided* that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrowers while that Lender was a Defaulting Lender; and *provided*, *further*, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

(c) So long as any Lender is a Defaulting Lender, no Letter of Credit Issuer shall be required to issue, amend, extend, renew or increase any Letter of Credit unless it is satisfied that it will have no Fronting Exposure after giving effect thereto.

Section 2.20. *Cash Collateral*. (a) At any time that there shall exist a Defaulting Lender, within one (1) Business Day following the written request of the Administrative Agent or any Letter of Credit Issuer (with a copy to the Administrative Agent) the Borrowers shall Cash Collateralize the Letter of Credit Issuers' Fronting Exposure with respect to such Defaulting Lender (determined after giving effect to Section 2.19(a)(iv) and any Cash Collateral provided by such Defaulting Lender) in an amount not less than the Minimum Collateral Amount.

(b) Each Borrower, and to the extent provided by any Defaulting Lender, such Defaulting Lender, hereby grants to the Administrative Agent, for the benefit of the Letter of Credit Issuers, and agrees to maintain, a first priority security interest in all such Cash Collateral as security for the Defaulting Lenders' obligation to fund participations in respect of LC Exposure, to be applied pursuant to clause (b) below. If at any time the Administrative Agent determines that Cash Collateral is subject to any right or claim of any Person other than the Administrative Agent and the Letter of Credit Issuers as herein provided, or that the total amount of such Cash Collateral is less than the Minimum Collateral Amount, the Borrowers will, promptly upon demand by the Administrative Agent, pay or provide to the Administrative Agent additional Cash Collateral in an amount sufficient to eliminate such deficiency (after giving effect to any Cash Collateral provided by the Defaulting Lender).

(c) Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under this Section 2.20 or Section 2.19 in respect of Letters of Credit shall be applied to the satisfaction of the Defaulting Lender's obligation to fund participations in respect of LC Exposure (including, as to Cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) for which the Cash Collateral was so provided, prior to any other application of such property as may otherwise be provided for herein.

(d) Cash Collateral (or the appropriate portion thereof) provided to reduce any Letter of Credit Issuer's Fronting Exposure shall no longer be required to be held as Cash Collateral pursuant to this Section 2.20 following (i) the elimination of the applicable Fronting Exposure (including by the termination of Defaulting Lender status of the applicable Lender), or (ii) the determination by the Administrative Agent and each Letter of Credit Issuer that there exists excess Cash Collateral; *provided* that, subject to Section 2.19, the Person providing Cash Collateral and each Letter of Credit Issuer may agree that Cash Collateral shall be held to support future anticipated Fronting Exposure or other obligations.

Section 2.21. *Lender's Obligation to Mitigate.* If any Lender requests compensation under Section 2.15*,* or if the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use all commercially reasonable efforts to mitigate or eliminate the amount of such compensation or additional amount, including without limitation, by designating a different lending office for funding or booking its Loans hereunder or by assigning its rights and obligations hereunder to another of its offices, branches or affiliates; *provided* that no Lender shall be required to take any action pursuant to this Section 2.21 unless, in the reasonable judgment of such Lender, such designation or assignment or other action (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future, (ii) would not subject such Lender to any unreimbursed cost or expense and (iii) would not otherwise be disadvantageous to such Lender in any material respect. The Borrowers shall pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

Each Borrower jointly and severally represents and warrants to the Lender Parties that:

Section 3.01. *Organization; Powers.* Each Loan Party and each of its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where failures to do so, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

Section 3.02. *Authorization; Enforceability.* The Financing Transactions to be entered into by each Loan Party are within its corporate, limited liability company or similar company powers and have been duly authorized by all necessary corporate, limited liability company (or similar) action and, if required, stockholder or other equity holder action. This Agreement has been duly executed and delivered by the Borrowers and constitutes, and each other Loan Document to which a Loan Party is to be a party, when executed and delivered by, as the case may be, a Borrower or such other Loan Party, will constitute, a legal, valid and binding obligation of, as the case may be, such Borrower or such other Loan Party, in each case enforceable in accordance with its terms, subject to applicable Debtor Relief Laws and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 3.03. *Governmental Approvals; No Conflicts.* The Financing Transactions and the use of the proceeds thereof (a) do not require any consent or approval of, registration or filing with, or other action by, any Governmental Authority or any exchange under which a Borrower's Equity Interests are traded, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable Law or the charter, by-laws, limited liability company agreement or other organizational documents of the Borrower or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any of its properties, or give rise to a right thereunder to require the Borrower to make any payment, where such default or payment reasonably can be expected to have a Material Adverse Effect, and (d) will not result in the creation or imposition of any Lien on any property of any Loan Party (except for Liens created pursuant to the Loan Documents).

Section 3.04. *Financial Statements; No Material Adverse Change.* (a) The Parent has heretofore furnished to the Lenders (i) the audited Consolidated balance sheet of the Parent and its Subsidiaries as of December 31, 2012 and the related Consolidated statements of income and cash flows for the Fiscal Year then ended, reported on by Ernst & Young LLP, independent public accountants, and (ii) the unaudited Consolidated balance sheet of the Parent and its Subsidiaries as of March 31, 2013 and the related Consolidated statements of income and cash flows for the Fiscal Quarter then ended and for the portion of the Fiscal Year then ended, all certified by the Parent's chief financial officer. Such financial statements present fairly, in all material respects, the Consolidated financial position of the Parent and its Subsidiaries as of such dates and its Consolidated results of operations and cash flows for such periods in accordance with GAAP, subject to normal year-end adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above and show all material Indebtedness and other liabilities, direct or contingent, of the Parent and its Subsidiaries as of the date thereof. None of the Parent or any of its Subsidiaries has on the date hereof any material contingent liabilities, material liabilities for taxes, material unusual forward or long-term commitments or material unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in said balance sheets as at said dates.

(b) Since December 31, 2012 there has been no material adverse change in the business, operations, properties, assets, financial condition, contingent liabilities or material agreements of the Parent and its Subsidiaries, taken as a whole.

(c) The Parent has heretofore furnished to each of the Lenders the annual Statutory Statement of each Insurance Subsidiary for the fiscal year thereof ended December 31, 2012, and the quarterly Statutory Statement of each Insurance Subsidiary for the fiscal quarter ended March 31, 2013, in each case as filed with the Applicable Insurance Regulatory Authority. All such Statutory Statements present fairly in all material respects the financial condition of each Insurance Subsidiary as at, and the results of operations for, the fiscal year ended December 31, 2012, and fiscal quarter ended March 31, 2013, in accordance with statutory accounting practices prescribed or permitted by the Applicable Insurance Regulatory Authority. As of the date hereof and as of the Effective Date, since December 31, 2012, there has been no material adverse change in the financial condition, operations or business of any Material Insurance Subsidiary from that set forth in its respective Statutory Statement as at December 31, 2012, except for (i) the Restricted Payments to the Redeemed Investors described in the definition of "Fixed Charges" and a $75,000,000 Restricted Payment made by James River Insurance to James River.

Section 3.05. *Insurance Licenses.* Schedule T to the most recent annual Statutory Statement of each Domestic Insurance Subsidiary lists all of the jurisdictions in which such Domestic Insurance Subsidiary holds active licenses (including, without limitation, licenses or certificates of authority from Applicable Insurance Regulatory Authorities), permits or authorizations to transact insurance and reinsurance business or to act as an insurance agent or broker (collectively, the **"Licenses"**), and Schedule 3.05 hereto lists all of the jurisdictions in which JRG Reinsurance holds active Licenses (including, without limitation, Licenses from Applicable Insurance Regulatory Authorities). Each Insurance Subsidiary is in compliance in all material respects with each License held by it. No License (to the extent material) is the subject of a proceeding for suspension or revocation or any similar proceedings, there is no sustainable basis for such a suspension or revocation, and to the knowledge of each Borrower no such suspension or revocation has been threatened by any Applicable Insurance Regulatory Authority except in any such case where such proceedings would not have a Material Adverse Effect.

Section 3.06. *Parent Subsidiaries.*

(a) As of the Effective Date, the Parent has no Subsidiaries, other than those set forth on Part A of Schedule 3.06. Part A of Schedule 3.06 accurately identifies as of the Effective Date the jurisdiction under the laws of which each such Subsidiary is formed. The last sentence of the definition of "Material Subsidiary" identifies all of the Parent's Subsidiaries that are Material Subsidiaries as of the Effective Date.

(b) Set forth on Part B of Schedule 3.06 is a complete and correct list of all Investments (other than (i) Investments disclosed in Part A of said Schedule 3.06 and any other Investments existing as of the date hereof permitted under Section 6.04 and (ii) Guarantees of Debt the aggregate principal or face amount of which Debt is less than $5,000,000) held by the Parent or any of its Subsidiaries in any Person on the date hereof and, for each such Investment, (A) the identity of the Person or Persons holding such Investment and (B) the nature of such Investment. Except as disclosed in Part B of Schedule 3.11, each of each Borrower and its Subsidiaries owns, free and clear of all Liens, all such Investments.

Section 3.07. *Litigation.* There is no action, suit, arbitration proceeding or other proceeding, inquiry or investigation, at law or in equity, before or by any arbitrator or Governmental Authority pending against any Loan Party or any Subsidiary or of which any Loan Party or any Subsidiary has otherwise received notice or which, to the knowledge of a Loan Party, is threatened against any Loan Party or any Subsidiary (i) as to which, but after giving effect to any applicable insurance claim reserve, there is a reasonable possibility of an unfavorable decision, ruling or finding which would reasonably be expected to result in a Material Adverse Effect or (ii) that involves any of the Loan Documents or the Financing Transactions or the use of the proceeds thereof.

Section 3.08. *Compliance with Laws and Agreements; Anti-Terrorism Laws.* (a) Each Loan Party is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property (including (i) all Environmental Laws, (ii) ERISA, (iii) applicable laws, regulations and orders dealing with intellectual property, and (iv) the Fair Labor Standards Act and other applicable law dealing with such matters) and all indentures, agreements and other instruments binding on it or its property, except where failures to do so, in the aggregate, would not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

(b) Without limiting the generality of paragraph (a), above, each Insurance Subsidiary is in compliance, in all material respects, with its Applicable Insurance Code and the other requirements applicable to it of its Applicable Insurance Regulatory Authority.

(c) None of any Loan Party or any Subsidiary is in violation in any material respect of any Anti-Terrorism Law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

(d) None of any Loan Party or any Affiliate thereof or their respective agents acting or benefiting in any capacity in connection with the Loans or other transactions hereunder, is any of the following (each a **"Blocked Person"**):

(i) a Person that is listed in the annex to the Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to the Executive Order No. 13224;

(iii) a Person with which any Lender or any Letter of Credit Issuer is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order No. 13224;

(v) a Person that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list; or

(vi) a Person that is affiliated or associated with a Person listed above.

(e) None of any Loan Party, any Subsidiary or any of their agents acting or benefiting in any capacity in connection with the Loans or other transactions hereunder, (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

Section 3.09. *Investment Company Status.* No Borrower is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 3.10. *Taxes.* The Parent's Domestic Subsidiaries are members of an affiliated group of entities filing consolidated returns for Federal income tax purposes, of which James River is the "common parent" (within the meaning of Section 1504 of the Code) of such group. The Parent and its Subsidiaries have filed all Federal income tax returns and all other material tax returns that are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Parent or any of its Subsidiaries. The charges, accruals and reserves on the books of the Parent and its Subsidiaries in respect of taxes and other governmental charges are, in the opinion of the Parent, adequate. No Loan Party has given or been requested to give a waiver of the statute of limitations relating to the payment of any Federal, state, local and foreign taxes or other impositions.

Section 3.11. *Material Debt Agreements and Liens.*

(a) Part A of Schedule 3.11 is a complete and correct list of each credit agreement, loan agreement, indenture, purchase agreement, guarantee, letter of credit or other arrangement providing for or otherwise relating to any Debt or any extension of credit (or commitment for any extension of credit) to, or Guarantee by, a Loan Party or any of its Subsidiaries, outstanding on the date hereof the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) $5,000,000 (other than (i) Debt in respect of the Existing Letters of Credit and (ii) Debt that will be paid and satisfied in full pursuant to Section 4.01(j)(i) and Section 4.01(j)(iii) hereof), and the aggregate principal or face amount outstanding or that may become outstanding under each such arrangement is correctly described in Part A of said Schedule 3.11. The Debt and other obligations of the Loan Parties hereunder and under the other Loan Documents constitute "Senior Indebtedness" (or equivalent term otherwise named) under, and defined in, the documents relating to the Effective Date Trust Preferred Securities and any other of such Debt that is subordinated Debt of a Loan Party.

(b) Part B of Schedule 3.11 is a complete and correct list of each Lien securing Debt of any Person outstanding on the date hereof and on the Effective Date the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) $5,000,000 and covering any property of a Loan Party or any of its Subsidiaries, and the aggregate Debt secured (or that may be secured) by each such Lien and the property covered by each such Lien is correctly described in Part B of said Schedule 3.11.

Section 3.12. *Environmental Matters.* Each of the Loan Parties and its Subsidiaries has obtained all environmental, health and safety permits, licenses and other authorizations required under all Environmental Laws to carry on its business as now being or as proposed to be conducted, except to the extent failure to have any such permit, license or authorization would not (either individually or in the aggregate) have a Material Adverse Effect. Each of such permits, licenses and authorizations is in full force and effect and each of the Loan Parties and its Subsidiaries is in compliance with the terms and conditions thereof, and is also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any applicable Environmental Law or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except to the extent failure to comply therewith would not (either individually or in the aggregate) have a Material Adverse Effect.

Section 3.13. *Equity Obligations.* Except as set forth on Schedule 3.13, there are no outstanding obligations of the Parent or any of its Subsidiaries to repurchase, redeem, or otherwise acquire any Equity Interests of the Parent.

Section 3.14. *No Reliance.* Each Loan Party has made, independently and without reliance upon the Administrative Agent or any Lender, and based on such documents and information as it has deemed appropriate, its own decision to enter into this Agreement and has made (and will continue to make), independently and without reliance upon the Administrative Agent or any Lender, and based on such documents and information as it has deemed appropriate (or shall deem appropriate at the time), its own legal, credit and tax analysis of the transactions contemplated hereby.

Section 3.15. *ERISA.* Compliance by the Loan Parties and their Subsidiaries with the provisions hereof and Loans and Letters of Credit contemplated hereby will not involve any Prohibited Transaction within the meaning of ERISA or section 4975 of the Code or any breach of any other comparable foreign Law. Each Loan Party and each of its Subsidiaries, (i) has fulfilled all obligations under minimum funding standards of ERISA and the Code with respect to each Plan that is not a Multiemployer Plan or a Multiple Employer Plan, (ii) has satisfied all respective contribution obligations in respect of each Multiemployer Plan and each Multiple Employer Plan, (iii) is in compliance in all respects with all other applicable provisions of ERISA and the Code with respect to each Plan, each Multiemployer Plan and each Multiple Employer Plan, and (iv) has not incurred any liability under the Title IV of ERISA to the PBGC with respect to any Plan, any Multiemployer Plan, any Multiple Employer Plan, or any trust established thereunder, except (with respect to any matter specified in any of the above clauses), for such matters as, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. No Plan or trust created thereunder has been terminated, and there have been no ERISA Events, with respect to any Plan or trust created thereunder or with respect to any Multiemployer Plan or Multiple Employer Plan, which termination or ERISA Event has or reasonably could result in the termination of such Plan, Multiemployer Plan or Multiple Employer Plan and give rise to a liability of a Loan Party or any ERISA Affiliate in respect thereof which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect. Except as set forth on Schedule 3.15 hereto, neither a Loan Party nor any ERISA Affiliate is at the date hereof, or has been at any time within the five years preceding the date hereof, an employer required to contribute to any Multiemployer Plan or Multiple Employer Plan, or a “contributing sponsor” (as such term is defined in section 4001 of ERISA) in any Multiemployer Plan or Multiple Employer Plan. Each Plan that is intended to be so qualified under section 401(a) of the Code in fact is so qualified, except for any failure of qualification which individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. Neither any Loan Party nor any ERISA Affiliate has any contingent liability with respect to any post-retirement “welfare benefit plan” (as such term is defined in ERISA) except as has been disclosed prior to the date hereof to the Lenders in writing or on any financial statements of the Parent and its Subsidiaries or any ERISA Affiliate provided to the Administrative Agent and the Lenders or except for such contingent liabilities that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

Section 3.16. *Regulation U.* Neither the Parent nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U), or extending credit for the purpose of purchasing or carrying any such margin stock. No proceeds of any Loan or drawings under any Letter of Credit will be used directly or indirectly to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

Section 3.17. *Disclosure.* Each Loan Party has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it is subject, and all other matters known to it, that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect. All of the reports, financial statements, certificates and other written information (other than projected financial information) that have been made available by or on behalf of any Loan Party to the Arranger, the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or thereunder, are complete and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made; *provided* that, with respect to projected financial information, the Borrowers represent only that such information was prepared in good faith based on assumptions believed to be reasonable at the time.

Section 3.18. *Solvency.* Immediately after the Financing Transactions to occur on the Effective Date are consummated and after giving effect to the application of the proceeds of each Loan made on the Effective Date and after giving effect to the application of the proceeds of each Loan made on any other date, (a) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (c) no Loan Party will have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and proposed to be conducted after the Effective Date.

ARTICLE 4

CONDITIONS

Section 4.01. *Effective Date.* The obligations of the Lenders to make Loans and of the Letter of Credit Issuers to issue Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied or waived by each Lender:

(a) The Administrative Agent shall have received counterparts hereof signed by the Parent and each of the Lenders listed on the signature pages hereof (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of facsimile or other written confirmation from such party that it has executed a counterpart hereof).

(b) The Administrative Agent shall have received favorable written opinion letter addressed to the Administrative Agent and the Lenders and dated the Effective Date of Bryan Cave LLP, counsel for the Loan Parties, and Conyers, Dill & Pearman Limited, Bermuda counsel to the Parent, JRG Reinsurance and Holdings II, which opinion letters shall cover such matters relating to the Loan Parties, the Loan Documents or the Financing Transactions as the Administrative

Agent or the Required Lenders shall reasonably request and otherwise shall be in form and content reasonably satisfactory to the Administrative Agent. The Parent requests such counsel to deliver such opinion letter.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of each Loan Party and its Material Subsidiaries, the authorization for and validity of the Financing Transactions and any other legal matters relating to each Loan Party, its Material Subsidiaries, the Loan Documents or the Financing Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(d) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of the Parent, confirming compliance with the conditions set forth in clauses (b), (c) and (d) of Section 4.02.

(e) The Required Lenders shall not have notified the Administrative Agent of their determination that, since December 31, 2012, any event, development or circumstance has occurred that has had or would reasonably be expected to have a Material Adverse Effect.

(f) Neither of the Arranger nor the Administrative Agent shall have become aware of any information or other matter affecting the Loan Parties or the Financing Transactions which was in existence prior to the date of this Agreement and is inconsistent in a material and adverse manner with any such information or other matter disclosed to them prior to the date of this Agreement.

(g) Each Guarantor shall have executed and delivered to the Administrative Agent a Guaranty in form and substance satisfactory to the Administrative Agent (each a **"Payment Guaranty"**).

(h) The Parent shall have paid all fees and other amounts due and payable to the Lender Parties on or before the Effective Date, including, to the extent invoiced, all out-of-pocket expenses (including fees, charges and disbursements of counsel) required to be reimbursed or paid by the Borrowers under the Loan Documents, including the fees payable pursuant to Section 2.12(d).

(i) All consents and approvals required to be obtained from any Applicable Insurance Regulatory Authority or other Governmental Authority or other Person in connection with the Financing Transactions shall have been obtained and be in full force and effect, except where failure to obtain such approval or consent would not have a Material Adverse Effect.

(j) The Parent shall have delivered to the Administrative Agent evidence reasonably satisfactory to the Administrative Agent that, on the Effective Date and concurrently with the initial advance of Loans hereunder, (i) the Parent's existing credit facility with KeyBank National Association pursuant to a credit agreement dated September 24, 2008, as amended, shall have been terminated and that all of the Debt and other obligations of the Parent thereunder shall have been paid and satisfied in full; (ii) JRG Reinsurance's existing secured letter of credit facility with

KeyBank National Association pursuant to a Master Letter of Credit Reimbursement and Security Agreement dated July 7, 2011 (the **"Existing JRG Facility"**) shall have been terminated and that all of the Debt and other obligations of JRG Reinsurance thereunder (other than contingent reimbursement claims in respect of the Existing Letters of Credit) shall have been paid and satisfied in full; and (iii) any and all of the Parent's existing Debt to each of the Redeemed Investors shall have been paid and satisfied in full.

(k) The Parent shall have delivered to the Administrative Agent evidence reasonably satisfactory to the Administrative Agent that the Best Rating of each Insurance Subsidiary is not lower than "A-".

(l) The Administrative Agent shall have received from JRG Reinsurance evidence reasonably satisfactory to the Administrative Agent that no approval of any Applicable Insurance Regulatory Authority is required for any Borrowings by JRG Reinsurance or issuances of Letters of Credit with respect to which JRG Reinsurance is obligated under either of the Secured Facility or the Unsecured Facility and its pledge of Eligible Collateral under the Secured Facility, with such Debt and other obligations of JRG Reinsurance hereunder in each case ranking at least equally with claims of other creditors (including policy holders) of JRG Reinsurance, or, if such approval is required, that JRG Reinsurance has obtained such approval (the **"Regulatory Condition Satisfaction"**).

(m) Each Borrower shall have executed and delivered to the Administrative Agent a Pledge and Security Agreement in the form of Exhibit D hereto, together with a related control agreement in the form of Exhibit E hereto.

(n) The Administrative Agent and the Lenders shall have received from the Loan Parties such other certificates and other documents as the Administrative Agent or any Lender may reasonably have requested, including the promissory note complying with Section 2.09(e) of any Lender requesting such promissory note.

Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Letter of Credit Issuers to issue Letters of Credit shall not become effective unless each of the foregoing conditions is satisfied (or waived by each Lender) before 5:00 p.m., Prevailing Eastern Time, on or before June 14, 2013 (and, if any such condition is not so satisfied or waived, the Commitments shall terminate at such time).

Section 4.02. *Conditions to Initial Utilization and Each Subsequent Utilization.* The obligation of each Lender to make a Loan on the occasion of any Borrowing (including the initial Borrowing), and the obligation of any Letter of Credit Issuer to issue, amend, renew or extend any Letter of Credit (including the initial Letters of Credit, if such initial Letters of Credit are issued prior to the occasion of the initial Borrowing), is each subject to receipt of the Borrower Agent's request therefor in accordance herewith and to the satisfaction of the following conditions:

(a) The Effective Date shall have occurred.

(b) Immediately before and immediately after giving effect to such Borrowing or issuance, amendment, renewal or extension of such Letter of Credit, no Default shall have occurred and be continuing.

(c) The representations and warranties of the Borrowers set forth in the Loan Documents shall be true and correct in all material respects on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable; *provided* that any representation and warranty that is qualified as to "materiality", "Material Adverse Effect" or similar language shall be true and correct (after giving effect to such qualification therein) in all respects as of such date.

(d) Immediately before and after such Borrowing is made, or a Letter of Credit is issued, amended, renewed or extended, as applicable, the Total Outstanding Secured Facility Amount will not exceed the Total Secured Facility Commitment and the Total Outstanding Unsecured Facility Amount will not exceed the Total Unsecured Facility Commitment.

(e) In the case of the issuance of a Secured Facility Letter of Credit, the Borrowers shall have pledged with the Administrative Agent pursuant to the Security Documents Eligible Collateral having a Collateral Value of not less than the amount of such Letter of Credit; *provided* that, notwithstanding anything to the contrary herein or in any other Loan Document, Eligible Collateral pledged by JRG Reinsurance shall not secure the Debt or other obligations of any other Borrower under this Agreement and the other Loan Documents.

(f) In the case of a Borrowing by JRG Reinsurance or the issuance of a Letter of Credit for the account of JRG Reinsurance, a Financial Officer of JRG Reinsurance shall have executed and delivered to the Administrative Agent a certificate in form and substance reasonably satisfactory to the Administrative Agent that the Regulatory Condition Satisfaction remains effective.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrowers on the date thereof as to the matters specified in clauses (b), (c) and (d) of this Section.

ARTICLE 5

AFFIRMATIVE COVENANTS

Until all the Commitments have expired or terminated and the principal of and interest on each Loan and all fees and other amounts payable hereunder have been paid in full and in cash, all Letters of Credit have expired or been cancelled, all LC Disbursements have been reimbursed in cash, and all other obligations hereunder and under the other Loan Documents (other than unasserted claims for indemnity) have been paid and satisfied in full and in cash, each Borrower jointly and severally covenants and agrees with the Lenders that:

Section 5.01. *Financial Statements and Other Information.* The Borrowers shall furnish to the Administrative Agent (for delivery to each Lender):

(i) as soon as available and in any event within 120 days after the end of each Fiscal Year, the Parent's audited Consolidated balance sheet as of the end of such Fiscal Year and the related statements of income and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all reported on by Ernst & Young LLP or other independent public accountants of recognized national standing (without qualification or exception and without any qualification or exception as to the scope of such audit and in accordance with generally accepted auditing standards) as presenting fairly in all material respects the financial position, results of operations and cash flows of the Parent and its Subsidiaries on a Consolidated basis in accordance with GAAP;

(ii) as soon as available and in any event within 45 days after the end of each of the first three Fiscal Quarters of each Fiscal Year (and within 60 days after the end of each fourth Fiscal Quarter of each Fiscal Year), its Consolidated balance sheet as of the end of such Fiscal Quarter and the related statements of income and cash flows for such Fiscal Quarter and for the then elapsed portion of such Fiscal Year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous Fiscal Year, all certified by a Financial Officer as (A) reflecting all adjustments (which adjustments are normal and recurring unless otherwise disclosed) necessary for a fair presentation of the results for the period covered and (B) if the Parent is an SEC reporting company (or equivalent under foreign Law), having been prepared in accordance with the applicable rules of the SEC (or foreign equivalent) or, otherwise, having been prepared in accordance with GAAP;

(iii) concurrently with each delivery of financial statements under clause (i) or (ii)above, a certificate of a Financial Officer of the Parent (A) certifying as to whether a Default has occurred and is continuing and, if a Default has occurred and is continuing, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (B) setting forth reasonably detailed calculations demonstrating compliance with Section 6.11, Section 6.12, Section 6.13, and Section 6.14, (C) certifying that all representations and warranties of the Credit Parties under Article 3 are true and correct in all material respects as of the date of such certificate, (D) certifying the Leverage Ratio (with accompanying computation thereof in reasonable detail) as of the end of such Fiscal Quarter or Fiscal Year, as the case may be, (E) certifying the Best Rating of each Insurance Subsidiary as of the end of such Fiscal Quarter or Fiscal Year, as the case may be, and (F) identifying any change(s) in GAAP or in the application thereof that have become effective since the date of, and have had an effect in any material respect on, the Parent's most recent audited financial statements referred to in Section 3.04 or delivered pursuant to this Section (and, if any such change has become effective, specifying the effect of such change on the financial statements accompanying such certificate), unless such change(s) are expressly identified in such financial statements accompanying such certificate;

(iv) concurrently with each delivery of financial statements under clause (i) above, (A) a certificate of the accounting firm that reported on such financial statements stating whether during the course of their examination of such financial statements they obtained knowledge of any Default (which certificate may be limited to the extent required by accounting rules or guidelines) and (B) a certificate of a Financial Officer identifying any Subsidiary that has been formed or acquired during the Fiscal Year covered by such financial statements;

(v) if the Parent is an SEC reporting company (or equivalent under foreign Law), promptly after the same become publicly available, copies of all periodic and other material reports and proxy statements filed by the Parent or any Subsidiary with the SEC, or any Governmental Authority succeeding to any or all of the functions of the SEC (or foreign equivalent thereof);

(vi) promptly upon the effectiveness of any material amendment or modification of, or any waiver of the rights of a Loan Party or any Material Subsidiary under, the certificate of formation, limited liability company agreement, certificate of incorporation, by-laws or other organizational documents of a Loan Party or any Material Subsidiary;

(vii) as soon as available and in any event within 25 days after the end of each calendar month, a certificate executed by a Financial Officer of the Parent as of the last day of such calendar month setting forth (A) the undrawn amount of each Secured Facility Letter of Credit outstanding on such date, (B) an itemization of the Eligible Collateral securing each such Letter of Credit, and (C) the Collateral Value thereof on such date, and

(viii) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of a Loan Party and its Subsidiaries, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request;

provided that if the Parent is an SEC reporting company (or equivalent under foreign Law), any information or document that is required to be furnished by any of clauses (i), (ii), (vi), and (vii) of this Section 5.01 and that is filed with the SEC via the EDGAR filing system shall be deemed to be furnished so long as the Parent provides to the Administrative Agent and the Lenders electronic or written notice of the posting of such information or document.

Section 5.02. *Insurance Subsidiary Reporting.* The Borrowers shall furnish to the Administrative Agent and each Lender copies of the following:

(i) promptly after filing with the Applicable Insurance Regulatory Authority and in any event within 45 days after the end of each of the first three quarterly fiscal periods of each fiscal year of each Insurance Subsidiary (and within 60 days after the end of each fourth fiscal period of each fiscal year of each Insurance Subsidiary), its quarterly Statutory Statement for such quarterly fiscal period, together with the opinion thereon of a senior financial officer of such Insurance Subsidiary stating that such Statutory Statement presents the financial condition of such Insurance Subsidiary for such quarterly fiscal period in accordance with statutory accounting practices required or permitted by the Applicable Insurance Regulatory Authority;

(ii) promptly after filing with the Applicable Insurance Regulatory Authority and in any event within 180 days after the end of each fiscal year of each Insurance Subsidiary, the annual Statutory Statement of such Insurance Subsidiary for such year, together with (a) the opinion thereon of a senior financial officer of such Insurance Subsidiary stating that said annual Statutory Statement presents the financial condition of such Insurance Subsidiary for such fiscal year in accordance with statutory accounting practices required or permitted by the Applicable Insurance Regulatory Authority, (b) a certificate of a valuation actuary affirming the adequacy of reserves taken by such Insurance Subsidiary in respect of future policyholder benefits as at the end of such fiscal year (as shown on such Statutory Statement) and (c) for each Material Insurance Subsidiary, the report of Ernst & Young LLP (or other independent certified public accountants of recognized national standing) on the annual Statutory Statements delivered pursuant to this clause (ii);

(iii) within 120 days after the close of each fiscal year of each Insurance Subsidiary, a copy of the "Statement of Actuarial Opinion" for such Insurance Subsidiary which is provided to the Applicable Insurance Regulatory Authority (or equivalent information should such Applicable Insurance Regulatory Authority no longer require such a statement), which statement shall be in the format prescribed by the Applicable Insurance Code of such Insurance Subsidiary;

(iv) promptly after any Insurance Subsidiary receives the results of a triennial examination by the NAIC of the financial condition and operations of such Insurance Subsidiary or any of its Subsidiaries (or results of an equivalent examination by a similar foreign body), a copy thereof;

(v) promptly following the delivery or receipt by a Loan Party or any of its Insurance Subsidiaries of any correspondence, notice or report to or from any Applicable Insurance Regulatory Authority that relates, to any material extent, to the financial viability of any of its Subsidiaries, a copy thereof;

(vi) within five Business Days after receipt, notice from any Applicable Insurance Regulatory Authority of any threatened or actual proceeding for suspension or revocation of any License or any similar proceeding with respect to any such License; and

(vii) promptly, notice of any denial of coverage, litigation, or arbitration arising out of any Reinsurance Agreements to which any Insurance Subsidiary is a party which denial, litigation or arbitration involves $7,500,000 or more.

The Parent shall cause a Best Rating to be in effect with respect to each of its Insurance Subsidiaries at all times.

Section 5.03. *Notice of Material Events.* The Borrowers shall furnish to the Administrative Agent and each Lender prompt written notice of the following:

(i) the occurrence of any Default;

(ii) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority Applicable or Insurance Regulatory Authority against or affecting a Loan Party or any Material Subsidiary that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect or the filing any other legal or arbitral proceedings, and any material development in respect of such legal or other proceedings, affecting a Loan Party or any of its Subsidiaries, except proceedings that, if adversely determined, would not (either individually or in the aggregate) have a Material Adverse Effect;

(iii) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liabilities of a Loan Party and its Subsidiaries in an aggregate amount exceeding $5,000,000;

(iv) the occurrence of any change in the Best Rating of an Insurance Subsidiary;

(v) on or prior to the effectiveness of any amendment to the terms of any Material Debt (other than Debt owed to an Applicable FHLB), or the effectiveness of any agreement governing any Debt in replacement or exchange thereof, a copy of such amendment or agreement (other than Debt owed to an Applicable FHLB); *provided* that promptly upon the request of the Administrative Agent or a Lender from time to time, the Borrower shall provide to the Administrative Agent and the Lenders copies of agreements and other documents evidencing, securing or otherwise governing Debt owed by any Domestic Insurance Subsidiary to its Applicable FHLB;

(vi) any change in any Applicable Insurance Code that could reasonably be expected to have a Material Adverse Effect, promptly upon a Financial Officer's (a) becoming aware of such change and (b) reaching the belief that such change could reasonably be expected to have a Material Adverse Effect;

(vii) any change in the published financial strength rating by Best of any Person to which any Insurance Subsidiary has ceded risk in excess of $250,000 pursuant to a Reinsurance Agreement if such change causes such published rating to be "B++" or lower; and

(viii) any other development that results in, or would reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 5.04. *Existence; Conduct of Business.* (a) Except as otherwise permitted by the provisions of Section 6.03, each Loan Party shall, and shall cause each of its Material Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges, franchises, patents, copyrights, trademarks and trade names material to the conduct of its business.

(b) Without limiting the generality of paragraph (a), above, the Borrowers shall cause each Insurance Subsidiary at all times to comply, in all material respects, with its Applicable

Insurance Code and the other requirements applicable to it of its Applicable Insurance Regulatory Authority.

Section 5.05. *Payment of Obligations.* Each Loan Party shall, and shall cause each of its Material Subsidiaries to, pay all of its Material Debt and other material obligations, including Tax liabilities, before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) such Loan Party or such Material Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP, (c) such contest effectively suspends collection of the contested obligation and the enforcement of any Lien securing such obligation and (d) the failure to make payment pending such contest would not reasonably be expected to result in a Material Adverse Effect.

Section 5.06. *Insurance.* Each Loan Party shall keep itself and all of its insurable properties, and shall cause each Material Subsidiary to keep itself and all of its insurable properties, insured at all times to such extent, by such insurers, and against such hazards and liabilities as is customarily carried by prudent businesses of like size and enterprise; and promptly upon the Administrative Agent's written request upon and during the continuance of an Event of Default, each Loan Party shall furnish to the Administrative Agent such information about any such insurance as the Administrative Agent may from time to time reasonably request; provided that, nothing in this Section 5.06 shall be deemed to require any of the Parent's Material Subsidiaries to enter into any Reinsurance Agreement and provided, further, that the Loan Parties and their Material Subsidiaries may self-insure against such hazards and risks, and in such amounts as is customary for corporations of a similar size and in similar lines of business.

Section 5.07. *NAIC Ratio.* In the event that the NAIC or any Applicable Insurance Regulatory Authority shall at any time promulgate any risk-based capital ratio requirements or guidelines, the Borrowers shall cause each Domestic Insurance Subsidiary that is a Material Insurance Subsidiary to comply with the minimum requirements or guidelines applicable to it as established by the NAIC or such Applicable Insurance Regulatory Authority.

Section 5.08. *Proper Records; Rights to Inspect.* Each Loan Party shall, and shall cause each of its Material Subsidiaries to, keep proper books of record and account in which complete and correct entries are made of all transactions relating to its business and activities. The Loan Parties shall, and shall cause each of their Material Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers, directors and employees, all at such reasonable times and as often as reasonably requested, but, other than in exigent circumstances, taking into account periodic accounting and regulatory compliance demands on the Loan Parties and their Subsidiaries.

Section 5.09. *Compliance with Laws.*

(a) Each Loan Party shall, and shall cause each of its Material Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority (including all

Environmental Laws and ERISA and the respective rules and regulations thereunder) applicable to it or its property, other than such laws, rules or regulations (i) the validity or applicability of which a Loan Party or any Subsidiary is contesting in good faith by appropriate proceedings or (ii) the failure to comply with which cannot reasonably be expected to result in a Material Adverse Effect.

(b) Without limiting the generality of the foregoing, each Loan Party and its Affiliates and agents shall not (i) conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving of any contribution of funds, goods or services to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224; or (iii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224, the USA PATRIOT Act or any other Anti-Terrorism Law. The Loan Parties shall deliver to the Lenders and the Letter of Credit Issuers any certification or other evidence reasonably requested from time to time by any Lender or any Letter of Credit Issuer in its reasonable discretion, confirming their compliance with this Section 5.09.

Section 5.10. *Use of Proceeds and Letters of Credit.* The proceeds of the Loans will be used only to finance the general corporate purposes of the Borrowers (including, without limitation, liquidity, acquisitions (except to the extent restricted pursuant to this Agreement), the satisfaction of Debt required by Section 4.01(j), and working capital needs of the Borrowers and their Subsidiaries). No part of the proceeds of any Loan will be used, directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Federal Reserve Board, including Regulations U and X. Letters of Credit will be requested and used only to finance the general corporate purposes (including working capital needs) of the Borrowers and their Subsidiaries, and will not be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Federal Reserve Board, including Regulations U and X.

ARTICLE 6

NEGATIVE COVENANTS

Until all the Commitments have expired or terminated and the principal of and interest on each Loan and all fees and other amounts payable hereunder have been paid in full and in cash, all Letters of Credit have expired or been cancelled, all LC Disbursements have been reimbursed in cash, and all other obligations hereunder and under the other Loan Documents (other than unasserted claims for indemnity) have been paid and satisfied in full and in cash, each Borrower jointly and severally covenants and agrees with the Lenders that:

Section 6.01. *Debt; Certain Equity Securities; Prepayments.* (a) No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, create, incur, assume or permit to exist any Debt, except:

(i) Debt created under the Loan Documents;

(ii) Debt in connection with (a) the Effective Date Trust Preferred Securities and (b) unsecured debentures issued by James River, due April 29, 2034 in the amount of $15,000,000;

(iii) Debt of Material Subsidiaries to the Parent or to other Material Subsidiaries;

(iv) Debt of the Loan Parties and their Material Subsidiaries, including, without limitation, Capital Lease Obligations, secured by Liens permitted under Section 6.02(iv) hereof;

(v) Debt (but only of Domestic Insurance Subsidiaries) to Applicable FHLBs;

(vi) Subordinated Debt;

(vii) Debt consisting of letters of credit obtained from Comerica Bank by JRG Reinsurance in the ordinary course of business so long as that aggregate Debt thereunder does not at any time exceed $100,000,000; and

(viii) additional unsecured Debt not to exceed $10,000,000 in aggregate principal amount at any time outstanding as to the Parent and its Subsidiaries on a Consolidated basis;

provided that if any of the foregoing Debt is Debt of a Borrower owing to a Subsidiary, such Debt shall be subordinated to the Debt and other obligations of the Loan Parties hereunder and under the other Loan Documents on terms reasonably satisfactory to the Administrative Agent.

(b) No Loan Party shall issue Current Redeemable Equity.

(c) The Parent shall not, and shall not permit any of its Subsidiaries to, make or offer to make (or give any notice in respect thereof) any voluntary or optional payment or prepayment on or redemption, retirement, defeasance, or acquisition for value of any Debt, other than the Debt and other obligations hereunder and under the other Loan Documents.

Section 6.02. *Liens.* No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, create or permit to exist any Lien on any property now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(i) Permitted Liens and Liens created pursuant to the Loan Documents;

(ii) any Lien on any property of a Loan Party or any Material Subsidiary existing on the date hereof and listed in Schedule 6.02; *provided* that (A) such Lien shall not apply to any other property of such Loan Party or any Material Subsidiary and (B) such Lien shall secure only those obligations that it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(iii) any Lien existing on any fixed or capital asset before the acquisition thereof by a Loan Party or any Material Subsidiary or existing on any fixed or capital asset of any Person that first becomes a Material Subsidiary after the date hereof before the time such Person becomes a Material Subsidiary; *provided* that (A) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Material Subsidiary, (B) such Lien will not apply to any other property or asset of a Loan Party or any Material Subsidiary, (C) such Lien will secure only those obligations which it secures on the date of such acquisition or the date such Person first becomes a Material Subsidiary, as the case may be, and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof, (D) the principal amount of Debt secured by any such Lien shall at no time exceed 80% of the fair market value (as determined in good faith by a Financial Officer of a Loan Party) of such fixed or capital asset at the time it was acquired (by purchase, construction or otherwise) and (E) the aggregate principal amount of Debt secured by any and all such Liens permitted under this clause (iii) shall not at any time exceed $10,000,000;

(iv) Liens on fixed or capital assets acquired, constructed or improved by a Loan Party or any Material Subsidiary; *provided* that (A) such Liens and the Debt secured thereby are incurred before or within 90 days after such acquisition or the completion of such construction or improvement, (B) the Debt secured thereby does not exceed the cost of acquiring, constructing or improving such fixed or capital assets, (C) such Liens will not apply to any other property of a Loan Party or any Material Subsidiary and (D) the aggregate principal amount of Debt secured by any and all such Liens permitted under this clause (iv) shall not at any time exceed $10,000,000;

(v) Liens to secure a Debt owing to a Borrower or a Guarantor;

(vi) Liens on the assets of a Domestic Insurance Subsidiary to secure Debt owing by such Domestic Insurance Subsidiary to its Applicable FHLB;

(vii) Cash and investment property deposited as collateral to secure letter of credit Debt permitted under clause (vii) of Section 6.01(a); and

(vii) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by a Lien permitted by any of clauses (ii), (iii), (iv), (v), (vi) or (vii) of this Section; *provided* that such Debt under any of clauses (ii), (iii), (iv) and (vi) is not increased (except by the amount of fees, expenses and premiums required to be paid in connection with such refinancing, extension, renewal or refunding) and is not secured by any additional assets.

Section 6.03. *Fundamental Changes.*

(a) No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), unless it is a Permitted Acquisition; *provided* that Holdings II may dissolve or merge with the Parent so long as each and all of the following is satisfied: (i) the Parent shall have delivered to the Administrative Agent written notice of such merger or dissolution and the intended date of consummation thereof at least twenty (20) Business Days in advance of such intended date of consummation, (ii) such notice is accompanied with copies of the definitive documentation that will effect such merger or dissolution, (iii) no Default exists on the date of such notice and on the date of such consummation, (iv) after giving effect to such merger or dissolution, the Parent shall own 100% of all of the issued and outstanding Equity Interests of each of James River, JRG Reinsurance and any other Person that is then a Subsidiary of Holdings II, (v) in the case of a merger, the Parent is the surviving Person, (vi) the Parent shall have caused to be delivered to the Administrative Agent and the Lenders such opinions of counsel as the Administrative Agent may reasonably request, and (vii) the Administrative Agent shall not have received from the Required Lenders on or before three (3) Business Days prior to such intended date of consummation written notice that such Required Lenders have determined in their good faith judgment that such merger or dissolution impairs or otherwise adversely affects any right or interest of the Lenders hereunder or under any other Loan Document.

(b) No Loan Party shall, nor shall it permit any of its Subsidiaries to, make any Acquisition or otherwise acquire any business or property from, or capital stock of, or be a party to any acquisition of, any Person except for (i) purchases of inventory and other property to be sold or used in the ordinary course of business, (ii) Assumed Reinsurance in the ordinary course of business, (iii) Investments permitted under Section 6.04, (iv) capital expenditures in the ordinary course of business, and (v) Permitted Acquisitions.

(c) No Loan Party shall, nor shall it permit any of its Subsidiaries to, convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or a substantial part of its business or Property, whether now owned or hereafter acquired.

(d) Notwithstanding the foregoing provisions of this Section 6.03:

(i) any Subsidiary may be merged or consolidated with or into: (A) a Loan Party if such Loan Party shall be the continuing or surviving company or (B) any other Subsidiary; *provided* that if any such transaction shall be between a Subsidiary and a Wholly Owned Subsidiary, the Wholly Owned Subsidiary shall be the continuing or surviving company;

(ii) any Material Subsidiary may sell, lease, transfer or otherwise dispose of any or all of its property (upon voluntary liquidation or otherwise) to a Loan Party or a Wholly Owned Subsidiary of a Loan Party; and

(iii) any Material Subsidiary may merge or consolidate with or acquire the business, property or Equity Interests and Equity Rights of another Person if (A) both immediately prior to and after giving effect to such merger, consolidation or acquisition, no Default exists, (B) after giving pro forma effect (pursuant to accounting procedures satisfactory to the Administrative Agent) to such merger, consolidation or acquisition, the

Leverage Ratio as of the Fiscal Quarter most recently ended shall not be greater than 0.35 to 1, (C) in the case of an acquisition of Equity Interests and Equity Rights, such Material Subsidiary acquires 100% of the issued and outstanding Equity Interests and Equity Rights of such Person and (D) in the case of a merger or consolidation, the surviving entity is a Wholly Owned Subsidiary of a Loan Party.

Section 6.04. *Investments, Loans, Advances, Guarantees and Acquisitions*

(a) No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, make or permit to remain outstanding any Investments except (i) Investments outstanding on the date hereof and identified in Part B of Schedule 3.06, (ii) operating deposit accounts with banks, (iii) Permitted Investments, (iv) Investments by a Loan Party and its Material Subsidiaries in their respective Subsidiaries; *provided* that the Loan Parties' Investments in Foreign Subsidiaries acquired or formed after the Effective Date that are not organized under the Laws of Bermuda shall not exceed $10,000,000 in the aggregate as to all Loan Parties in any Fiscal Year, (v) Hedging Agreements in the ordinary course of a Loan Party's or such Subsidiary's business, (vi) so long as no Default exists or would exist after giving effect thereto, the prepayment or acquisition by a Loan Party or any other Subsidiary of its or a Subsidiary's Trust Preferred Securities notes (and the related Trust Preferred Securities) so long as the aggregate principal amount of all such Trust Preferred Securities notes (and the related Trust Preferred Securities) prepaid or acquired from and after the Effective Date does not exceed $10,000,000, (vii) Permitted Acquisitions, and (viii) so long as no Default exists or would exist after giving effect thereto, Investments in entities Controlled by the D.E. Shaw Investors in an aggregate amount outstanding at any one time not to exceed $10,000,000; *provided*, *however*, that none of the foregoing Investments shall consist of a general partnership interest of any partnership, whether general or limited (or equivalent Equity Interest otherwise named).

(b) The Parent shall not permit any Insurance Subsidiary to make any Investment if, on the date of which such Investment is made and after giving effect thereto, the aggregate value of Investments (other than equity Investments and bank loan participations) held by such Insurance Subsidiary that are rated lower than "2" by the NAIC or are not rated by the NAIC would exceed 5% of the value of total invested assets. As used in this Section 6.04, the "value" of an Investment refers to the value of such Investment that would be shown on the most recent Statutory Statement of the relevant Insurance Subsidiary prepared in accordance with SAP.

Section 6.05. *Asset Sales.* No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, sell, transfer, lease or otherwise dispose of any property, including any Equity Interest owned by it, nor will (i) the Parent issue any additional Equity Interest in the Parent if such issuance would cause a Change in Control or (ii) any Material Subsidiary issue any additional Equity Interest in such Subsidiary, except:

(a) sales of used or surplus equipment and Permitted Investments in the ordinary course of business; and

(b) Sale-Leaseback Transactions permitted pursuant to Section 6.07.

Section 6.06. *Ceded Reinsurance*. No Loan Party shall, nor shall it permit any Insurance Subsidiary to:

(a) enter into any Reinsurance Agreement in respect of ceded risk in excess of $5,000,000 with any Person other than (i) another Insurance Subsidiary, (ii) any Person for which the most recently published financial strength rating by Best is "B+" or higher or, if such Person is not rated by Best, which has a Statutory Surplus (or the equivalent thereof with respect to a Person not domiciled in the United States) of not less than $100,000,000, (iii) any Person that posts security under such Reinsurance Agreement in an amount equal to the total liabilities assumed by such Person, through a letter of credit issued by an "authorized bank" (as such term is defined by the Applicable Insurance Regulatory Authority) or cash collateral deposit or (iv) any other reinsurers acceptable to the Administrative Agent, provided however, that for purposes of the foregoing clause (ii), any "NA" designation shall not be considered a rating of Best;

(b) enter into any Reinsurance Agreement or Reinsurance Agreements with Lloyd's of London if the aggregate amount of reinsurance ceded thereby would exceed fifteen percent (15.0%) of the aggregate premium volume of reinsurance ceded by the Insurance Subsidiaries;

(c) enter into any Surplus Relief Reinsurance except with another Insurance Subsidiary; *provided* that the Insurance Subsidiaries identified on Schedule 6.06 may continue to maintain (and from time to time replace so long as the amount thereof does not increase) the Surplus Relief Reinsurance in effect on the date hereof and described on Schedule 6.06; or

(d) enter into any Reinsurance Agreement or Reinsurance Agreements if after giving effect thereto such Reinsurance Agreement or Reinsurance Agreements, when taken together with all other Reinsurance Agreements entered into by the Insurance Subsidiaries during the immediately preceding 365-day period, will result in a fifteen percent (15.0%) or more reduction of the aggregate net written premiums of the Insurance Subsidiaries taken as a whole (but without duplication) during such 365-day period.

Section 6.07. *Sale and Leaseback Transactions.* No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, enter into any arrangement with any Person (other than a Loan Party or any of its Material Subsidiaries) providing for the leasing to such Loan Party or any of its Material Subsidiaries for a period of more than five years of any property which has been or is to be sold or transferred by such Loan Party or such Material Subsidiary to such Person or to any other Person (other than a Loan Party or any of its Material Subsidiaries), to which funds have been or are to be advanced by such Person on the security of the property subject to such lease (a **"Sale-Leaseback Transaction"**) if, after giving effect thereto, the Value (as defined below) of all Sale/Leaseback Transactions at such time would exceed 10% of the Consolidated Net Worth of the Parent at such time. For purposes of this Section 6.07, **"Value"** shall mean, with respect to any Sale-Leaseback Transaction as at any time, the amount equal to the greater of (a) the net proceeds of the sale or transfer of the property subject to such Sale-Leaseback Transaction and (b) the fair value, in the opinion of the board of directors of the applicable Loan Party of such property at the time of entering into such Sale-Leaseback Transaction, in either case divided first by the number of full years of the term of the lease and then multiplied by the number of full years of such term remaining at the time of determination, without regard to any renewal or extension options contained in such lease; *provided* that all obligations under such sale-leaseback agreements shall constitute Debt for purposes of calculating compliance with the covenants set forth in this Article 6.

Section 6.08. *Restricted Payments.* No Loan Party shall declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so unless, both immediately before and after giving effect to such Restricted Payment, no Default exists; *provided* that nothing in this Section shall be construed to restrict payments by a Subsidiary to its immediate parent entity.

Section 6.09. *Transactions with Affiliates.* Except as expressly permitted by this Agreement, and except for other than transactions between or among the Parent and its Wholly Owned Subsidiaries and transactions among its Wholly Owned Subsidiaries, the Loan Parties shall not, nor shall it permit any of their Material Subsidiaries to, directly or indirectly: (a) make any Investment in an Affiliate; (b) transfer, sell, lease, assign or otherwise dispose of any property to an Affiliate; (c) merge into or consolidate with or purchase or acquire property from an Affiliate; or (d) enter into any other transaction directly or indirectly with or for the benefit of an Affiliate (including, without limitation, Guarantees and assumptions of obligations of an Affiliate); *provided* that (i) any Affiliate who is an individual may serve as a director, officer or employee of a Loan Party or any of its Material Subsidiaries and receive reasonable compensation for his or her services in such capacity; (ii) a Loan Party and its Material Subsidiaries may enter into transactions (other than extensions of credit by such Loan Party or any of its Material Subsidiaries to an Affiliate) providing for the leasing of property, the rendering or receipt of services or the purchase or sale of inventory and other property in the ordinary course of business if the monetary or business consideration arising therefrom would be substantially as advantageous to such Loan Party and its Material Subsidiaries as the monetary or business consideration that would obtain in a comparable transaction with a Person not an Affiliate (or in the case of any management agreement or investment advisory agreement among or between the Parent and its Insurance Subsidiaries, that is approved by the Applicable Insurance Regulatory Authorities); and (iii) nothing in this Section 6.09 shall be deemed to prohibit or restrict the making of Restricted Payments by a Subsidiary to, as the case may be, the Parent or the Subsidiary that is its immediate parent entity.

Section 6.10. *Restrictive Agreements.* No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, directly or indirectly, enter into or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition on (a) the ability of such Loan Party or any Material Subsidiary to create or permit to exist any Lien on any of its property or (b) the ability of any Material Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to such Loan Party or any other Material Subsidiary or to Guarantee Debt of a Loan Party or any other Material Subsidiary; *provided* that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by any Loan Document, (ii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, *provided* that such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder,

(iii) clause (a) of this Section shall not apply to restrictions or conditions imposed by any agreement relating to secured Debt permitted by this Agreement if such restrictions or conditions apply only to the property securing such Debt and (iv) clause (a) of this Section shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

Section 6.11. *Leverage Ratio.* The Borrowers shall not permit the Leverage Ratio as of the end of any Fiscal Quarter ending June 30, 2013 and thereafter to be greater than 0.35 to 1.

Section 6.12. *Consolidated Net Worth.* The Borrowers shall not permit Consolidated Net Worth (a) as of the end of the Fiscal Quarter ending June 30, 2013, to be less than $340,000,000 and (b) as of the end of any Fiscal Quarter thereafter, to be less than an amount equal to (i) the Minimum Net Worth for the immediately preceding Fiscal Quarter, plus (ii) the Fiscal Quarter Increase for such immediately preceding Fiscal Quarter.

Section 6.13. *Risk-Based Capital Ratio; Other Minimum Capital Requirements.* (a) The Borrowers shall not permit the Risk-Based Capital Ratio of any Domestic Insurance Subsidiary as of the end of any Fiscal Year ending December 31, 2012 and thereafter to be less than 2.50 to 1.

(b) The Borrowers shall not permit the shareholders' equity (or equivalent applicable term, determined in accordance with GAAP) of JRG Reinsurance or any other Bermuda-domiciled Foreign Insurance Subsidiary as of the end of any Fiscal Year ending December 31, 2012 and thereafter to be less than 2.50 times the Bermuda Minimum Solvency Requirement.

(c) The Borrowers shall not permit the surplus of any other Foreign Insurance Subsidiary as of the end of any Fiscal Year ending December 31, 2012 and thereafter to be less than 2.50 times the minimum solvency requirement under, as applicable, its Applicable Insurance Code or the requirements of its Applicable Insurance Regulatory Authority.

Section 6.14. *Fixed Charge Coverage Ratio.* The Borrowers shall not permit the Fixed Charge Coverage Ratio as of the end of any Fiscal Quarter ending June 30, 2013 and thereafter to be less than 2.00 to 1.

Section 6.15. *Minimum Best Ratings.* The Borrowers shall not permit the Best Rating of any Insurance Company at any time to be lower than "A-".

Section 6.16. *Amendment of Material Documents.* (a) No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, (i) amend, modify, supplement or waive any of its rights under its certificate of formation, limited liability company agreement, certificate of incorporation, by-laws or other organizational documents or (ii) permit the amendment or other modification of the Shareholders Agreement, in each case in any manner that would reasonably be expected to have a Material Adverse Effect.

(b) No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, enter into any amendment, waiver or other modification of any of the Trust Preferred Securities Notes or any indenture or other agreement governing the Trust Preferred Securities Notes, or of any document evidencing or otherwise governing any Material Debt (i) if the effect of such amendment, waiver or other modification is to increase the interest rate on such Debt, increase the amount of principal due on any date, change (to earlier dates) any dates upon which payments of principal or interest are due thereon, change any event of default or condition to an event of default with respect thereto (other than to eliminate or make less onerous any such event or default or increase any grace period related thereto), change the redemption, prepayment or defeasance provisions thereof, or change any collateral therefor (other than to release such collateral) or (ii) if the effect of such amendment or change, together with all other amendments or changes made, is to increase in any material respect the obligations of the obligor thereunder or to confer any additional rights on the holders of such Debt (or a trustee or other representative on their behalf).

(c) No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Subordinated Debt, except:

(i) payments (other than optional or voluntary prepayments) as and when due in respect of such Subordinated Debt but only to the extent, if any, permitted by the subordination terms, subordination agreement or intercreditor agreement (or equivalent agreement otherwise named) applicable to such Subordinated Debt; and

(ii) refinancings of such Subordinated Debt with the proceeds of other Subordinated Debt.

Section 6.17. *Lines of Business.* No Loan Party shall, nor shall it permit any of its Material Subsidiaries to, engage in any line or lines of business activity if doing so would cause less than 80% of a Borrower's or a Guarantor's Consolidated respective gross income to be derived from the business of owning and operating property and casualty, specialty and workers' compensation insurance companies and insurance agencies, as conducted on the date hereof and businesses related or incidental thereto, which shall be deemed to include, without limitation, property and casualty reinsurance businesses and property and casualty premium finance businesses.

ARTICLE 7

EVENTS OF DEFAULT

Section 7.01. *Events of Default.* If any of the following events (each an **"Event of Default"**) shall occur:

(a) the Borrowers shall fail to pay any principal of any Loan when the same shall become due, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrowers shall fail to pay when due any interest on any Loan or any fee or other amount (except an amount referred to in clause (a) above) payable under any Loan Document, and such failure shall continue unremedied for a period of five (5) Business Days;

(c) any representation, warranty or certification made or deemed made by or on behalf of a Loan Party or any Material Subsidiary in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) (i) a Loan Party shall fail to observe or perform any covenant or agreement contained in Section 2.10(b)(i), Section 5.0l(a), Section 5.0l(b), Section 5.0l (c), Section 5.0l (d), Section 5.02, Section 5.03, Section 5.04, Section 5.08, Section 5.10 or Section 5.11 or in Article 6, or (ii) an "Event of Default" (as defined in any Security Document) shall occur;

(e) a Loan Party shall fail to observe or perform any provision of any Loan Document (other than those failures covered by clauses (a), (b), (c) and (d) of this Article 7) and such failure shall continue for 15 days after the earlier of notice of such failure to the Borrower Agent from the Administrative Agent or knowledge of such failure by an officer of a Loan Party;

(f) a Loan Party or any of its Material Subsidiaries shall fail to make a payment or payments (whether of principal or interest and regardless of amount) in respect of any Material Debt when the same shall become due, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(g) any event or condition occurs that (i) results in any Material Debt becoming due before its scheduled maturity, (ii) enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of Material Debt or any trustee or agent on its or their behalf to cause any Material Debt to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, before its scheduled maturity or (iii) results in the termination of or enables one or more banks or financial institutions to terminate commitments to provide in excess of $5,000,000 aggregate principal amount of credit to a Loan Party or its Material Subsidiaries; *provided* that, in the case of any event described in clauses (ii) or (iii) that would permit Material Debt to be accelerated or would permit termination of such commitments, as applicable, only after the lapse of a cure period, so long as a Loan Party has notified the Administrative Agent immediately upon occurrence of such event, such event shall give rise to an Event of Default hereunder upon expiration of such cure period; and *provided, further*, that a mandatory prepayment of Material Debt required to be made by reason of the sale or other disposition (including, without limitation, condemnation or insured casualty) of assets securing such Material Debt shall not be deemed to be an event or condition described in any of clauses (i), (ii) and (iii), above; *provided*, further, that no event described in clause (iii) shall constitute an Event of Default if, as the case may be, such Loan Party or Material Subsidiary obtains a replacement commitment on substantially similar economic terms within ten (10) Business Days after such termination or event or condition enabling termination;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of a Loan Party or any of its Material Subsidiaries or its respective debts, or of a substantial part of its assets, under any federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or

(ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for a Loan Party or any of its Material Subsidiaries or for a substantial part of its respective assets, and, in any such case, such proceeding or petition shall continue undismissed for 30 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) a Loan Party or any of its Material Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for a Loan Party or any of its Material Subsidiaries or for a substantial part of its respective assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) a Loan Party or any of its Material Subsidiaries shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount exceeding $5,000,000, after giving effect to any insurance covering such judgment, shall be rendered against a Credit Agreement or any of its Material Subsidiaries and shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed (whether by means of appeal, agreement or other lawful process), or any action shall be legally taken by a judgment creditor to attach or levy upon any asset of a Loan Party or any of its Material Subsidiaries to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, would reasonably be expected to result in a Material Adverse Effect;

(m) a Change in Control occurs;

(n) any provision of any Loan Document after delivery thereof shall for any reason cease to be valid and binding on or enforceable against a Loan Party, or a Loan Party shall so state in writing; or

(o) there shall occur or be issued an action or order of any Applicable Insurance Regulatory Authority (i) citing or otherwise referencing the failure by JRG Reinsurance or any other Material Insurance Subsidiary to meet or maintain minimum levels of capital or surplus required by its Applicable Insurance Code, (ii) prohibiting or materially restricting JRG Reinsurance or any other Material Insurance Subsidiary from writing, underwriting, assuming, or reinsuring further business, or (iii) otherwise prohibiting or materially restricting any of the core business activities of JRG Reinsurance or any other Material Insurance Subsidiary.

(p) a Bermuda Law Event shall occur,

then, and in every such event (except an event with respect to a Loan Party described in clause (h) or (i) above), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower Agent, take any one or more or all of the following actions, at the same or different times: (A) terminate the Commitments, and thereupon the Commitments shall terminate immediately, (B) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrowers and the Guarantors accrued hereunder and under the other Loan Documents, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are waived by each Borrower and each Guarantor; and in the case of any event with respect to a Loan Party described in clause (h) or (i) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrowers and the Guarantors accrued hereunder and under the other Loan Documents, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are waived by each Borrower and each Guarantor and (C) exercise such rights and remedies under the Loan Documents (including the Security Documents), at law or in equity as the Administrative Agent may, and at the request of the Required Lenders shall deem appropriate. In addition, immediately upon the termination of Commitments or the acceleration of maturity of the Loans (or both) pursuant to the immediately preceding sentence, the Borrowers shall pay to the Administrative Agent an amount in immediately available funds (which funds shall be held as collateral pursuant to arrangements satisfactory to the Administrative Agent) equal to the aggregate LC Exposure at such time.

Section 7.02. *Application of Proceeds*. All monies received by the Administrative Agent or any Lender from the exercise of remedies hereunder or under the other Loan Documents or under any other documents relating to this Agreement upon and during the continuance of an Event of Default shall, unless otherwise required by the terms of the other Loan Documents or by applicable Law, be applied as follows:

first, to the payment of all reasonable expenses (to the extent not paid by the Borrowers) incurred by the Administrative Agent and the Lenders in connection with the exercise of such remedies, including, without limitation, all reasonable costs and expenses of collection, attorneys' fees, court costs and any foreclosure expenses;

second, to the payment pro rata of interest then accrued on the outstanding Loans;

third, to the payment pro rata of any fees then accrued and payable to the Administrative Agent or any Lender under this Agreement;

fourth, to the payment pro rata of the principal balance then owing on the outstanding Loans and the LC Reimbursement Obligations;

fifth, to the payment pro rata of all other amounts owed by the Borrowers to the Administrative Agent or any Lender under this Agreement or any other Loan Document (including, without limitation, a deposit with each applicable Letter of Credit Issuer in the aggregate amount of 105% of the aggregate undrawn amount of all such Letter of Credit Issuer's Letters of Credit outstanding at such time); and

finally, any remaining surplus after all of the remaining Debt and other obligations hereunder and under the other Loan Documents have been paid in full, to the Borrowers or to whosoever shall be lawfully entitled thereto;

provided that, notwithstanding anything to the contrary contained in the foregoing, collateral, including Eligible Collateral, pledged as security for Debt and other obligations under the Secured Facility shall be applied first to the payment of such Debt and obligations under the Secured Facility and shall be applied to the remaining Debt and other obligations hereunder and under the other Loan Documents only after and subject to the satisfaction in full of all such Debt and obligations under the Secured Facility; and *provided*, *further*, that, notwithstanding anything to the contrary in the foregoing, collateral, including Eligible Collateral, pledged by JRG Reinsurance shall not secure the Debt or other obligations of any other Borrower under this Agreement and the other Loan Documents.

ARTICLE 8

THE ADMINISTRATIVE AGENT

Section 8.01. *Appointment and Authorization.* Each Lender Party irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions as agent on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

Section 8.02. *Rights and Powers as a Lender.* The Administrative Agent shall, in its capacity as a Lender, have the same rights and powers as any other Lender and may exercise or refrain from exercising the same as though it were not the Administrative Agent. The Administrative Agent and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Parent or any Subsidiary or Affiliate of the Parent as if it were not the Administrative Agent hereunder.

Section 8.03. *Limited Duties and Responsibilities.* (a) The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (i) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (ii) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required in writing to exercise by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (iii) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, or be liable for any failure to disclose, any information relating to the Parent or any of its Subsidiaries that is communicated to or obtained by the Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower Agent or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (A) any statement, warranty or representation made in or in connection with any Loan Document, (B) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (C) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (D) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (E) the satisfaction of any condition set forth in Article 4 or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

(b) To the extent that a Borrower is authorized to withdraw or otherwise obtain the release of collateral upon and subject to the terms and conditions of Section 4.1 of the Pledge and Security Agreement of even date herewith between such Borrower, as pledgor, and the Administrative Agent, as secured party, and executed and delivered pursuant to Section 4.01(m) or an equivalent provision of any other Security Document, the Administrative Agent is authorized to release such collateral without the consent or approval of any Lender.

Section 8.04. *Authority to Rely on Certain Writings, Statements and Advice.* The Administrative Agent shall be entitled to rely on, and shall not incur any liability for relying on, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely on any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Loan Parties), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

Section 8.05. *Sub-Agents and Related Parties.* The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through one or more sub-agents appointed by it. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding Sections of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to activities in connection with the syndication of the credit facilities provided for herein as well as activities as the Administrative Agent hereunder.

Section 8.06. *Resignation; Successor Agent.* Subject to the appointment and acceptance of a successor Administrative Agent as provided in this Section, the Administrative Agent may resign at any time (and, upon the request of the Required Lenders, will so resign) by notifying the Lenders, the Letter of Credit Issuers and the Borrower Agent. Upon any such resignation, the Required Lenders shall have the right, with the consent of the Parent (which shall not be withheld or delayed unreasonably), to appoint a successor Administrative Agent; *provided* that the consent the Parent shall not be required if a Default shall have occurred and be continuing. If no successor Administrative Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation (the "**Resignation Effective Date**"), then the retiring Administrative Agent may, on behalf of the Lenders and the Letter of Credit Issuers, appoint a successor Administrative Agent which shall be a bank or financial institution, or an Affiliate of any such bank or financial institution.

(b) If the Person serving as Administrative Agent is a Defaulting Lender pursuant to clause (d) of the definition thereof, the Required Lenders may, to the extent permitted by applicable Law, by notice in writing to the Borrower Agent and such Person, remove such Person as the Administrative Agent and, in consultation with the Borrower Agent, appoint a successor to the Administrative Agent. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days (or such earlier day as shall be agreed by the Required Lenders) (the "**Removal Effective Date**"), then such removal shall nonetheless become effective in accordance with such notice on the Removal Effective Date.

(c) With effect from the Resignation Effective Date or the Removal Effective Date (as applicable) (i) the retiring or removed Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Administrative Agent on behalf of the Lenders or the Letter of Credit Issuers hereunder, the retiring or removed Administrative Agent shall continue to hold such collateral security until such time as a successor Administrative Agent is appointed) and (ii) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender and Letter of Credit Issuer directly, until such time, if any, as the Required Lenders appoint a successor Administrative Agent as provided for above. Upon acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrowers to a successor Administrative Agent shall be the same as those payable to its predecessor, and without duplication, unless otherwise agreed by the Borrowers and such successor Administrative Agent. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as an Administrative Agent hereunder.

Section 8.07. *Credit Decisions by Lenders.* Each Lender acknowledges that it has, independently and without reliance on the Administrative Agent or any other Lender Party and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance on the Administrative Agent or any other Lender Party and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based on this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

Section 8.08. *Agent's Fees.* The Borrowers shall pay to the Administrative Agent for its own account fees in the amounts and at the times previously agreed upon by the Parent and the Administrative Agent.

Section 8.09 *Arranger, Syndication Agent, Etc.* . None of the Joint Lead Arrangers, the Joint Book Runners, or the Co-Syndication Agents in their capacities as such shall have any duties or responsibilities or incur any liability under this Agreement or any of the Loan Documents.

Section 8.10 *No Reliance on Administrative Agent's Customer Identification Program.* Each of the Lenders and Letter of Credit Issuers acknowledges and agrees that neither such Lender or Letter of Credit Issuer nor any of its Affiliates, participants or assignees, may rely on the Administrative Agent to carry out such Lender's, Letter of Credit Issuer's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA PATRIOT Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "**CIP Regulations**"), or any other anti-terrorism law, including any programs involving any of the following items relating to or in connection with any of the Loan Parties, its Affiliates or its agents, this Agreement, the other Loan Documents or the transactions hereunder or contemplated hereby: (1) any identity verification procedures, (2) any record keeping, (3) comparisons with government lists, (4) customer notices or (5) other procedures required under the CIP Regulations or such other laws.

ARTICLE 9

MISCELLANEOUS

Section 9.01. *Notices.* Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to a Loan Party, to it at 44 Church Street, P.O. Box 1502, Hamilton HM FX, Bermuda, Attention of Gregg Davis, Chief Financial Officer (Facsimile No. (441) 278-4588);

(b) if to the Administrative Agent, to KeyBank National Association, Agency Services, 127 Public Square, Cleveland, Ohio 44114, Attention of Kathy Koenig, Senior Service Officer (Telecopy No. (216) 370-6113);

(c) if to the initial Letter of Credit Issuer, to it at KeyBank National Association, 127 Public Square, Cleveland, Ohio 44114, Attention of Kathy Koenig, Senior Service Officer (Telecopy No. (216) 370-6113); and

(d) if to any other Lender, to it at its address (or facsimile number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the Administrative Agent and the Borrower Agent. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement will be deemed to have been given on the date of receipt.

Section 9.02. *Waivers; Amendments.* (a) No failure or delay by any Lender Party in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Lender Parties under the Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by a Loan Party therefrom shall in any event be effective unless the same shall be permitted by subsection (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, neither the making of a Loan nor the issuance, amendment, renewal or extension of a Letter of Credit shall be construed as a waiver of any Default, regardless of whether any Lender Party had notice or knowledge of such Default at the time.

(b) No Loan Document or provision thereof may be waived, amended or modified except, in the case of this Agreement, by an agreement or agreements in writing entered into by the Borrowers and the Required Lenders or, in the case of any other Loan Document, by an agreement or agreements in writing entered into by the parties thereto with the consent of the Required Lenders; *provided* that no such agreement shall:

(i) increase any Commitment of any Lender without its written consent;

(ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fee payable hereunder, without the written consent of each Lender Party directly affected thereby;

(iii) postpone the maturity of any Loan, or the required date of any mandatory payment of principal (including without limitation pursuant to Section 2.10(b)), or the required date of reimbursement of any LC Disbursement, or any date for the payment of any interest or fee payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender Party directly affected thereby;

(iv) change the definition of "Percentage" or change Section 2.18(b) or 2.18(c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender directly affected thereby;

(v) change any provision of this Section or the percentage set forth in the definition of "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders required to take any action thereunder, without the written consent of each Lender;

(vi) release a Guarantor from its obligations under its Payment Guaranty (other than James River if it becomes a Borrower pursuant to Section 2.04) without the written consent of each Lender;

(vii) except for releases permitted under Section 8.03(b), release any material collateral under any Security Document without the written consent of each Lender;

(viii) except for an increase pursuant to Section 2.11 (which, as more fully provided below, is not an amendment, waiver or modification for purposes of this Section 9.02), increase the Unsecured Facility Commitment without the written consent of each Lender; or

(ix) impose any additional restriction on the ability of a Lender to assign any of its Loans, LC Exposure, Commitments and other rights or obligations hereunder without the written consent of such Lender; and

provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or any Letter of Credit Issuer without its respective prior written consent or the issuance, amendment, renewal or extension of a Letter of Credit without the Letter of Credit Issuer's prior written consent; and *provided further* that neither a reduction or termination of Commitments pursuant to Section 2.08, nor an increase in Commitments pursuant to Section 2.11, constitutes an amendment, waiver or modification for purposes of this Section 9.02.

(c) The Administrative Agent may, but shall have no obligation to, from time to time promulgate revised, replacement Schedule 2.01(a) and Schedule 2.01(b) (which, upon such promulgation, absent manifest error, shall become, respectively, Schedule 2.01(a) and Schedule 2.01(b) hereto), and the Administrative Agent may, but shall have no obligation to, from time to time promulgate revisions or supplements to other Loan Documents to reflect changes in the parties constituting the Lenders and their respective Commitments pursuant to Assignments, revised, replacement Section 2.08 and revised, replacement Section 2.11, in each instance without the necessity of the agreement of the Borrowers and the Required Lenders.

(d) Notwithstanding the foregoing, if any Lender does not consent to a proposed amendment, waiver, consent or release with respect to any Loan Document that requires the consent of such Lender and that has been approved by the Required Lenders, the Borrowers may replace such non-consenting Lender in accordance with Section 9.15; *provided* that such amendment, waiver, consent or release can be effected as a result of the assignment contemplated by such Section (together with all other such assignments required by the Borrowers to be made pursuant to this paragraph).

Section 9.03. *Expenses; Indemnity; Damage Waiver.* (a) The Loan Parties, jointly and severally, shall pay (i) all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including, without limitation, the reasonable fees, charges and disbursements of Squire Sanders (US) LLP, special counsel for the Administrative Agent, in connection with the preparation and administration of the Loan Documents and any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable and documented out-of-pocket expenses incurred by the Letter of Credit Issuer in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all reasonable out-of-pocket expenses incurred by any Lender Party, including the fees, charges and disbursements of any counsel for any Lender Party, in connection with the replacement of any Lender pursuant to Section 9.15, and, upon the occurrence and during the continuance of an Event of Default, the enforcement or protection of its rights in connection with the Loan Documents (including its rights under this Section) or the Loans and the Letters of Credit, including all such reasonable out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of the Loans and the Letters of Credit.

(b) The Loan Parties, jointly and severally, shall indemnify each of the Lender Parties and their respective Related Parties (each such Person being called an “**Indemnitee**”) against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Financing Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Letter of Credit Issuer to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by a Loan Party or any Subsidiary, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; *provided* that (i) such indemnity shall not be available to any Indemnitee to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from such Indemnitee’s gross negligence or willful misconduct; (ii) such indemnity shall not be available to any Indemnitee for losses, claims, damages, liabilities or related expenses arising out of a proceeding in which such Indemnitee and a Loan Party are adverse parties with respect to a claim brought by a Loan Party against an Indemnitee for breach in bad faith of such Indemnitee’s obligations hereunder or under any other Loan Document, to the extent that a Loan Party prevails on the merits, as determined by a court of competent jurisdiction (it being understood that nothing in this Agreement shall preclude a claim or suit by a Loan Party against any Indemnitee for such Indemnitee's failure to perform any of its obligations to the Borrower under the Loan Documents); (iii) a Loan Party shall not, in connection with any such proceeding or related proceedings in the same jurisdiction and in the absence of conflicts of interest, be liable for the fees and expenses of more than one law firm at any one time for the Indemnitees (which law firm shall be selected (A) by mutual agreement of the Administrative Agent and a Loan Party or (B) if no such agreement has been reached following the Administrative Agent's good faith consultation with a Loan Party with respect thereto, by the Administrative Agent in its sole discretion); (iv) each Indemnitee shall give the Borrower Agent (A) prompt notice of any such action brought against such Indemnitee in connection with a claim for which it is entitled to indemnity under this Section and (B) an opportunity to consult from time to time with such Indemnitee regarding defensive measures and potential settlement; and (v) the Loan Parties shall not be obligated to pay the amount of any settlement entered into without its written consent (which consent shall not be unreasonably withheld).

(c) Notwithstanding anything to the contrary in the foregoing, JRG Reinsurance shall not be liable for any of the foregoing expense reimbursement or indemnification obligations of any other Borrower.

(d) To the extent that a Loan Party fails to pay any amount required to be paid by it to the Administrative Agent or the Letter of Credit Issuer under subsection (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent or the Letter of Credit Issuer, such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; *provided* that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or the Letter of Credit Issuer in its capacity as such. For purposes hereof, a Lender's "**pro rata share**" shall be determined based on its share of the sum of, as applicable, the total Secured Facility Exposures and unused Secured Facility Commitments at the time or the total Unsecured Facility Exposures and unused Unsecured Facility Commitments at the time.

(e) To the extent permitted by applicable law, no Loan Party shall assert, and each Loan Party hereby waives, any claim against any Indemnitee on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Financing Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(f) All amounts due under this Section shall be payable within five Business Days after written demand therefor.

Section 9.04. *Successors and Assigns.* (a) The provisions of this Agreement shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that no Loan Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by a Loan Party without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (except the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly provided herein, the Related Parties of the Lender Parties) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of any Commitment it has at the time and any Loans at the time owing to it); *provided* that:

(i) except in the case of an assignment to a Lender or a Lender Affiliate, each of the Parent and the Administrative Agent (and, in the case of an assignment of all or a portion of a Commitment or any Lender's obligations in respect of its LC Exposure, and the Letter of Credit Issuers) must give their prior written consent to such assignment (which consents shall not be unreasonably withheld); *provided* that the Parent shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Administrative Agent within five (5) Business Days after having received notice thereof;

(ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement;

(iii) unless each of the Parent and the Administrative Agent otherwise consent, the amount of, as the case may be, the Secured Facility Commitment or the Unsecured Facility Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date on which the relevant Assignment is delivered to the Administrative Agent) shall not be less than $2,000,000, and the remaining, as the case may be, Secured Facility Commitment or Unsecured Facility Commitment or Loans, if any, of the assigning Lender shall not be less than $2,000,000; *provided* that this clause (iii) shall not apply to an assignment to a Lender or a Lender Affiliate or an assignment of the entire remaining amount of the assigning Lender's Secured Facility Commitment or Unsecured Facility Commitment or Loans;

(iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment, together with a processing and recordation fee of $3,500; *provided* that only one such fee shall be due in respect of a simultaneous assignment to more than one Lender Affiliate; and

(v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent a completed Administrative Questionnaire.

and *provided further* that any consent of the Parent otherwise required under this subsection shall not be required if an Event of Default has occurred and is continuing. Subject to acceptance and recording thereof pursuant to subsection (d) of this Section, from and after the effective date specified in each Assignment the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment, be released from its obligations under this Agreement (and, in the case of an Assignment covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrowers, shall maintain at one of its offices in Cleveland, Ohio a copy of each Assignment delivered to it and a register for the recordation of the names and addresses of the Lenders, their respective Commitments and the principal amounts of the Loans and LC Disbursements owing to each Lender pursuant to the terms hereof from time to time (the **"Register"**). The entries in the Register shall be conclusive (absent manifest error), and the parties hereto may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by any party hereto at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), any processing and recordation fee referred to in, and payable pursuant to, subsection (b) of this Section and any written consent to such assignment required by subsection (b) of this Section, the Administrative Agent shall accept such Assignment and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this subsection.

(e) Any Lender may, without the consent of the Parent or any other Lender Party, sell participations to one or more banks or other entities (**"Participants"**) in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans owing to it); *provided* that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Loan Parties and the other Lender Parties shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of the Loan Documents; *provided* that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in clause (i), (ii), (iii) or (iv) of the first proviso to Section 9.02(b) that affects such Participant. Subject to subsection (f) of this Section, each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.09 as though it were a Lender, *provided* that such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Parent's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower Agent is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Loan Parties, to comply with Section 2.17(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; *provided* that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(h) Notwithstanding anything to the contrary contained in the foregoing, (i) no such assignment shall be made to (A) the Parent or any of the Parent's Affiliates or Subsidiaries or any agent or representative thereof, (B) any Defaulting Lender or any of its Subsidiaries, or any Person who, upon becoming a Lender hereunder, would constitute any of the foregoing Persons described in this clause (B), or (C) a natural Person; and (ii) no such assignment shall be made, or participation sold, by a Lender except in accordance with this Section 9.04.

(i) In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of the Parent and the Administrative Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (i) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent, each Letter of Credit Issuer and each other Lender hereunder (and interest accrued thereon), and (y) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Letters of Credit in accordance with its Percentage. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable Law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

Section 9.05. *USA PATRIOT Act.* (a) Each Lender and Letter of Credit Issuer and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Loan Parties that pursuant to the requirements of the USA PATRIOT Act, it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify each Loan Party in accordance with the USA PATRIOT Act.

(b) Each Lender, each Letter of Credit Issuer or assignee or participant of a Lender that is not incorporated under the laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA PATRIOT Act and the applicable regulations because it is both (i) an affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (ii) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to the Administrative Agent the certification, or, if applicable, recertification, certifying that such Lender or such Letter of Credit Issuer is not a "shell" and certifying to other matters as required by Section 313 of the USA PATRIOT Act and the applicable regulations: (1) within ten (10) days after the Effective Date, and (2) as such other times as are required under the USA PATRIOT Act.

Section 9.06. *Survival.* All covenants, agreements, representations and warranties made by the Loan Parties in the Loan Documents and in certificates or other instruments delivered in connection with or pursuant to the Loan Documents shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that any Lender Party may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as any principal of or accrued interest on any Loan or any fee or other amount payable hereunder is outstanding and unpaid or any Letter of Credit is outstanding or any Commitment has not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article 8 shall survive and remain in full force and effect regardless of the consummation of the Financing Transactions, the repayment of the Loans, the expiration or termination of the Letters of Credit, the expiration or termination of the Commitments or the termination of this Agreement or any provision hereof.

Section 9.07. *Counterparts; Integration; Effectiveness.* This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement (i) will become effective when the Administrative Agent shall have signed this Agreement and received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto and (ii) thereafter will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy will be effective as delivery of a manually executed counterpart of this Agreement.

Section 9.08. *Severability.* If any provision of any Loan Document is invalid, illegal or unenforceable in any jurisdiction then, to the fullest extent permitted by law, (i) such provision shall, as to such jurisdiction, be ineffective to the extent (but only to the extent) of such invalidity, illegality or unenforceability, (ii) the other provisions of the Loan Documents shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of the Lender Parties in order to carry out the intentions of the parties thereto as nearly as may be possible and (iii) the invalidity, illegality or unenforceability of any such provision in any jurisdiction shall not affect the validity, legality or enforceability of such provision in any other jurisdiction.

Section 9.09. *Right of Setoff.* If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held, and other obligations (in whatever currency) at any time owing, by such Lender or any such Affiliate, to or for the credit or the account of a Loan Party against any and all of the obligations of such Loan Party now or hereafter existing under this Agreement or any other Loan Document to such Lender or its Affiliates, irrespective of whether or not such Lender or Affiliate shall have made any demand under this Agreement or any other Loan Document and although such obligations of such Loan Party may be contingent or unmatured or are owed to a branch, office or Affiliate of such Lender different from the branch, office or Affiliate holding such deposit or obligated on such indebtedness; provided that in the event that any Defaulting Lender shall exercise any such right of setoff, (i) all amounts so set off shall be paid over immediately to the Administrative Agent for further application in accordance with the provisions of Section 2.19 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Administrative Agent and the Lenders, and (ii) the Defaulting Lender shall provide promptly to the Administrative Agent a statement describing in reasonable detail the Debt and other obligations hereunder owing to such Defaulting Lender as to which it exercised such right of setoff. The rights of each Lender and its Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender or Affiliates may have. Each Lender shall notify the Borrower Agent and the Administrative Agent promptly after any such setoff and application; *provided* that the failure to give such notice shall not affect the validity of such setoff and application.

Section 9.10. *Governing Law; Jurisdiction; Consent to Service of Process.* (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Each Loan Party irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the courts of the State of Ohio sitting in Cuyahoga County and of the United States District Court of the Northern District of Ohio, and any relevant appellate court, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each party hereto irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such Ohio state court or, to the extent permitted by law, in any such Federal court. Each party hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in any Loan Document shall affect any right that any Lender Party may otherwise have to bring any action or proceeding relating to any Loan Document against such Loan Party or its properties in the courts of any jurisdiction.

(c) Each Loan Party irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to any Loan Document in any court referred to in subsection (b) of this Section. Each party hereto irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of any such suit, action or proceeding in any such court.

(d) Each party hereto irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in any Loan Document will affect the right of any party hereto to serve process in any other manner permitted by law.

(e) Each of the Parent and JRG Reinsurance hereby irrevocably designates, appoints and empowers CT Corporation System, with offices on the Effective Date at 111 Eighth Avenue, New York, New York 10011, as its designee, appointee and agent to receive, accept and acknowledge for and on its behalf, and in respect of its property, service of any and all legal process, summon, notices and documents which may be served in any such action or proceeding. If for any reason such designee, appointee and agent shall cease to be available to act as such, each Loan Party agrees to designate a new designee, appoint and agent in New York City on the terms and for the purposes of this provision reasonably satisfactory to the Administrative Agent.

Section 9.11. *WAIVER OF JURY TRIAL.* EACH PARTY HERETO WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT OR ANY TRANSACTION CONTEMPLATED THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 9.12. *Headings.* Article and Section headings and the Table of Contents herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 9.13. *Confidentiality.* Each Lender Party agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations of any Governmental Authority or any stock exchange or similar self-regulated entity or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedy hereunder or any suit, action or proceeding relating to any Loan Document or the enforcement of any right thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any actual or prospective assignee of or Participant in any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Loan Parties and their obligations, (g) with the consent of the Borrower Agent or (h) to the extent such Information either (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to any Lender Party on a nonconfidential basis from a source other than the Loan Parties. For the purposes of this Section, "**Information**" means all information received from a Loan Party relating to such Loan Party or its business, other than any such information that is available to any Lender Party on a nonconfidential basis before disclosure by such Loan Party; *provided* that, in the case of information received from a Loan Party after the date hereof, such information is clearly identified at the time of delivery as confidential.

Notwithstanding the foregoing, effective from the date of commencement of discussions concerning the transactions contemplated hereby, the parties hereto and each of their employees, representatives or other agents may disclose to any and all Persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that have been provided to them relating to such tax treatment and tax structure.

Section 9.14. *Interest Rate Limitation.* Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts that are treated as interest on such Loan under applicable law (collectively the **"Charges"**), shall exceed the maximum lawful rate (the **"Maximum Rate"**) that may be contracted for, charged or otherwise received by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such Lender shall have received such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of payment.

Section 9.15. *Replacement of Lenders.* If any Lender requests compensation under Section 2.15, or if the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender is a Defaulting Lender, or if any circumstance exists under Section 9.02 that gives the Borrowers the right to replace a non-consenting Lender as a party hereto, then the Borrowers may, at their sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 9.04), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); *provided* that:

(a) the Borrowers shall have paid to the Administrative Agent the assignment fee specified in Section 9.04(b)(iv);

(b) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 2.12(a) and any LC Disbursements funded by such Lender pursuant to Section 2.04 hereof) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrowers (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments thereafter; and

(d) such assignment does not conflict with applicable laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrowers to require such assignment and delegation cease to apply.

Section 9.16. *Bermuda Law Event.* To the extent that the making by any Loan Party of any covenant set forth in either of Articles 5 and 6 or in any of the Loan Documents is for such Loan Party not permitted by, or is unlawful under or is in violation of, any Bermuda Law pertaining to fetters on statutory powers, then such covenant shall be deemed not made by nor applicable to such Loan Party; but if such Loan Party shall take or fail to take any action which would have breached such covenant had the same been applicable to such Loan Party, such action or failure to take action shall (after giving effect to such notice and cure period, if any, that would have applied to a breach of such covenant under Section 7.01 hereof or other equivalent provision of another applicable Loan Document) constitute a "Bermuda Law Event."

Section 9.17. *Borrower Agent.* (a) Each Borrower hereby irrevocably designates the Borrower Agent to be its attorney and agent and in such capacity to borrow, sign and endorse notes, and execute and deliver all instruments, documents, writings and further assurances now or hereafter required hereunder on behalf of such Borrower, and hereby authorizes the Administrative Agent to pay over or credit proceeds of all Loans hereunder in accordance with the request of the Borrower Agent. The Borrower Agent hereby acknowledges such designation and authorization, and accepts such appointment. Each Borrower hereby irrevocably authorizes and directs the Borrower Agent to take such action on its behalf under the respective provisions of this Agreement and the other Loan Documents, and any other instruments, documents and agreements referred to herein or therein, and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of the Borrower Agent by the respective terms and provisions hereof and thereof, and such other powers as are reasonably incidental thereto, including, without limitation, to submit on behalf of each Borrower Loan Requests, and notices of conversion or continuation of Loans to the Administrative Agent in accordance with the provisions of this Agreement. The Borrower Agent is further authorized and directed by each of the Borrowers to take all such actions on behalf of such Borrower necessary to exercise the specific powers granted in the preceding sentences of this paragraph and to perform such other duties hereunder and under the other Loan Documents, and deliver such documents as delegated to or required of the Borrower Agent by the terms hereof or thereof. The Administrative Agent and each Lender may regard any notice or other communication pursuant to any Loan Documents from the Borrower Agent as a notice or communication from all Borrowers, and may give any notice or communication required or permitted to be given to any Borrower hereunder to the Borrower Agent on behalf of such Borrower. Each Borrower agrees that each notice, election, representation and warranty, covenant, agreement and undertaking made on its behalf by the Borrower Agent shall be deemed for all purposes to have been made by such Borrower and shall be binding upon and enforceable against such Borrower to the same extent as if the same had been made directly by such Borrower.

(b) The administration of this Agreement as a co-borrowing facility with the Borrower Agent in the manner set forth in this Agreement is solely as an accommodation to the Borrowers and at their request. Neither the Administrative Agent nor any Lender shall incur liability to the Borrowers as a result thereof. To induce the Administrative Agent and the Lenders to do so and in consideration thereof, each Borrower hereby indemnifies the Administrative Agent and each Lender and holds the Administrative Agent and each Lender harmless from and against any and all liabilities, expenses, losses, damages and claims of damage or injury asserted against the Administrative Agent or any Lender by any Person arising from or incurred by reason of the administration of this Agreement as provided herein, reliance by the Administrative Agent or any Lender on any request or instruction from the Borrower Agent or any other action taken by the Administrative Agent or any Lender with respect to this Section except due to willful misconduct or gross negligence by the indemnified party (as determined by a court of competent jurisdiction in a final and non-appealable judgment).

ARTICLE 10

JOINT AND SEVERAL OBLIGATIONS OF BORROWERS

Section 10.01. Joint and Several Obligations. Subject, with respect to JRG Reinsurance, to Section 2.01(c), by signing this Agreement, each Borrower agrees that it is liable, jointly and severally with the other Borrowers, for the payment of the notes and all Debt and other obligations of the Borrowers under this Agreement and the other Loan Documents, and that the Administrative Agent and any Lender can enforce such Debt and obligations against any Borrower, in such Agent's or such Lender's sole and unlimited discretion.

Section 10.02. Lenders Parties' Rights to Administer Credit . The Administrative Agent and the Lenders, either directly or through the Administrative Agent, and each Borrower may at any time and from time to time, without the consent of, or notice to, the other Borrowers, without incurring responsibility to the other Borrowers, and without affecting, impairing or releasing any of the Debt and other obligations of the other Borrowers hereunder:

(a) alter, change, modify, extend, release, renew, cancel, supplement or amend in any manner the Loan Documents, and the Borrowers' joint and several liability shall continue to apply after giving effect to any such alteration, change, modification, extension, release, renewal, cancellation, supplement or amendment;

(b) sell, exchange, surrender, realize upon, release (with or without consideration) or otherwise deal with in any manner and in any order any property of any Person mortgaged to the Administrative Agent or the Lenders or otherwise securing the Borrowers' joint and several liability, or otherwise providing recourse to the Administrative Agent or the Lenders with respect thereto;

(c) exercise or refrain from exercising any rights against a Borrower or others with respect to the Borrowers' joint and several liability, or otherwise act or refrain from acting;

(d) settle or compromise any Borrower's joint and several liability, any security therefor or other recourse with respect thereto, or subordinate the payment or performance of all or any part thereof to the payment of any liability (whether due or not) of any Borrower to any creditor of any Borrower, including without limitation, the Administrative Agent, any Lender and any Borrower;

(e) apply any sums received by the Administrative Agent or by any Lender from any source in respect of any liabilities of any Borrower to the Administrative Agent or any Lender to any of such liabilities, regardless of whether the promissory notes remain unpaid;

(f) fail to set off or release, in whole or in part, any balance of any account or any credit on its books in favor of any Borrower, or of any other Person, and extend credit in any manner whatsoever to any Borrower, and generally deal with any Borrower and any security for the Borrowers' joint and several liability or any recourse with respect thereto as the Administrative Agent or any Lender may see fit; and

(g) consent to or waive any breach of, or any act, omission or default under, this Agreement or any other Loan Document, including, without limitation, any agreement providing Collateral for the payment of the Borrowers' joint and several liability or any other indebtedness of the Borrowers to the Lenders.

Section 10.03. Primary Obligation. No invalidity, irregularity or unenforceability of all or any part of the Borrowers' joint and several liability or of any security therefor or other recourse with respect thereto shall affect, impair or be a defense to the other Borrowers' joint and several liability, and all Debt and other obligations under this Agreement and the Loan Documents are primary Debt and obligations of each Borrower.

Section 10.04. Payments Recovered From Lender. If any payment received by the Administrative Agent or any Lender and applied to the Debt and other obligations hereunder and under the other Loan Documents is subsequently set aside, recovered, rescinded or required to be returned for any reason (including, without limitation, the bankruptcy, insolvency or reorganization of a Borrower or any other obligor), the Debt and other obligations hereunder and under the other Loan Documents to which such payment was applied shall be deemed to have continued in existence, notwithstanding such application, and each Borrower shall be jointly and severally liable for such Debt and other obligations as fully as if such application had never been made, but subject, with respect to JRG Reinsurance, to Section 2.01(c). References in this

Agreement to amounts “paid” or to “paid in full” (or terms of like import) refer to payments that cannot be set aside, recovered, rescinded or required to be returned for any reason.

Section 10.05. No Release. Until the promissory notes and all other Debt and other obligations under the Loan Documents have been paid in full and each and every one of the covenants and agreements of this Agreement are fully performed, the Debt and other obligations of each Borrower hereunder shall not be released, in whole or in part, by any action or thing (other than irrevocable payment in full) which might, but for this provision of this Agreement, be deemed a legal or equitable discharge of a surety or guarantor, or by reason of any waiver, extension, modification, forbearance or delay or other act or omission of the Administrative Agent or any Lender or its failure to proceed promptly or otherwise, or by reason of any action taken or omitted by the Administrative Agent or any Lender whether or not such action or failure to act varies or increases the risk of, or affects the rights or remedies of, any Borrower, nor shall any modification of any of the promissory notes or other Loan Documents or release of any security therefor by operation of Law or by the action of any third party affect in any way the Debt and other obligations of any Borrower hereunder, and each Borrower hereby expressly waives and surrenders any defense to its liability hereunder based upon any of the foregoing acts, omissions, things, agreements or waivers of any of them. No Borrower shall be exonerated with respect to its liabilities under this Agreement by any act or thing except irrevocable payment and performance of the Debt and other obligations hereunder, it being the purpose and intent of this Agreement that such Debt and other obligations constitute the direct and primary Debt and obligations of each Borrower and that the covenants, agreements and all Debt and other obligations of each Borrower hereunder be absolute, unconditional and irrevocable.

Section 10.06. Actions Not Required. Each Borrower hereby waives any and all right to cause a marshalling of the other Borrowers’ assets or any other action by any court or other governmental body with respect thereto insofar as the rights of the Administrative Agent and the Lenders hereunder are concerned or to cause the Administrative Agent or the Lenders to proceed against any security for the Borrowers’ joint and several liability or any other recourse which the Administrative Agent or the Lenders may have with respect thereto, and further waives any and all requirements that the Administrative Agent or the Lenders institute any action or proceeding at Law or in equity against the other Borrowers or any other Person, or with respect to this Agreement, the Loan Documents, or any Collateral for the Borrowers’ joint and several liability, as a condition precedent to making demand on, or bringing an action or obtaining and/or enforcing a judgment against, each Borrower. Each Borrower further waives any requirement that the Administrative Agent or the Lenders seek performance by the other Borrowers or any other Person, of any Debt or other obligation under this Agreement, the Loan Documents or any Collateral for the Borrowers’ joint and several liability as a condition precedent to making a demand on, or bringing any action or obtaining and/or enforcing a judgment against, any Borrower. No Borrower shall have any right of setoff against the Administrative Agent or any Lender with respect to any of its Debt and other obligations hereunder. Any remedy or right hereby granted which shall be found to be unenforceable as to any Person or under any circumstance, for any reason, shall in no way limit or prevent the enforcement of such remedy or right as to any other Person or circumstance, nor shall such unenforceability limit or prevent enforcement of any other remedy or right hereby granted.

Section 10.07. Deficiencies. Each Borrower specifically agrees that in the event of a foreclosure or other exercise of remedies under a Security Document held by the Administrative Agent or any Lender that secures any part or all of the Borrowers' joint and several liability, and in the event of a deficiency resulting therefrom, each Borrower shall be, and hereby is expressly made, liable to the Administrative Agent and the Lenders for the full amount of such deficiency notwithstanding any other provision of this Agreement or provision of such agreement, any document or documents evidencing the indebtedness secured by such agreement or any other document or any provision of applicable Law which might otherwise prevent the Administrative Agent or any Lender from enforcing and/or collecting such deficiency. Each Borrower hereby waives any right to notice of a foreclosure under any Security Document, for the benefit of the Secured Creditors, by the other Borrowers which secures any part or all of the Borrowers' joint and several liability.

Section 10.08. Borrower Bankruptcy. Each Borrower expressly agrees that its liability and Debt under the promissory notes, this Agreement and the other Loan Documents shall not in any way be affected by the institution by or against the other Borrowers or any other Person or entity of any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or any other similar proceedings for relief under any Debtor Relief Law, or any action taken or not taken by the Administrative Agent or the Lenders in connection therewith, and that any discharge of any Borrower's joint and several liability pursuant to any such Debtor Relief Law shall not discharge or otherwise affect in any way the Debt and other obligations of the other Borrowers under the promissory notes, this Agreement and any other Loan Document, and that upon or at any time after the institution of any of the above actions, at the Administrative Agent's or the Lenders' sole discretion, the Borrowers' joint and several Debt and obligations hereunder and under the other Loan Documents shall be enforceable against any Borrower that is not itself the subject of such proceedings. Each Borrower expressly waives any right to argue that the Administrative Agent's or the Lenders' enforcement of any remedies against that Borrower is stayed by reason of the pendency of any such proceedings against the other Borrowers.

Section 10.09. Limited Subrogation. Notwithstanding any payment or payments made by any Borrower hereunder or any setoff or application of funds of any Borrower by the Administrative Agent or any Lender, until 731 days after the Debt and other obligations hereunder and under the other Loan Documents have been irrevocably paid in full, such Borrower shall not be entitled to be subrogated to any of the rights of the Administrative Agent or any Lender against the other Borrowers or any Guarantor or any Collateral or Guarantee or right of offset held by the Administrative Agent or any Lender for the payment of the Debt and other obligations hereunder and under the other Loan Documents, nor shall such Borrower seek or be entitled to seek any contribution or reimbursement from the other Borrowers or any Guarantor in respect of payments made by such Borrower hereunder. If any amount shall be paid to a Borrower on account of such subrogation rights at any time when all of the Debt and other obligations hereunder and under the other Loan Documents shall not have been irrevocably paid in full, such amount shall be held by such Borrower in trust for the Administrative Agent and the Lenders, segregated from other funds of such Borrower and shall, forthwith upon receipt by such Borrower, be turned over to the Administrative Agent in the exact form received by such Borrower (duly indorsed by such Borrower to the Administrative Agent, if required), to be applied against the Debt and other obligations hereunder and under the other Loan Documents s, whether matured or unmatured, in such order as the Administrative Agent and the Lenders may determine.

Section 10.10. Borrowers' Financial Condition. Each Borrower is familiar with the financial condition of the other Borrowers, and each Borrower has executed and delivered this Agreement and the other Loan Documents based on that Borrower's own judgment and not in reliance upon any statement or representation of the Administrative Agent or any Lender. Neither the Administrative Agent nor the Lenders shall have any obligation to provide any Borrower with any advice whatsoever or to inform any Borrower at any time of the Administrative Agent's or the Lenders' actions, evaluations or conclusions on the financial condition or any other matter concerning any Borrower.

Section 10.11. Relationship of Borrowers. Each Borrower represents that such Borrower and its business operations receive mutual support and other benefits from the other Borrowers, and it expects to derive benefits from the extension of credit accommodations to each other Borrower by the Lenders and finds it advantageous, desirable and in its best interests to execute and deliver this Agreement and the promissory notes to the Lenders.

Section 10.12. Limitation. (a) If the Debt and other obligations of a Borrower hereunder would be held or determined by a court or tribunal having competent jurisdiction to be void, invalid or unenforceable on account of the amount of its aggregate liability under this Agreement, the promissory notes or the other Loan Documents, then, notwithstanding any other provision of this Agreement, the promissory notes or the other Loan Documents to the contrary, the aggregate amount of the liability of such Loan Party under this Agreement, the promissory notes and the other Loan Documents shall, without any further action by such Borrower, the Lenders, the Administrative Agent, the Letter of Credit Issuer or any other Person, be automatically limited and reduced to an amount which is valid and enforceable.

(b) Without limiting the generality of paragraph (a), above, each Borrower and the Administrative Agent, each Letter of Credit Issuer and each Lender, hereby confirms that it is the intention of all such parties that none of this Agreement, the promissory notes or any other Loan Document constitute a fraudulent transfer or conveyance under the federal Bankruptcy Code, the Uniform Fraudulent Conveyances Act, the Uniform Fraudulent Transfer Act or similar state statute applicable to this Agreement and the other Loan Documents. Therefore, such parties agree that the Debt and other obligations of a Borrower hereunder and under the other Loan Documents shall be limited to such maximum amount as will, after giving effect to such maximum amount and other contingent and fixed liabilities of such Borrower that are relevant under such Laws, and after giving effect to any collections from, rights to receive contribution from or payments made by or on behalf of the other Borrowers and any other obligor, result in such Debt and obligations not constituting a fraudulent transfer or conveyance.

[No additional provisions are on this page; the page next following is a signature page.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers of the day and year first above written.

BORROWERS

FRANKLIN HOLDINGS (BERMUDA), LTD.

By: /s/ Gregg Davis HAMILTON, BDA
Gregg Davis, Chief Financial Officer

JRG REINSURANCE COMPANY LTD.

By: /s/ Robert Lawrenz
Robert Lawrenz, Chief Financial Officer

AGENTS, ARRANGERS AND LETTER OF CREDIT ISSUER

KEYBANK NATIONAL ASSOCIATION, as Administrative Agent, Joint Lead Arranger, Joint Book Runner and Letter of Credit Issuer

By: /s/ James Cribbet
James Cribbet, Vice President

SUNTRUST ROBINSON HUMPHREY, INC., as Joint Lead Arranger and Joint Book Runner

By: ______________________
________________, ______________

BMO CAPITAL MARKETS, as Joint Lead Arranger

By: ______________________
________________, ______________

BANK OF MONTREAL, CHICAGO BRANCH, as Co-Syndication Agent

By: ______________________
________________, ______________

SUNTRUST BANK, as Co-Syndication Agent

By: ______________________
________________, ______________

AGENTS, ARRANGERS AND LETTER OF CREDIT ISSUER

KEYBANK NATIONAL ASSOCIATION, as Administrative Agent, Joint Lead Arranger, Joint Book Runner and Letter of Credit Issuer

By: ______________________________
James Cribbet, Vice President

SUNTRUST ROBINSON HUMPHREY, INC., as Joint Lead Arranger and Joint Book Runner

By: /s/ Peter Wesemeier
Peter Wesemeier, Vice President

BMO CAPITAL MARKETS, as Joint Lead Arranger

By: ______________________________
______________, ______________

BANK OF MONTREAL, CHICAGO BRANCH, as Co-Syndication Agent

By: ______________________________
______________, ______________

SUNTRUST BANK, as Co-Syndication Agent

By: /s/ Peter Wesemeier
Peter Wesemeier, Vice President

AGENTS, ARRANGERS AND LETTER OF CREDIT ISSUER

KEYBANK NATIONAL ASSOCIATION, as Administrative Agent, Joint Lead Arranger, Joint Book Runner and Letter of Credit Issuer

By: ______________________________
James Cribbet, Vice President

SUNTRUST ROBINSON HUMPHREY, INC., as Joint Lead Arranger and Joint Book Runner

By: ______________________________
_______________, ______________

BMO CAPITAL MARKETS, as Joint Lead Arranger

By: /s/ Debra Basler
Debra Basler, Managing Director

BANK OF MONTREAL, CHICAGO BRANCH, as Co-Syndication Agent

By: /s/ Debra Basler
Debra Basler, Managing Director

SUNTRUST BANK, as Co-Syndication Agent

By: ______________________________
_______________, ______________

LENDERS

KEYBANK NATIONAL ASSOCIATION,
as Lender

By: /s/ James Cribbet
James Cribbet, Vice President

[Lender Signatures Continued]

SUNTRUST BANK,
as Lender

By: /s/ Peter Wesemeier

Name: Peter Wesemeier
Title: Vice President

[Lender Signatures Continued]

BANK OF MONTREAL, CHICAGO BRANCH,
as Lender

By: /s/ Debra Basler
Name: Debra Basler
Title: Managing Director

[Lender Signatures Continued]

THE BANK OF NOVA SCOTIA,
as Lender

By: /s/ Thane Rattew
Name: Thane Rattew
Title: Managing Director

[Lender Signatures Continued]

THE BANK OF N.T. BUTTERFIELD & SON LIMITED,
As Lender

By: /s/ Alan Day
Name: Alan Day
Title: Vice President

THE BANK OF N.T. BUTTERFIELD & SON LIMITED,
As Lender

By: /s/ Raymond Long
Name: Raymond Long
Title: Vice President

[Lender Signatures Continued]

FIRST TENNESSEE BANK, N.A.,
as Lender

By: /s/ Keith A. Sherman
Name: Keith A. Sherman
Title: SVP

[Lender Signatures Continued]

VANTAGESOUTH BANK,
as Lender

By: /s/ Larry C. Clark
Name: Larry C. Clark
Title: Senior Credit Officer

PRICING SCHEDULE

Leverage Ratio	Pricing Level	Eurodollar Margin	Base Rate Margin	Commitment Fee Rate
< 0.15 to 1	Level I	1.750%	0.750%	0.200%
≥ 0.15 to 1 and < 0.25 to 1	Level II	2.000%	1.000%	0.250%
≥ 0.25 to 1	Level III	2.250%	1.250%	0.300%

The Eurodollar Margin, Base Rate Margin and Commitment Fee Rate will be determined by reference to the Leverage Ratio.

For purposes of this Schedule, “Pricing Level” means for any day, the Pricing Level (I, II or III) indicated on the table above that corresponds to the Leverage Ratio as of the end of the most recent Fiscal Quarter or Fiscal Year, as the case may be, for which the Parent delivered financial statements pursuant to the Loan Documents, effective on the business day immediately following the date on which such financial statements are delivered to the Administrative Agent; *provided*, *however*, that, at any and all times during which (a) the Parent is in default of the timely delivery of (1) the financial statements required by the Loan Documents for any period or (2) the accompanying compliance certificate required by the Loan Documents, the Eurodollar Margin, Base Rate Margin and Commitment Fee Rate shall be determined under Pricing Level III or (b) an Event of Default has occurred and is continuing, the Eurodollar Margin, Base Rate Margin and Commitment Fee Rate shall be determined under Pricing Level III.

Pricing Level III shall apply commencing on the Effective Date until adjusted pursuant to the immediately preceding paragraph.

EXHIBIT A

ASSIGNMENT AND ACCEPTANCE

AGREEMENT dated as of ___________________, ___________ among [NAME OF ASSIGNOR] (the "**Assignor**" and [NAME OF ASSIGNEE] (the "**Assignee**").

WHEREAS, this Assignment and Acceptance (the " **Agreement**") relates to the Credit Agreement dated as of September __, 2012 among Franklin Holdings (Bermuda), Ltd. (as a "**Borrower**"), the Assignor and the other Lenders party thereto, KeyBank National Association, as Administrative Agent (the "Administrative Agent"), Lead Arranger, Sole Book Runner and Letter of Credit Issuer (as amended from time to time, the "**Credit Agreement**").

WHEREAS, as provided under the Credit Agreement, the Assignor has a Secured Facility Commitment to participate in Letters of Credit in an aggregate principal amount at any time outstanding not to exceed $____________;

WHEREAS, Secured Facility Letters of Credit in the aggregate undrawn amount of $______________ are outstanding at the date hereof; and

WHEREAS, as provided under the Credit Agreement, the Assignor has an Unsecured Facility Commitment to make Loans to the Borrowers and participate in Letters of Credit in an aggregate principal amount at any time outstanding not to exceed $____________;

WHEREAS, Loans made to the Borrowers by the Assignor under the Credit Agreement in the aggregate principal amount of $______________ are outstanding at the date hereof;

WHEREAS, Unsecured Facility Letters of Credit in the aggregate undrawn amount of $______________ are outstanding at the date hereof;

WHEREAS, the Assignor proposes to assign to the Assignee all of the rights of the Assignor under the Credit Agreement in respect of a portion of its Secured Facility Commitment thereunder in an amount equal to $_____________ (the "**Assigned Secured Facility Amount**"), together with a corresponding portion of its Secured LC Exposure, and the Assignee proposes to accept such assignment and assume the corresponding obligations of the Assignor under the Credit Agreement; and

WHEREAS, the Assignor proposes to assign to the Assignee all of the rights of the Assignor under the Credit Agreement in respect of a portion of its Unsecured Facility Commitment thereunder in an amount equal to $_____________ (the "**Assigned Unsecured Facility Amount**"), together with a corresponding portion of each of its outstanding Loans and its Unsecured LC Exposure, and the Assignee proposes to accept such assignment and assume the corresponding obligations of the Assignor under the Credit Agreement; and

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereto agree as follows:

SECTION 1. *Definitions.* All capitalized terms not otherwise defined herein have the respective meanings set forth in the Credit Agreement.

SECTION 2. *Assignment.* The Assignor hereby assigns and sells to the Assignee all of the rights of the Assignor under the Credit Agreement to the extent of the Assigned Amount and a corresponding portion of each of its outstanding Loans and its LC Exposure, and the Assignee hereby accepts such assignment from the Assignor and assumes all of the obligations of the Assignor under the Credit Agreement to the extent of the Assigned Amount and the corresponding portion of each of its outstanding Loans and its LC Exposure. Upon the execution and delivery hereof by the Assignor and the Assignee [and by the Parent, the Administrative Agent and the Letter of Credit Issuers] [1] and the payment of the amounts specified in Section 3 required to be paid on the date hereof (i) the Assignee shall, as of the date hereof, succeed to the rights and be obligated to perform the obligations of a Lender under the Credit Agreement with a Secured Facility Commitment in an amount equal to the Assigned Secured Facility Amount and shall acquire the rights of the Assignor with respect to a corresponding portion of its Secured LC Exposure; (ii) the Secured Facility Commitment of the Assignor shall, as of the date hereof, be reduced by the Assigned Secured Facility Amount, and the Assignor shall be released from its Secured Facility obligations under the Credit Agreement to the extent such obligations have been assumed by the Assignee; (iii) the Assignee shall, as of the date hereof, succeed to the rights and be obligated to perform the obligations of a Lender under the Credit Agreement with an Unsecured Facility Commitment in an amount equal to the Assigned Unsecured Facility Amount and shall acquire the rights of the Assignor with respect to a corresponding portion of each of its outstanding Loans and its Unsecured LC Exposure; and (iv) the Unsecured Facility Commitment of the Assignor shall, as of the date hereof, be reduced by the Assigned Unsecured Facility Amount, and the Assignor shall be released from its Unsecured Facility obligations under the Credit Agreement to the extent such obligations have been assumed by the Assignee. The assignment provided for herein shall be without recourse to the Assignor.

SECTION 3. *Payments.* As consideration for the assignment and sale contemplated in Section 2 hereof, the Assignee shall pay to the Assignor on the date hereof in Federal funds the amount heretofore agreed between them.[2] Commitment fees accrued before the date hereof are for the account of the Assignor and such fees accruing on and after the date hereof with respect to the Assigned Amount are for the account of the Assignee. Each of the Assignor and the Assignee agrees that if it receives any amount under the Credit Agreement which is for the account of the other party hereto, it shall receive the same for the account of such other party to the extent of such other party's interest therein and promptly pay the same to such other party.

[SECTION 4. *Consent of the Parent, the Administrative Agent, and the Letter of Credit Issuers.* This Agreement is conditioned upon the consent of the Parent, the Administrative Agent and the Letter of Credit Issuers pursuant to Section 9.04(b) of the Credit Agreement. The

[1] Delete if consent is not required.

[2] Amount should combine principal together with accrued interest and breakage compensation, if any, to be paid by the Assignee, net of any portion of any upfront fee to be paid by the Assignor to the Assignee. It may be preferable in an appropriate case to specify these amounts generically or by formula rather than as a fixed sum.

execution of the Agreement by the Parent, the Administrative Agent and the Letter of Credit Issuers is evidence of this consent.][3]

SECTION 5. *Non-Reliance on Assignor.* The Assignor makes no representation or warranty in connection with, and shall have no responsibility with respect to, the solvency, financial condition, or statements of the Loan Parties or the validity and enforceability of the Loan Parties' obligations under the Credit Agreement, any note issued thereunder or any Loan Document. The Assignee acknowledges that it has, independently and without reliance on the Assignor, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter its own independent appraisal of the business, affairs and financial condition of the Loan Parties.

SECTION 6. *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 7. *Counterparts.* This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[3] Delete if consent is not required.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

[NAME OF ASSIGNOR]

By: ____________________________
Name:
Title:

[NAME OF ASSIGNEE]

By: ____________________________
Name:
Title:

The undersigned consent to the foregoing assignment.

[FRANKLIN HOLDINGS (BERMUDA), LTD.

By: ____________________________
Name:
Title:][4]

[KEYBANK NATIONAL ASSOCIATION, as
Administrative Agent and Letter of Credit Issuer

By: ____________________________
Name:
Title:][5]

[4] Delete if Borrower's consent is not required.

[5] Delete (or modify as appropriate) if consent of Administrative Agent, and/or Letter of Credit Issuer is not required.

EXHIBIT B

COLLATERAL CATEGORIES AND AVAILABILITY RATES

“**Eligible Collateral**” shall mean investment property owned by a Borrower (a) in which the Administrative Agent holds a duly perfected, first priority security interest and over which the Administrative Agent shall have sole dominion (other than interest earned prior to default), (b) that is subject to no other Lien or adverse claim, and (c) that consists of investment property of a type that is in one of the “Categories of Eligible Investments” set forth below.

Categories of Eligible Investments:	**Availability Rate**
Publicly traded non-convertible corporate bonds rated BBB and Baa2 or better	80% (1) (2) (3)*
U.S. Treasury securities and U.S. agency or instrumentality securities that are guaranteed or insured by the full faith and credit of the United States:	
Maturing not more than 10 years after acquisition	95% (1)
Maturing more than 10 years after acquisition	85% (1)
(i) Single-class mortgage participation certificates backed by single-family residential mortgage loans guaranteed by Federal Home Loan Mortgage Corporation, (ii) single-class mortgage pass-through certificates guaranteed by Federal National Mortgage Association, and (iii) single-class fully modified pass-through certificates guaranteed by Government National Mortgage Association:	
Maturing not more than 10 years after acquisition	95% (1) (5)
Maturing more than 10 years after acquisition	85% (1) (5)
State and municipal bonds maturing within 5 years after acquisition and rated AA- and Aa3 or better	75% (1) (3) (4)
Money market accounts of a depository having a rating of A- and A3 or better and Money Market Mutual Funds	90% (4)
Cash in dollars	100%

* Numbers in parentheses mean that investments in that category are subject to the numerically corresponding additional qualifications and limitations set forth below. Credit ratings set forth herein are of Standard & Poor’s Financial Services LLC and Moody’s Investors Service, Inc. in that order.

Additional Qualifications and Limitations:

(1) Specified Value is the lower of market or par.

EXHIBIT B (Continued)

(2) Traded bonds are only those listed on the New York, American or NASDAQ Stock Exchanges and eligible to be settled by the Depository Trust Company.

(3) Corporate, state and municipal securities and will be subject to a 10% concentration limitation with respect to each issuer (and its affiliates) thereof.

(4) Only issuers or depositories organized under the laws of the United States or a state thereof and domiciled in the United States.

(5) In book-entry form and excluding REMIC and other multi-class pass-through certificates, pass-through certificates backed by adjustable rate mortgages, collateralized mortgage obligations, securities paying interest or principal only, and similar derivative securities.

EXHIBIT C

BORROWER JOINDER AGREEMENT

THIS BORROWER JOINDER AGREEMENT (this "Joinder Agreement") is made and entered into as of this ___ day of ___________, 20__, by and among:

(i) FRANKLIN HOLDINGS (BERMUDA), LTD., a Bermuda company, and its successors and permitted assigns ("Parent");

(ii) JRG REINSURANCE COMPANY LTD., a regulated insurance company domiciled in Bermuda, and its successors and permitted assigns ("JRG Reinsurance");

(iii) JAMES RIVER GROUP, INC., a Delaware corporation, and its successors and permitted assigns ("James River");

(iv) the LENDERS party hereto; and

(v) KEYBANK NATIONAL ASSOCIATION, a national banking association, in its capacity as Administrative Agent and Letter of Credit Issuer.

Recitals:

A. The Parent and JRG Reinsurance, as Borrowers (as defined in the Credit Agreement, defined below), have entered into that certain Credit Agreement dated as of June 5, 2013 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), by and among the Borrowers, the Administrative Agent and the banks, financial institutions and other entities from time to time party thereto in the capacity of lenders (the "Lenders"). Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

B. Under Section 2.04 of the Credit Agreement, the Borrower Agent may request that James River be added as an additional Borrower, and once notice of such request is delivered, James River must execute this Joinder Agreement by which it assumes all of the rights and obligations as a Borrower under and pursuant to the Credit Agreement and each and every other Loan Document.

Agreements:

NOW THEREFORE, in consideration of the foregoing Recitals, of the agreements hereinafter set forth, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Joinder Agreement hereby agree as follows:

1 . Incorporation by Reference. James River represents and warrants to each of the Lender Parties the accuracy in all material respects of the statements made in all of the foregoing Recitals, which are hereby incorporated by reference into this Joinder Agreement as if fully restated herein.

2 . Assumption of Credit Agreement Obligations. As of the date hereof, James River hereby accepts, joins in and assumes and agrees to pay and perform, all of the Debt, covenants, representations, warranties and other obligations as a Borrower under and pursuant to the Credit Agreement.

3 . Conforming Amendments to the Loan Documents. Each of Parent, JRG Reinsurance, James River, and the Lender Parties agrees that as of the date hereof, this Joinder Agreement shall be deemed to be a Loan Document.

4 . Release. Each of the Lender Parties agrees that on the date hereof, and only following the effectiveness of the assumptions by James River contemplated by Paragraph 2, above:

(a) James River shall be released as a Guarantor under and pursuant to the Credit Agreement; and

(b) the Continuing Guaranty of Payment dated June 5, 2013 made by James River for the benefit of the Lender Parties shall be terminated, cancelled and released, and shall be of no further force or effect.

5. Representations and Warranties. In connection with such acceptance, joinder, assumption, and release:

(a) each of Parent, JRG Reinsurance, and James River hereby jointly and severally confirms and reaffirms to each of the Lender Parties in all material respects each and all of the representations and warranties contained in Article 3 of the Credit Agreement as of the date hereof and after giving effect to the acceptance, joinder, assumption, and release by James River and the conforming amendments to the Credit Agreement contemplated by Paragraph 3 of this Joinder Agreement; *provided* that any representation and warranty that is qualified as to “materiality”, “Material Adverse Effect” or similar language is confirmed and reaffirmed (after giving effect to such qualification therein) in all respects as the date hereof (except to the extent any such representation or warranty speaks only as of an earlier date, in which case such representation or warranty is confirmed and reaffirmed only as of such earlier date);

(b) each of Parent, JRG Reinsurance, and James River hereby jointly and severally represents and warrants to each of the Lender Parties that each of the components of this transaction, without limitation, the acceptance, joinder, assumption, and release contemplated hereby, will occur in compliance in all material respects with all applicable laws, including without limitation applicable securities laws and Applicable Insurance Codes; and

(c) each of Parent, JRG Reinsurance, and James River hereby jointly and severally represents and warrants to each of the Lender Parties that all consents and approvals that are necessary for each of the components of this transaction, including, without limitation, the acceptance, joinder, assumption, and release contemplated hereby, have been obtained.

6 . Covenants. In connection with such acceptance, joinder, assumption, and release and concurrently with the effectiveness of this Joinder Agreement:

(a) James River shall deliver to the Administrative Agent (i) a supplement to the previously delivered Schedules to the Credit Agreement to reflect James River as an additional Borrower and (ii) to the extent acceptable to the Administrative Agent in its sole discretion, an update of certain previously delivered Schedules to the Credit Agreement to reflect any change in the disclosures made therein;

(b) James River shall enter into a Pledge and Security Agreement, with the Administrative Agent, in substantially the same form as the Pledge and Security Agreement dated June 5, 2013 entered into between JRG Reinsurance and the Administrative Agent;

(c) James River shall enter into an Account Control Agreement, with the Administrative Agent, in substantially the same form as the Account Control Agreement dated June 5, 2013 entered into between JRG Reinsurance and the Administrative Agent; and

(d) Parent, JRG Reinsurance, and James River shall execute and deliver to the Administrative Agent, for the benefit of each of the Lenders a promissory note, in favor of each of such Lender, in the principal amount of such Lender's Commitment.

7. Other Loan Documents; Delivery of Notes. Any reference in the other Loan Documents to the Credit Agreement shall, from and after the date hereof, be deemed to refer to the Credit Agreement, as assumed and modified by this Joinder Agreement; and any reference in the Loan Documents to the notes issued pursuant to Section 2.09(e) of the Credit Agreement shall, from and after the date hereof, be deemed to include the notes executed by James River and Parent (or any subsequent replacements thereof).

8. Confirmation of Debt; Absence of Claims. Each of Parent, JRG Reinsurance, and James River hereby affirms as of the date hereof, (i) all of its respective Debt and other obligations to each of the Lender Parties under and pursuant to the Credit Agreement and each of the other Loan Documents and that such Debt and other obligations are owed to each of the Lender Parties according to their respective terms and (ii) there are no claims or defenses to the enforcement by the Lender Parties of the Debt and other obligations of, as the case may be.

9. No Other Modifications; Same Indebtedness. Except as expressly provided in this Joinder Agreement, all of the terms and conditions of the Credit Agreement and the other Loan Documents remain unchanged and in full force and effect. The acceptance, joinder, assumption, and release effected by this Joinder Agreement and by the other documents contemplated hereby shall not be deemed to provide for or effect a repayment and re-advance of any of the Loans now outstanding, it being the intention of all of Parent, JRG Reinsurance, James River, and the Lender Parties hereby that the Debt owing under the Credit Agreement, as assumed and amended by this Joinder Agreement, and the notes be and hereby is the same Debt as that owing under the Credit Agreement and the notes immediately prior to the effectiveness hereof.

10. Governing Law; Binding Effect. THIS JOINDER AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK AND SHALL BE BINDING UPON AND INURE TO THE BENEFIT OF THE PARENT, JRG REINSURANCE, JAMES RIVER, THE LENDERS, THE ADMINISTRATIVE AGENT AND THE LETTER OF CREDIT ISSUER AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS.

11. Execution in Counterparts. This Joinder Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

12. Waiver of Jury Trial. EACH PARTY HERETO WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS JOINDER AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ANY TRANSACTION CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS JOINDER AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

[No additional provisions are on this page; the page next following is the signature.]

EXHIBIT C (Continued)

IN WITNESS WHEREOF, Parent, JRG Reinsurance, James River, the Lenders, the Administrative Agent, and the Letter of Credit Issuer have hereunto set their hands as of the date first above written.

BORROWER PARTIES:
FRANKLIN HOLDINGS (BERMUDA), LTD.

By: ______________________________
________________, ______________

JRG REINSURANCE COMPANY LTD.

By: ______________________________
________________, ______________

JAMES RIVER GROUP, INC.

By: ______________________________
________________, ______________

AGENT AND LETTER OF CREDIT ISSUER:

as Administrative Agent and Letter of Credit Issuer,

By: ______________________________
________________, ______________

[OTHER LENDERS]

By: ______________________________
________________, ______________

EXHIBIT D

PLEDGE AND SECURITY AGREEMENT

dated as of [June 5, 2013]

by

[JRG REINSURANCE COMPANY LTD.],
as Pledgor

and

KEYBANK NATIONAL ASSOCIATION,
as Administrative Agent

EXHIBIT D (Continued)

TABLE OF CONTENTS

		Page
SECTION 1.	DEFINITIONS; RULES OF CONSTRUCTION	1
1.1	Definitions	1
1.2	Credit Agreement Defined Terms	3
1.3	Certain UCC Terms	3
1.4	Rules of Construction	4
SECTION 2.	PLEDGE	4
2.1	Pledged Collateral	4
2.2	Delivery of Certificates and Instruments	4
2.3	Pledgor’s Rights	5
2.4	Secured Parties Not Liable	5
2.5	Attorney-in-Fact	6
2.6	Administrative Agent May Perform	6
2.7	Reasonable Care	6
2.8	Security Interest Absolute	6
SECTION 3.	REPRESENTATIONS AND WARRANTIES	7
3.1	Organization, Power and Authority	7
3.2	Valid Security Interest	7
3.3	No Liens	7
3.4	Location of Records/Chief Executive Office	7
3.5	Consents, Etc	8
3.6	Name	8
3.7	Valid Agreement	8
SECTION 4.	COVENANTS	8
4.1	Maintenance of Collateral; Sale of Pledged Collateral; Other Accounts	8
4.2	No Other Liens	9
4.3	Principal Office	9
4.4	Supplements; Further Assurances, etc	9
4.5	Certificates and Instruments	9
4.6	Financing Statements	9
4.7	Improper Distributions	10
SECTION 5.	EXERCISE OF REMEDIES UPON AN EVENT OF DEFAULT	10
5.1	Remedies Generally	10
5.2	Sale of Pledged Collateral	10
5.3	Purchase of Pledged Collateral	11
5.4	Application of Proceeds	11
SECTION 6.	MISCELLANEOUS PROVISIONS	12

6.1	Notices	12
6.2	Continuing Security Interest	12
6.3	Reinstatement	12
6.4	Independent Security	12
6.5	Amendments	12
6.6	Successors and Assigns	12
6.7	Administrative Agent	13
6.8	Survival	13
6.9	Continuing Security Interest; Transfer of Loans	13
6.10	No Waiver; Remedies Cumulative	14
6.11	Counterparts	14
6.12	Headings Descriptive	14
6.13	Severability	14
6.14	Governing Law	14
6.15	Consent to Jurisdiction	14
6.16	Waiver of Jury Trial	15
6.17	Entire Agreement	15
6.18	Waiver of Defenses	15
6.19	Subrogation, Etc	17
6.20	Administrative Agent	17

EXHIBIT D (Continued)

PLEDGE AND SECURITY AGREEMENT

This PLEDGE AND SECURITY AGREEMENT (as amended, amended and restated, supplemented or otherwise modified from time to time, this "**Agreement**"), dated as of [June 5, 2013], is entered into by and between [JRG REINSURANCE COMPANY LTD., a company incorporated and existing under the laws of Bermuda] (the "**Pledgor**"), and KEYBANK NATIONAL ASSOCIATION, in its capacity as administrative agent for the benefit of the Secured Parties (together with its successors and assigns in such capacity, the "**Administrative Agent**").

RECITALS

A. The Pledgor and [Franklin Holdings (Bermuda), Ltd.], as borrowers (in such capacity, each a "**Borrower**" and, collectively, the "**Borrowers**"), have entered into that certain Credit Agreement of even date herewith (as amended, amended and restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**"), by and among the Borrowers, the Administrative Agent and the banks, financial institutions and other entities from time to time party thereto in the capacity of lenders (the "**Lenders**").

B. It is a condition precedent to the effectiveness of the Credit Agreement and the other Loan Documents that this Agreement be executed and delivered by the Pledgor.

AGREEMENT

NOW, THEREFORE, in consideration of the premises herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Pledgor and Administrative Agent, for the benefit of the Secured Parties, hereby agree as follows:

SECTION 1. DEFINITIONS; RULES OF CONSTRUCTION

1.1 Definitions. The following terms shall have the following respective meanings:

"**Administrative Agent**" shall have the meaning given in the preamble.

"**Agreement**" shall have the meaning given in the preamble.

"**Bankruptcy Code**" shall mean Title 11 of the United States Code entitled "Bankruptcy" as now and hereafter in effect, or any successor statute.

"**Borrower**" shall have the meaning given in the recitals.

"**Control Agreement**" means any control agreement with respect to the KBCM Account by and among Pledgor, the Administrative Agent and KBCM, as the same may be amended or modified, and any other control agreement or similar agreement with respect to any other Securities Account, security or security entitlement pursuant to which the Administrative Agent shall have "control" over any part of the Collateral within the meaning of the Code.

"**Credit Agreement**" shall have the meaning given in the recitals.

"**Event of Default**" shall mean any one or more of (a) any Event of Default described in Section 7.01 of the Credit Agreement, (b) Pledgor's failure to perform when due any covenant or agreement contained in any one or more of Sections 2.3(c), 4.1, 4.2, 4.3 and 4.4 hereof, (c) Pledgor's failure to perform when due any other covenant or agreement contained in this Agreement and such failure shall continue for 15 days after the earlier of notice of such failure to Pledgor from the Administrative Agent or knowledge of such failure by an officer of Pledgor, and (d) any representation or warranty of Pledgor hereunder being untrue in any material respect when made or deemed made.

"**Financing Statements**" means all financing statements, recordings, filings or other instruments of registration necessary or appropriate to perfect a security interest or Lien by filing in any appropriate filing or recording office in accordance with the UCC or any other relevant applicable law.

"**KBCM**" means KeyBanc Capital Markets Inc., an Ohio corporation, its successors and assigns.

"**KBCM Account**" mean Account No. [20904499] maintained by Pledgor with KBCM for the purpose of holding Pledged Collateral.

"**Lenders**" shall have the meaning given in the recitals.

"**Pledged Collateral**" means any and all of the following, in each case whether now owned or existing or hereafter acquired or arising and wherever located:

(i) Any and all securities (certificated or uncertificated), security entitlements, certificates of deposit, financial assets, bonds, instruments and other investment property of Pledgor, whether now owned or hereafter acquired, and all substitutes therefor, additions thereto, proceeds thereof, any and all interest, earnings, dividends, new investment property, and any other property to which Pledgor may now be or hereafter become entitled with respect thereto that may from time to time be held in a Securities Account; and

(ii) All of Pledgor's accounts, instruments, chattel paper and general intangibles related to the properties listed in clause (i) above; and

(iii) All books and records, accountings, reports, papers and documents relating to any of the foregoing; and

(iv) All proceeds of the foregoing, except to the extent removed from the Securities Account in accordance with the terms of any Control Agreement.

"**Pledgor**" shall have the meaning given in the preamble.

"**Secured Obligations**" means, collectively, the prompt and complete payment and performance in full when due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including the payment of amounts which would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code), of all of the Borrowers' Debt and other obligations under the Secured Facility and, upon the payment and performance in full of such Debt and other obligations under the Secured Facility, of all of the Borrowers' Debt and other obligations under the Credit Agreement and the other Loan Documents, whether now existing or hereafter arising and howsoever evidenced, including without limitation (a) the aggregate undrawn amount of all Secured Facility Letters of Credit outstanding at any time, the aggregate amount of all other Secured Facility LC Reimbursement Obligations that have not been reimbursed and any and all Debts and other obligations of the Loan Parties under the Secured Facility and (b) upon payment and performance in full of the Debt and obligations described in clause (a) hereof, the Loans, LC Exposure and other obligations under the Unsecured Facility; *provided* that, notwithstanding anything to the contrary herein or in any other Loan Document, Pledged Collateral pledged by the Pledgor shall not secure the Debt or other obligations of any other Borrower under the Credit Agreement and the other Loan Documents; and *provided further* that the Administrative Agent shall exercise no remedy with respect to the Secured Obligations described in clause (b) above unless an Event of Default shall have occurred and be continuing.

"**Secured Parties**" means, collectively, the Lenders, the Letter of Credit Issuers and the Administrative Agent.

"**Securities Account**" means the KBCM Account or any other securities account maintained with KBCM or a different Securities Intermediary that is subject to a Control Agreement.

"**Securities Intermediary**" means KBCM or another securities intermediary requested by the Borrowers and approved by the Administrative Agent.

"**Termination Date**" means the date on which all Secured Obligations have been indefeasibly paid in full.

"**UCC**" shall mean the Uniform Commercial Code as the same may, from time to time, be in effect in the State of New York; provided, however, that in the event that, by reason of mandatory provisions of law, any or all of the perfection or priority of the security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code (or equivalent Law) as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or priority and for purposes of definitions related to such provisions.

1.2 Credit Agreement Defined Terms. Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

1 . 3 Certain UCC Terms. Except where the context mandates otherwise, the following terms shall have the respective meanings assigned to them in, as the case may be, Article 8 or Article 9 of the UCC:

account
certificated security
chattel paper
collateral
commodity account

commodity contract
deposit account
financial asset
general intangible
instrument
investment property
proceeds
securities account
securities intermediary
security
security entitlement
uncertificated security.

1.4 Rules of Construction. Except as otherwise provided herein or unless the context otherwise requires, the rules of construction set forth in Section 1.02 through 1.04, inclusive, of the Credit Agreement shall be applicable to this Agreement *mutatis mutandis*. If any conflict or inconsistency exists between this Agreement and the Credit Agreement, the Credit Agreement shall govern. All references herein to provisions of the UCC shall include all successor provisions under any subsequent version or amendment to any Article of the UCC.

SECTION 2. PLEDGE

2.1 Pledged Collateral.

(a) The Pledgor hereby assigns as collateral security to the Administrative Agent (for the ratable benefit of the Secured Parties), and hereby grants to the Administrative Agent (for the ratable benefit of the Secured Parties) a security interest in and continuing Lien on, all of the Pledgor's right, title and interest in, to and under each and all of the Pledged Collateral as security and collateral for the prompt and complete payment and performance when due and with all rights and remedies under the UCC (whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise) of the Secured Obligations.

(b) As used herein, the term "proceeds" shall be construed in its broadest sense and shall include whatever is received or receivable when any of the Pledged Collateral, or any proceeds thereof, are sold, collected, exchanged or otherwise disposed of, whether voluntarily or involuntarily, and shall include, without limitation, all rights to payment, including interest and premiums, with respect to any such Pledged Collateral or any proceeds thereof.

2.2 Delivery of Certificates and Instruments. All certificates or instruments representing or evidencing the Pledged Collateral, if any, shall be delivered to and held by or on behalf of the Administrative Agent in accordance with Section 4.5, and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed, undated instruments of transfer or assignment in blank, all in form and substance reasonably satisfactory to the Administrative Agent. The Administrative Agent shall have the right, at any time following the occurrence and during the continuation of an Event of Default, without notice to the Pledgor, to transfer or to register in its name or in the name of any of its nominees any or all of the Pledged Collateral.

2.3 Pledgor's Rights.

(a) Voting Rights.

(i) Unless an Event of Default shall have occurred and be continuing, and the Administrative Agent shall have notified the Pledgor that its rights under this Section 2.3 are being suspended, the Pledgor shall be entitled to exercise all voting and other rights with respect to the Pledged Collateral; provided, however, that the no vote shall be cast, right exercised or other action taken that would be in any material respect inconsistent with, or would reasonably be expected to cause any violation of, any provision of this Agreement or any other Loan Document.

(ii) Upon the occurrence and during the continuation of an Event of Default, after the Administrative Agent shall have notified the Pledgor of the suspension of its rights under this Section 2.3, then, all voting and other rights of the Pledgor with respect to the Pledged Collateral that the Pledgor would otherwise be entitled to exercise pursuant to the terms of this Agreement or otherwise shall cease, and all such rights shall be vested in the Administrative Agent which shall thereupon have the sole right to exercise such rights.

(b) Distributions.

(i) Unless an Event of Default shall have occurred and be continuing, the Pledgor shall be entitled to receive and retain any and all dividends, interest, and other distributions (other than distributions of principal) paid on or distributed in respect of the Pledged Collateral.

(ii) Upon the occurrence and during the continuation of an Event of Default, all rights of the Pledgor to the dividends, interest, principal and other distributions shall cease and all such rights shall be vested in the Administrative Agent which shall thereupon have the sole right to receive such distributions.

(c) Turnover. All distributions and other amounts which are received by the Pledgor contrary to the provisions of this Agreement or the other Loan Documents shall be received in trust for the benefit of the Administrative Agent, shall be segregated from other funds of the Pledgor and shall be paid over to the Administrative Agent as Pledged Collateral in the same form as so received (with any necessary endorsement requested by the Administrative Agent).

2.4 Secured Parties Not Liable. None of the Administrative Agent, any other Secured Party or any of their respective directors, officers, employees, affiliates or agents shall have any obligations or liability under or with respect to any Pledged Collateral by reason of or arising out of this Agreement or the receipt by the Administrative Agent of any payment relating to any Pledged Collateral, nor shall any of the Administrative Agent, any other Secured Party or any of their respective directors, officers, employees, affiliates or agents be obligated in any manner to (a) perform any of the obligations of the Pledgor under or pursuant to any agreement to which the Pledgor is a party; (b) make any payment or inquire as to the nature or sufficiency of any payment or performance with respect to any Pledged Collateral; (c) present or file any claim or collect the payment of any amounts or take any action to enforce any performance with respect to the Pledged

Collateral; or (d) take any other action whatsoever with respect to the Pledged Collateral other than as expressly provided for herein.

2.5 Attorney-in-Fact.

(a) The Pledgor hereby appoints the Administrative Agent, on behalf of the Secured Parties, or any Person, officer or agent whom the Administrative Agent may designate, as its true and lawful attorney-in-fact and proxy, with full irrevocable power and authority in the place and stead of the Pledgor and in the name of the Pledgor or in its own name, at the Pledgor's cost and expense, to the extent reasonable, from time to time to take any action and to execute any instrument which may be reasonably necessary to enforce its rights under this Agreement, including, without limitation, authority to receive, endorse and collect all instruments made payable to the Pledgor representing any distribution, interest payment or other payment in respect of the Pledged Collateral or any part thereof to be paid over to the Administrative Agent pursuant to Section 2.3(b) and to give full discharge for the same. The foregoing grant of authority is a power of attorney coupled with an interest and such appointment shall be irrevocable for the term of this Agreement. Notwithstanding anything in this Section 2.5(a) to the contrary, the Administrative Agent shall not exercise any of the rights as attorney-in-fact provided for in this Section 2.5(a) unless and until an Event of Default has occurred and is continuing.

(b) The Pledgor hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof, in each case pursuant to the powers granted hereunder. The Pledgor hereby acknowledges and agrees that the Administrative Agent shall have no fiduciary duties to the Pledgor in acting pursuant to this power-of-attorney and the Pledgor hereby waives any claims or rights of a beneficiary of a fiduciary relationship hereunder.

2.6 Administrative Agent May Perform. If the Pledgor fails to perform any agreement contained herein after the occurrence and during the continuance of any Event of Default, the Administrative Agent may (but shall not be obligated to) itself perform, or cause performance of, such agreement, and the expenses of the Administrative Agent, including the reasonable fees and expenses of its counsel, incurred in connection therewith shall be payable by the Loan Parties under Section 9.03 of the Credit Agreement.

2.7 Reasonable Care. The Administrative Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Pledged Collateral in its possession if the Pledged Collateral is accorded treatment reasonably equivalent to that which the Administrative Agent accords its own property of the type of which the Pledged Collateral consists, it being understood that the Administrative Agent shall have no responsibility for (a) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Pledged Collateral, whether or not the Administrative Agent has or is deemed to have knowledge of such matters or (b) taking any necessary steps to preserve rights against any parties with respect to any Pledged Collateral.

2.8 Security Interest Absolute. All rights and security interests of the Administrative Agent purported to be granted hereunder, and all obligations of the Pledgor hereunder, shall be absolute and unconditional irrespective of:

(a) any lack of validity or enforceability of any of the Loan Documents or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Secured Obligations, or any other amendment or waiver of or any consent to any departure from the Loan Documents or any other agreement or instrument relating thereto;

(c) any exchange, release or non-perfection of any other collateral, or any release, amendment or waiver of, or consent to any departure from, any guaranty, for all or any of the Secured Obligations;

(d) any bankruptcy or insolvency of any Loan Party or any other Person; or

(e) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Pledgor or any third-party pledgor (other than the defense of payment).

SECTION 3. REPRESENTATIONS AND WARRANTIES

The Pledgor represents and warrants to the Administrative Agent for its benefit and the benefit of the Secured Parties, as of the Effective Date, as follows, which representations and warranties shall survive the execution and delivery of this Agreement:

3 . 1 Organization, Power and Authority. The Pledgor has been duly formed and is an existing company in good standing under the laws of Bermuda, with full company power and authority to execute, deliver and perform its obligations under this Agreement and to own or lease its properties and conduct its business, including the right to pledge, transfer, deliver, deposit and set over the Pledged Collateral pledged by the Pledgor to the Administrative Agent as provided herein.

3 . 2 Valid Security Interest. This Agreement is effective to create in favor of the Administrative Agent, for the ratable benefit of the Secured Parties, a legal, valid, binding and enforceable security interest (except as enforceability may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law) in the Pledged Collateral and proceeds thereof.

3 . 3 No Liens. The Pledgor is the owner of all of its right, title and interest in the Pledged Collateral free from any Liens other than the Liens created pursuant to this Agreement. No Person other than the Pledgor has any right, title or interest in or to the Pledged Collateral.

3 .4 Location of Records/Chief Executive Office. As of the date hereof, the chief executive office of the Pledgor and the office location where the Pledgor keeps its records concerning the Pledged Collateral is located at:

32 Victoria Street
Hamilton HM 12, Bermuda
Telephone: 441-278-4570

The Pledgor's United States NAIC Alien Identification Number is AA-3190958; and the Pledgor's organizational identification number with the Bermuda Registrar of Companies is 41041.

3.5 Consents, Etc. No consent, authorization, approval or other action by, and no notice to or filing with, any governmental authority or any other Person is required either (a) for the pledge by the Pledgor of the Pledged Collateral pursuant to this Agreement or for the due execution, delivery or performance of this Agreement by the Pledgor or (b) for the exercise by the Administrative Agent of the remedies in respect of the Pledged Collateral pursuant to this Agreement, except in the case of clause (b), as may be required in connection with the disposition of the Pledged Collateral by laws affecting the offering and sale of securities generally. Without limiting the generality of the foregoing, the Regulatory Condition Satisfaction is effective with respect to each and every encumbrance of Pledged Collateral hereunder.

3.6 Name. The full legal name of the Pledgor is [JRG Reinsurance Company Ltd.], as indicated on the public record of Bermuda. The Pledgor does not, and has not during the previous five years, used any other name or maintained its chief executive office outside of the jurisdiction referenced in Section 3.4 above.

3.7 Valid Agreement. This Agreement has been duly authorized, executed and delivered by the Pledgor and constitutes a legal, valid and binding obligation of the Pledgor, enforceable against the Pledgor in accordance with its terms except as enforceability may be limited by applicable Debtor Relief Laws affecting the enforcement of creditor's rights generally or by equitable principles relating to enforceability.

SECTION 4. COVENANTS

The Pledgor hereby covenants and agrees from and after the date of this Agreement until the termination of this Agreement in accordance with the provisions of Section 6.9:

4.1 Maintenance of Collateral; Sale of Pledged Collateral; Other Accounts.

(a) The Pledgor shall be permitted to sell items of Pledged Collateral provided that (i) no Default or Event of Default shall have occurred and be continuing and (ii) the proceeds of any such sale are deposited in a Securities Account.

(b) The Pledgor may at any time and from time to time request in writing that the Administrative Agent release from the Lien hereof, and the Administrative Agent shall cause to be released from the Lien hereof, Pledged Collateral so long as, in each instance (i) no Default or Event of Default shall have occurred and be continuing and (ii) after giving effect to such release, the Total Outstanding Secured Facility Amount shall not exceed the lesser of (A) the Total Secured Facility Commitment and (B) the aggregate Collateral Value of the Eligible Collateral then pledged to the Administrative Agent hereunder, in each case determined as of the proposed date of release. Otherwise, Pledgor will not encumber, sell, transfer or otherwise dispose of any of the Pledged Collateral.

(c) Except as expressly permitted under this Section 4.1, the Pledgor shall not sell or otherwise dispose of, or grant any option or warrant with respect to, any of the Pledged Collateral.

(d) Pledgor shall not maintain or deposit any Pledged Collateral into any deposit account, investment account, securities account or similar account unless such account is added as Pledged Collateral hereunder and subject to a Control Agreement.

4.2 No Other Liens. The Pledgor shall not create, incur or permit to exist, and shall defend the Pledged Collateral against and shall take such other action as is reasonably necessary to remove, any Lien or claim on or to the Pledged Collateral, other than the Lien created pursuant to this Agreement, and shall defend the right, title and interest of the Administrative Agent in and to the Pledged Collateral against the claims and demands of all Persons whomsoever.

4.3 Principal Office. The Pledgor shall not establish a new location for its chief executive office, change its jurisdiction of formation or change its name until (i) it has given to the Administrative Agent not less than thirty (30) days' prior written notice of its intention so to do, clearly describing such new location or specifying such new name, as the case may be, and (ii) with respect to such new location or such new name, as the case may be, it shall have taken all action necessary and requested in writing by the Administrative Agent to maintain the security interest of the Administrative Agent in the Pledged Collateral intended to be granted hereby at all times fully perfected, and of first priority, and otherwise in full force and effect.

4.4 Supplements; Further Assurances, etc. The Pledgor shall, at any time and from time to time, at the expense of the Pledgor, promptly execute and deliver, and if applicable cause to be filed, all further instruments and documents, and take all further action, that the Administrative Agent may reasonably request, in order to perfect any security interest granted or purported to be granted hereby in the Pledged Collateral or to enable the Administrative Agent to exercise and enforce its rights and remedies hereunder with respect to any Pledged Collateral.

4.5 Certificates and Instruments. In the event the Pledgor obtains possession of any certificates, or any securities or instruments forming a part of the Pledged Collateral, the Pledgor shall promptly deliver the same to the Administrative Agent together with all necessary instruments of transfer or assignment duly indorsed in blank. Prior to any such delivery, any Pledged Collateral in the Pledgor's possession shall be held by the Pledgor in trust for the Administrative Agent.

4.6 Financing Statements. The Pledgor shall deliver to the Administrative Agent such Financing Statements (or similar statements or instruments of registration under the law of any jurisdiction) as are necessary or desirable to establish and maintain the security interests contemplated hereunder as valid, enforceable, first priority security interests as provided herein and the other rights and security contemplated herein, all in accordance with the UCC or any other applicable law and evidence that such Financing Statements have been filed with the Bermuda Registrar of Companies and the Uniform Commercial Code records of North Carolina and the District of Columbia. The Pledgor shall pay any applicable filing fees and related expenses. The Pledgor authorizes the Administrative Agent to file any such Financing Statements (or similar statements or instruments of registration under the law of any jurisdiction) without the signature of the Pledgor; provided, however, the foregoing does not create any obligation on the part of the Administrative Agent to file any Financing Statements.

4.7 Improper Distributions. Notwithstanding any other provision contained in this Agreement, the Pledgor shall not accept any distributions, dividends or other payments (or any collateral in lieu thereof) in respect of the Pledged Collateral, except to the extent the same are permitted by the terms of this Agreement or the other Loan Documents.

SECTION 5. EXERCISE OF REMEDIES UPON AN EVENT OF DEFAULT

5.1 Remedies Generally. If an Event of Default shall have occurred and be continuing, the Administrative Agent may exercise, in addition to all other rights and remedies granted in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Secured Obligations, all rights and remedies of a secured party under the UCC and all other rights and remedies available at Law or in equity, in each case subject to and in accordance with the Credit Agreement and the other Loan Documents.

5.2 Sale of Pledged Collateral.

(a) Without limiting the generality of Section 5.1, if an Event of Default shall have occurred and be continuing, the Administrative Agent may, without notice except as specified below, sell the Pledged Collateral or any part thereof in one or more parcels at public or private sale or at any of the Administrative Agent's corporate trust offices or elsewhere, for cash, on credit or for future delivery, irrespective of the impact of any such sales on the market price of the Pledged Collateral at any such sale. Each purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of the Pledgor, and the Pledgor hereby waives (to the extent permitted by law) all rights of redemption, stay and/or appraisal which the Pledgor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. The Pledgor agrees that at least ten (10) days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Administrative Agent shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. The Administrative Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. The Pledgor hereby waives any claims against the Administrative Agent arising by reason of the fact that the price at which any Pledged Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if the Administrative Agent accepts the first offer received and does not offer such Pledged Collateral to more than one offeree so long as such process is commercially reasonable.

(b) The Pledgor recognizes that, if an Event of Default shall have occurred and be continuing, the Administrative Agent may elect to sell all or any part of the Pledged Collateral to one or more purchasers in privately negotiated transactions in which the purchasers will be obligated to agree, among other things, to acquire the Pledged Collateral for their own account, for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges that any such private sales may be at prices and on terms less favorable than those obtainable through a public sale (including, without limitation, a public offering made pursuant to a registration statement under the Securities Act of 1933, as amended), and the Pledgor agrees that the Administrative Agent has no obligation to engage in public sales and no obligation to delay sale of any Pledged Collateral to permit the issuer thereof to register the Pledged Collateral for a form of public sale requiring registration under the Securities Act of 1933, as amended. If the Administrative Agent determines to exercise its right to sell any or all of the Pledged Collateral, upon written request the Pledgor shall, from time to time, furnish to the Administrative Agent all such information as is necessary in order to determine the number of shares and other instruments included in the Pledged Collateral which may be sold by the Administrative Agent as exempt transactions under the Securities Act of 1933, as amended, and rules of the Securities Exchange Commission thereunder, as the same are from time to time in effect.

(c) Without limiting the generality of paragraphs (a) and (b) above, upon the occurrence and during the continuance of an Event of Default, the Administrative Agent is entitled (i) to direct KBCM or any other Securities Intermediary to transfer all of the Pledged Collateral to an account in the Administrative Agent's sole name with the Pledgor hereby agreeing never to contest or challenge such direction of the Administrative Agent with KBCM or such other Securities Intermediary but to raise any dispute with respect to such direction only with the Administrative Agent; (ii) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Administrative Agent or as the Administrative Agent shall direct; (iii) to ask or demand for, collect, receive payment of and receipt for any and all property, funds, claims and other amounts due or to become due at any time in respect of or arising out of any of the Pledged Collateral; (iv) to sign and endorse the Pledgor's name to any instrument, statement, certificate, assignment, or other documentation with respect to any of the Pledged Collateral; (v) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect or take possession of or control over the Pledged Collateral or any part thereof and to enforce any other right in respect of any Pledged Collateral; (vi) to defend any suit, action or proceeding brought against the Pledgor with respect to any Pledged Collateral; (vii) to settle, compromise or adjust any suit, action or proceeding described in clause (vi) above and, in connection therewith, to give such discharges or releases as the Administrative Agent may deem appropriate; (viii) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Pledged Collateral as fully and completely as though the Administrative Agent were the absolute owner thereof for all purposes, and to do, at the Administrative Agent's option and the Pledgor's expense, at any time, or from time to time, all acts and things which the Administrative Agent deems necessary to protect, preserve or realize upon the Pledged Collateral and the Administrative Agent's Lien thereon and to effect the intent of this Agreement, all as fully and effectively as the Pledgor might do; and (ix) thereupon apply the Collateral to the Secured Obligations.

5.3 Purchase of Pledged Collateral. The Administrative Agent may be a purchaser of the Pledged Collateral or any part thereof or any right or interest therein at any sale thereof, whether pursuant to foreclosure, power of sale or otherwise hereunder and the Administrative Agent may apply the purchase price to the payment of the Secured Obligations. Any purchaser of all or any part of the Pledged Collateral shall, upon any such purchase, acquire good title to the Pledged Collateral so purchased, free of the security interests created by this Agreement.

5.4 Application of Proceeds. The Administrative Agent shall apply any proceeds from time to time held by it and the net proceeds of any collection, recovery, receipt, appropriation, realization or sale with respect to the Pledged Collateral in accordance with Section 7.02 of the Credit Agreement.

SECTION 6. MISCELLANEOUS PROVISIONS

6.1 Notices. Unless otherwise specifically herein provided, all notices required or permitted under the terms and provisions hereof shall be in writing and any such notice shall be given in accordance with the provisions of Section 9.01 of the Credit Agreement (and, in the case of notices to the Pledgor, addressed to the Pledgor's address as set forth in Section 3.4).

6.2 Continuing Security Interest. This Agreement shall create a continuing security interest in the Pledged Collateral until the release thereof pursuant to Section 6.9.

6.3 Reinstatement. This Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any amount received by the Administrative Agent or any other Secured Party hereunder or pursuant hereto is rescinded or must otherwise be restored or returned by the Administrative Agent or such Secured Party upon the occurrence of any proceeding, voluntary or involuntary, involving the bankruptcy, reorganization, insolvency, receivership, liquidation or other similar arrangement affecting the Pledgor, any other Loan Party or any Subsidiary thereof or upon the appointment of any intervenor or conservator of, or trustee or similar official for, the Pledgor, any other Loan Party or any Subsidiary thereof or any substantial part of the assets of the Pledgor, any other Loan Party or any Subsidiary thereof, or upon the entry of an order by any court avoiding the payment of such amount, or otherwise, all as though such payments had not been made.

6.4 Independent Security. The security provided for in this Agreement shall be in addition to and shall be independent of every other security which the Administrative Agent or the other Secured Parties may at any time hold for any of the Secured Obligations hereby secured, whether or not under the Security Documents. The execution of any other Security Document shall not modify or supersede the security interest or any rights or obligations contained in this Agreement and shall not in any way affect, impair or invalidate the effectiveness and validity of this Agreement or any term or condition hereof. The Pledgor hereby waives its right to plead or claim in any court that the execution of any other Security Document is a cause for extinguishing, invalidating, impairing or modifying the effectiveness and validity of this Agreement or any term or condition contained herein. The Administrative Agent shall be at liberty to accept further security from the Pledgor or from any third party and/or release such security without notifying the Pledgor and without affecting in any way the obligations of the Pledgor under this Agreement. The Administrative Agent shall determine if any security conferred upon the Secured Parties under the Security Documents shall be enforced by the Administrative Agent, as well as the sequence of securities to be so enforced.

6.5 Amendments. No waiver, amendment, modification or termination of any provision of this Agreement, or consent to any departure by the Pledgor therefrom, shall in any event be effective without the prior written consent of each of the parties hereto, and none of the Pledged Collateral shall be released without the written consent of the Administrative Agent upon and subject to the provisions of Section 4.1 hereof. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

6.6 Successors and Assigns. This Agreement shall be binding upon the Pledgor its successors, transferees and assigns and shall inure to the benefit of the Administrative Agent and the other Secured Parties and their respective successors, transferees and assigns. The Pledgor shall not assign or otherwise transfer any of its rights or obligations under this Agreement without the written consent of the Administrative Agent.

6.7 Administrative Agent. The Administrative Agent has been appointed to act as the Administrative Agent hereunder by the Secured Parties. The Administrative Agent, in its capacity as the agent for the Secured Parties shall be obligated, and shall have the sole and exclusive right hereunder, to make demands, to give notices, to exercise or refrain from exercising any rights or remedies, and to take or refrain from taking any action on behalf of the Secured Parties (including, without limitation, the release or substitution of Pledged Collateral in accordance with the provisions of this Agreement), in accordance with this Agreement, the Credit Agreement and the other Loan Documents. In furtherance of the foregoing provisions of this Section 6.7, each Secured Party, by its acceptance of the benefits hereof, agrees that it shall have no right individually to realize upon any of the Pledged Collateral hereunder, it being understood and agreed by such Secured Party that all rights and remedies hereunder may be exercised solely by the Administrative Agent for the benefit of the Secured Parties in accordance with the terms of this Section 6.7. The Administrative Agent may resign in accordance with Section 8.08 of the Credit Agreement. After the Administrative Agent's resignation thereunder as the Administrative Agent, the provisions of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it under this Agreement while it was the Administrative Agent hereunder. The powers conferred on the Administrative Agent hereunder are solely to protect the interests of the Secured Parties in the Collateral and shall not impose any duty upon the Administrative Agent or any other Secured Party to exercise any such powers. The Administrative Agent and the other Secured Parties shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees or agents shall be responsible to the Pledgor for any act or failure to act hereunder.

6.8 Survival. All agreements, statements, representations and warranties made by the Pledgor herein or in any certificate or other instrument delivered by the Pledgor or on its behalf under this Agreement shall be considered to have been relied upon by the Administrative Agent and the other Secured Parties and shall survive the execution and delivery of this Agreement regardless of any investigation made by the Administrative Agent or the other Secured Parties or made on their behalf.

6.9 Continuing Security Interest; Transfer of Loans. This Agreement shall create a continuing security interest in the Pledged Collateral and shall remain in full force and effect until the Termination Date. Without limiting the generality of the foregoing, but subject to the terms of the Credit Agreement and any other Loan Document, any Lender may assign or otherwise transfer any Loans held by it to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to the Lenders herein or otherwise. Upon the Termination Date, the security interest granted hereby shall terminate hereunder and of record and all rights to the Pledged Collateral shall revert to the Pledgor. Upon any such termination, or any release of Pledged Collateral pursuant to Section 4.1 above, the Administrative Agent shall, at the Pledgor's expense, execute and deliver to the Pledgor such documents as the Pledgor shall reasonably request to evidence such termination and shall use commercially reasonable efforts to return to the Pledgor any Pledged Collateral previously delivered to the Administrative Agent.

6.10 No Waiver; Remedies Cumulative. No failure or delay on the part of the Administrative Agent in exercising any right, power or privilege hereunder and no course of dealing between any of the parties hereto shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which the Administrative Agent would otherwise have.

6.11 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which shall together constitute one and the same instrument.

6.12 Headings Descriptive. The headings of the several sections and subsections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

6.13 Severability. In case any provision contained in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

6.14 Governing Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF LAWS OTHER THAN THE LAW OF THE STATE OF NEW YORK (OTHER THAN ANY MANDATORY PROVISIONS OF THE UCC RELATING TO THE LAW GOVERNING PERFECTION AND THE EFFECT OF PERFECTION OF THE SECURITY INTERESTS GRANTED THEREUNDER)).

6.15 Consent to Jurisdiction.

(a) The Pledgor hereby irrevocably and unconditionally submit, for itself and its property, to the non-exclusive jurisdiction of any Ohio State court or Federal court of the United States of America sitting in Cuyahoga County, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents or for recognition or enforcement of any judgment, and the Pledgor hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such Ohio State court or, to the extent permitted by law, in such Federal court. The Pledgor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any Secured Party may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Pledgor or its properties in the courts of any jurisdiction.

(b) The Pledgor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which they may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Agreement or the other Loan Documents or for recognition or enforcement of any judgment, in any Ohio State court or Federal court of the United States of America sitting in Cuyahoga County. The Pledgor hereby irrevocably and unconditionally waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) The Pledgor irrevocably consents to service of process in the manner provided for notices in Section 6.1. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

(d) The Pledgor shall maintain an agent to receive service of process at all times until the Termination Date as provided in Section 9.10(e) of the Credit Agreement.

6.16 Waiver of Jury Trial. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT, THE SECURED PARTIES AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 6.16.

6.17 Entire Agreement. This Agreement, together with any other agreement executed in connection herewith (including the Credit Agreement and the other Loan Documents), is intended by the parties as a final expression of their agreement as to the matters covered hereby and is intended as a complete and exclusive statement of the terms and conditions thereof. Accordingly, this Agreement may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten or oral agreements between the parties.

6.18 Waiver of Defenses.

(a) To the maximum extent permitted by applicable law, the Pledgor hereby waives: (i) any defense of a statute of limitations; (ii) any defense based on the legal disability of any Person or any discharge or limitation of the liability of any Person to the Administrative Agent or the Secured Parties, whether consensual or arising by operation of law; (iii) presentment, demand, protest and notice of any kind (other than as expressly provided by the Loan Documents); and (iv) any defense based upon or arising out of any defense which any Person may have to the payment or performance of any part of the Secured Obligations (other than the defense of payment).

(b) The Pledgor hereby waives, to the maximum extent permitted by applicable law (i) all rights under any law limiting remedies, including recovery of a deficiency, under an obligation secured by a mortgage or deed of trust on real property if the real property is sold under a power of sale contained in the mortgage, and all defenses based on any loss whether as a result of any such sale or otherwise, of the Pledgor's right to recover any amount from any Person, whether by right of subrogation or otherwise; (ii) all rights under any law to require the Administrative Agent to pursue the Borrower or any other Person (including the Pledgor under any other obligation of the Pledgor), any security which the Administrative Agent may hold, or any other remedy before proceeding against the Pledgor; (iii) all rights of reimbursement or subrogation, all rights to enforce any remedy that the Administrative Agent or the Secured Parties may have against any Person, and all rights to participate in any security held by the Administrative Agent, in each case until the Secured Obligations have been indefeasibly paid in full and the covenants of the Loan Documents have been performed in full; (iv) all rights to require the Administrative Agent to give any notices of any kind, including, without limitation, notices of acceptance, nonpayment, nonperformance, protest, dishonor, default, delinquency or acceleration, or to make any presentments, demands or protests, except as set forth herein or expressly provided in the Credit Agreement or any of the Loan Documents; (v) all rights to assert the bankruptcy or insolvency of any Person as a defense hereunder or as the basis for rescission hereof; (vi) all rights under any law purporting to reduce the Pledgor’s obligations hereunder if the Secured Obligations are reduced other than as a result of payment in cash of such Secured Obligations including, without limitation, any reduction based upon any Secured Party’s error or omission in the administration of the Secured Obligations; (vii) all defenses based on the incapacity, disability or lack of authority of any other Loan Party or any other Person, the repudiation of the Loan Documents by any other Loan Party or any Person, the failure by the Administrative Agent or the Secured Parties to enforce any claim against any Person, or the unenforceability in whole or in part of any Loan Documents; (viii) all suretyship and guarantor’s defenses generally including, without limitation, defenses based upon collateral impairment or any statute or rule of law providing that the obligation of a surety or guarantor must not exceed or be more burdensome than that of the principal; (ix) all rights to insist upon, plead or in any manner whatever claim or take the benefit or advantage of, any appraisal, valuation, stay, extension, marshaling of assets, redemption or similar law, or exemption, whether now or at any time hereafter in force, which may delay, prevent or otherwise affect the performance by the Pledgor of its obligations under, or the enforcement by the Administrative Agent of, this Agreement; (x) any requirement on the part of the Administrative Agent or the holder of any obligations under the Loan Documents to mitigate the damages resulting from any default; and (xi) except as otherwise specifically set forth herein, all rights of notice and hearing of any kind prior to the exercise of rights by the Administrative Agent upon the occurrence and during the continuation of an Event of Default to repossess with judicial process or to replevy, attach or levy upon the Collateral. To the extent permitted by law, the Pledgor waives the posting of any bond otherwise required of the Administrative Agent in connection with any judicial process or proceeding to obtain possession of, replevy, attach, or levy upon the Collateral, to enforce any judgment or other security for the Secured Obligations, to enforce any judgment or other court order entered in favor of the Administrative Agent, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction, this Agreement or any other agreement or document between the Pledgor, the Administrative Agent and the Secured Parties. The Pledgor further agrees that upon the occurrence and during the continuation of an Event of Default, the Administrative Agent may elect to nonjudicially or judicially foreclose against any real or personal property security it holds for the Secured Obligations or any part thereof, or to exercise any other remedy against any Person, any security or any guarantor, even if the effect of that action is to deprive the Pledgor of the right to collect reimbursement from any Person for any sums paid by the Pledgor to the Administrative Agent or any Secured Party.

(c) If the Administrative Agent may, under applicable law, proceed to realize its benefits under any of the Loan Documents giving the Administrative Agent a Lien upon any Collateral, whether owned by the Borrower or by any other Person, either by judicial foreclosure or by non-judicial sale or enforcement, the Administrative Agent may, at its sole option, determine which of its remedies or rights it may pursue without affecting any of the rights and remedies of the Administrative Agent under this Agreement. If, in the exercise of any of such rights and remedies, the Administrative Agent shall forfeit any of its rights or remedies, including any right to enter a deficiency judgment against the Borrower or any other Person, whether because of any applicable laws pertaining to "election of remedies" or the like, to the extent permitted by applicable law, the Pledgor hereby consents to such action by the Administrative Agent and waives any claim based upon such action, even if such action by the Administrative Agent shall result in a full or partial loss of any rights of subrogation, indemnification or reimbursement which the Pledgor might otherwise have had but for such action by the Administrative Agent or the terms herein. Any election of remedies which results in the denial or impairment of the right of the Administrative Agent to seek a deficiency judgment against any of the parties to any of the Loan Documents shall not, to the extent permitted by applicable law, impair the Pledgor's obligation hereunder. In the event the Administrative Agent shall bid at any foreclosure or trustee's sale or at any private sale permitted by law or the Loan Documents, the Administrative Agent may bid all or less than the amount of the Secured Obligations. To the extent permitted by applicable law, the amount of the successful bid at any such sale, whether the Administrative Agent or any other party is the successful bidder, shall be conclusively deemed to be the fair market value of the Collateral and the difference between such bid amount and the remaining balance of the Secured Obligations shall be conclusively deemed to be the amount of the Secured Obligations.

6.19 Subrogation, Etc. Notwithstanding any payment or payments made by the Pledgor or the exercise by the Administrative Agent of any of the remedies provided under this Agreement or any other Loan Document, until the Secured Obligations have been indefeasibly paid in full, the Pledgor shall have no claim (as defined in 11 U.S.C. § 101(5)) of subrogation to any of the rights of the Administrative Agent against any Person, the Pledged Collateral or any guaranty held by the Administrative Agent for the satisfaction of any of the Secured Obligations, nor shall the Pledgor have any claims (as defined in 11 U.S.C. § 101(5)) for reimbursement, indemnity, exoneration or contribution from any Person in respect of payments made by the Pledgor hereunder. Notwithstanding the foregoing, if any amount shall be paid to the Pledgor on account of such subrogation, reimbursement, indemnity, exoneration or contribution rights at any time before the Secured Obligations have been paid in full, such amount shall be held by the Pledgor in trust for the Administrative Agent segregated from other funds of the Pledgor, and shall be turned over to the Administrative Agent in the exact form received by the Pledgor (duly endorsed by the Pledgor to the Administrative Agent if required) to be applied against the Secured Obligations in such amounts and in such order as the Administrative Agent may elect, or as directed by the Administrative Agent.

6.20 Administrative Agent. The rights, powers, benefits, privileges, immunities and indemnities given to the Administrative Agent and set forth in the Credit Agreement are expressly incorporated herein by reference thereto and shall survive the termination of this Agreement and the resignation or removal of the Administrative Agent.

[SIGNATURE PAGE FOLLOWS]

EXHIBIT D (Continued)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their officers thereunto duly authorized as of the date first above written.

[JRG REINSURANCE COMPANY LTD.]

By: ______________________________
Name: [Robert Lawrenz]
Its: [Chief Financial Officer]

KEYBANK NATIONAL ASSOCIATION,
as Administrative Agent

By: ______________________________
Name: James Cribbet
Title: Vice President

EXHIBIT E

[June 5, 2013]

KeyBanc Capital Markets Inc.
127 Public Square
MC: OH-01-27-04-24
Cleveland, Ohio 44114
Attention: Boris Goldsteyn

Re: Account No. [20904499] maintained by [JRG Reinsurance Company Ltd.] (***"Pledgor"***) with KeyBanc Capital Markets Inc.

Ladies and Gentlemen:

KeyBanc Capital Markets Inc. (***"Securities Intermediary"***) has established a securities account, Account No. [20904499], in the name of Pledgor (the ***"Account"***). The Account itself, as well as the financial assets which comprise the Account, all investment property, and financial assets now or hereafter held in the Account, including any proceeds and income thereof, are hereinafter referred to as the ***"Pledged Assets."***

Notice is hereby given to Securities Intermediary that Pledgor has granted a security interest in the Account and the Pledged Assets to KeyBank National Association, in its capacity as administrative agent (***"Agent"***), pursuant to that certain Pledge and Security Agreement of even date herewith (as modified, supplemented and replaced from time to time, the ***"Pledge Agreement"***) and pursuant to that certain Credit Agreement also of even date herewith (as modified, supplemented and replaced from time to time, the "***Credit Agreement***"). Agent is administrative agent for the ***"Lenders"*** and the other ***"Secured Creditors"*** (as each such term is defined in the Pledge Agreement) upon and subject to the terms and conditions of the Credit Agreement. The security interest granted by Pledgor to Agent pursuant to the Pledge Agreement is granted to secure the ***"Secured Obligations"*** (as defined in the Pledge Agreement).

Any notices to Agent with respect to this agreement should be addressed as follows:

KEYBANK NATIONAL ASSOCIATION
127 Public Square
Cleveland, Ohio 44114
Attention: James Cribbet, Vice President
Telephone Number: (216) 689-4926
Facsimile Number: (216) 689-4981

The purpose of this agreement is to establish control over the Account and the Pledged Assets in Agent and to perfect the security interest of Agent in the Account and the

Pledged Assets for the benefit of the Secured Creditors and to secure the timely payment and performance of the Secured Obligations. Accordingly, Securities Intermediary, Agent and Pledgor acknowledge and agree to the following:

1. The Account is a "securities account" within the meaning of Article 8 of the Uniform Commercial Code of the State of New York (the ***"UCC"***) and that all property other than cash held by Securities Intermediary in the Account will be treated as financial assets under the UCC; and Pledgor hereby instructs Securities Intermediary, and Security Intermediary hereby agrees, that Securities Intermediary shall comply with entitlement orders or other instructions originated by Agent without further consent by Pledgor.

2. In the event Agent provides Securities Intermediary with a notice from Agent that Agent is thereby exercising exclusive control over the Account in substantially the form of Exhibit A to this agreement (a "***Notice of Exclusive Control***"), the only instructions that shall be accepted by Securities Intermediary in regard to or in connection with the Account and the Pledged Assets shall be given by Agent.

3. So long as Agent maintains a security interest in the Account and the Pledged Assets, Agent shall be entitled to receive any and all notices and statements of account that Pledgor is entitled to receive.

4. This agreement shall not impose or create duties upon Securities Intermediary greater than or in addition to the customary and usual obligations and duties of a broker, except and to the extent that Securities Intermediary shall henceforth accept instructions in connection with the Pledged Assets only as provided herein and shall not enter into any agreement to comply with entitlement orders or other directions concerning the Account or the Pledged Assets without the prior written consent of Agent and Pledgor.

5. Securities Intermediary (i) shall not be permitted to follow any instructions initiated by Pledgor with respect to the withdrawal of any amounts from the Account unless Pledgor certifies to Securities Intermediary and Agent in writing that such withdrawal complies with the requirements for release of Pledged Collateral (as defined in the Pledge Agreement) upon and subject to the provisions of Section 4.1 of the Pledge Agreement (and Pledgor promptly shall provide to Agent such information as Agent may reasonably request to confirm such certification), (ii) shall not, following Agent's issuance of a Notice of Exclusive Control, be permitted to follow any instructions initiated by Pledgor with respect to the purchase and sale of any of the Pledged Assets, and (iii) shall, without further consent of Pledgor, follow any and all instructions initiated by the following employees of Agent, or by any other employees of Agent specified by Agent in writing from time to time: Phillip Reaves; Margaret Vacca; Antoinette Anders; Larry Brown; and Sandra Wilder.

6. As of the date hereof, the Pledged Assets are owned by Pledgor and are held by Securities Intermediary in the Account.

EXHIBIT E (Continued)

7. Any rights which Securities Intermediary may have in the Pledged Assets, or the Account, whether arising out of a security interest, right of setoff, or otherwise, are and shall remain subordinate to the security interest of Agent in the Pledged Assets and the Account.

8. Securities Intermediary shall comply strictly with the provisions set forth herein and not make or pay outside of the Account and the terms of this agreement any dividends, distributions, sales proceeds or any other sums with respect to the Account or the Pledged Assets to Pledgor or any other person without Agent's prior written consent.

9. Securities Intermediary shall comply with instructions received from Agent related to the Account and the Pledged Assets, without any further consent of Pledgor.

10. Securities Intermediary has not received notice: (i) from any entities other than Agent that the Pledged Assets are subject to a security interest, or (ii) of any adverse claim with respect to the Account or the Pledged Assets.

11. In the event that any of the Pledged Assets are traded or sold, all cash and securities received by Securities Intermediary as a result thereof shall be held by Securities Intermediary in the Account and will be subject to the provisions of this agreement to the same extent as the Pledged Assets and any substitutions hereafter of any of the Pledged Assets shall be held by Securities Intermediary in the Account and will be subject to the provisions of this agreement to the same extent as the Pledged Assets.

12. Securities Intermediary shall not: (i) consent to the granting of any other security interest in the Account or the Pledged Assets, (ii) register any other pledge of Pledgor's interest in the Account or the Pledged Assets, or (iii) enter into any agreement with any person or entity other than Agent with respect to the Account or the Pledged Assets.

13. Pledgor agrees that it will release, indemnify and hold Securities Intermediary, its parent corporation, affiliates, officers, directors, employees, agents and assigns harmless from any and all claims, liabilities and expenses (including reasonable attorneys fees and other costs of defense) relating to or incurred in connection with the Secured Obligations or the Pledged Assets, including but not limited to those actions or inactions taken or not taken in reliance on this agreement, except to the extent that such claims, liabilities or expenses are caused by Securities Intermediary's own gross negligence or willful misconduct. This indemnification shall survive termination of this agreement.

14. This agreement, including, without limitation, all rights and obligations with respect to the Account and the Pledged Assets, shall be governed by and construed in accordance with the laws of the State of New York.

15. ARBITRATION AGREEMENT.

Each of Agent, Pledgor and Securities Intermediary here agree that:

(A) All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except a provided by the rules of the arbitration forum in which a claim is filed.

(B) Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.

(C) The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.

(D) The arbitrators do not have to explain the reason(s) for their award.

(E) The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.

(F) The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In come cases, a claim that is ineligible for arbitration may be brought in court.

(G) The rules of the arbitration forum in which the claim is filed and any amendments thereto, shall be incorporated into this agreement.

(H) No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; or who is a member of a putative class action until: (1) the class certification is denied; or (ii) the class is decertified; or (iii) Pledgor is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein.

Each party hereto agrees to arbitrate any disputes between or among Securities Intermediary, Agent, any other Secured Creditor, or Pledgor in respect of this agreement. Each party hereto specifically agrees and recognizes that all controversies which may arise between or among Securities Intermediary, Agent, any other Secured Creditor or Pledgor, or any of their respective agents, representatives or employees, jointly or severally, concerning this agreement or any transaction, account, or the construction, performance or breach of or relating to this agreement, shall be determined by arbitration to the fullest extent provided by law. Such arbitration shall be in accordance with the rules then in effect of the Arbitration Committee of the New York Stock Exchange, Inc. or the National Association of Securities Dealers, Inc., as we may elect. Pledgor hereby authorizes

EXHIBIT E (Continued)

Securities Intermediary, if Pledgor does not make such election within fifteen (15) days after notification from Securities Intermediary requesting such election, to make such election on Pledgor's behalf.

[No additional provisions are on this page; the page next following is the signature page.]

EXHIBIT E (Continued)

If you agree to the matters set forth above, please have your duly authorized signatory execute this agreement below and return it to Pledgor.

Very truly yours,

PLEDGOR:

[JRG REINSURANCE COMPANY LTD.]

By: ____________________________
[Robert Lawrenz, Chief Financial Officer]

EXHIBIT E (Continued)

Acknowledged and Agreed to as of
June 5, 2013

AGENT:

KEYBANK NATIONAL ASSOCIATION

By: ____________________________________
James Cribbet, Vice President

Acknowledged and Agreed to as of
June 5, 2013

SECURITIES INTERMEDIARY:

KEYBANC CAPITAL MARKETS INC.

By: ____________________________________
_______________, Director

EXHIBIT A

[To be placed on Agent's Letterhead]

NOTICE OF EXCLUSIVE CONTROL

[Date]

KeyBanc Capital Markets Inc.
127 Public Square
Mail Code: OH-01-27-0424
Cleveland, Ohio 44114
Attention: Boris Goldsteyn

Re: Account Control Agreement dated as of June 5, 2013 (the "Agreement") among KeyBank National Association, as Administrative Agent, as Secured Party, [JRG Reinsurance Company Ltd.], as Pledgor, and KeyBanc Capital Markets Inc., as Securities Intermediary, relating to Securities Account No. [20904499] (the "Account")

Ladies and Gentlemen:

This constitutes the Notice of Exclusive Control referred to in the above referenced Agreement. Please transfer the Pledged Assets (defined in the Agreement) to our securities account number _______________ at ______________________________________.

You are hereby instructed not to permit any access to or disposition over the Account by, and not to accept any instruction or entitlement order with regard to the Account from any person other than Secured Party.

None of the officers, agents or other representatives of Pledgor or any of its affiliates shall at any time hereafter be permitted to direct the transfer or disposition of funds in the Account, or to draw upon or otherwise exercise any authority or power with respect to the Account.

KEYBANK NATIONAL ASSOCIATION, Administrative Agent

By: ____
Title: ____

Schedule 1.01

Existing Letters of Credit

		Original	Current	Effective	Expiry
LC Number	**Beneficiary**	**Amount**	**Amount**	**Date**	**Date**
S322006000A	Republic Underwriters Insurance Company	$ 4,500,000.00	$ 15,822,921.13	1-4-12	1-4-14
S322007000A	Republic Underwriters Insurance Company	$ 5,300,000.00	$ 12,614,214.69	1-4-12	1-4-14
S322043000A	Gulfstream Property & Casualty Insurance Company	$ 13,869,752.88	$ 14,715,752.88	1-31-12	1-31-14
S322288000A	United Specialty Insurance Company	$ 980,762.00	$ 980,762.00	6-29-12	6-29-13
S322289000A	State National Insurance Company	$ 1,043,335.00	$ 1,043,335.00	6-29-12	6-29-13
S322290000A	Home State County Mutual Insurance Company	$ 650,000.00	$ 1,300,000.00	6-29-12	6-29-13
S322291000A	Home State County Mutual Insurance Company	$ 325,000.00	$ 750,000.00	6-29-12	6-29-13
S322344000A	Old American Insurance Company	$ 100,000.00	$ 100,000.00	8-14-12	8-14-13

Schedule 2.01(a)

Secured Facility Commitment Schedule

Name of Lender		Secured Facility Commitment
KeyBank National Association	$	12,500,000.00
SunTrust Bank	$	12,500,000.00
Bank of Montreal, Chicago Branch	$	12,500,000.00
The Bank of Nova Scotia	$	11,000,000.00
The Bank of N.T. Butterfield & Son Limited	$	5,000,000.00
First Tennessee Bank, N.A.	$	5,000,000.00
VantageSouth Bank	$	4,000,000.00
Total	$	62,500,000.00

Schedule 2.01(b)

Unsecured Facility Commitment Schedule

Name of Lender	Unsecured Facility Commitment	
KeyBank National Association	$	12,500,000.00
SunTrust Bank	$	12,500,000.00
Bank of Montreal, Chicago Branch	$	12,500,000.00
The Bank of Nova Scotia	$	11,000,000.00
The Bank of N.T. Butterfield & Son Limited	$	5,000,000.00
First Tennessee Bank, N.A.	$	5,000,000.00
VantageSouth Bank	$	4,000,000.00
Total	$	62,500,000.00

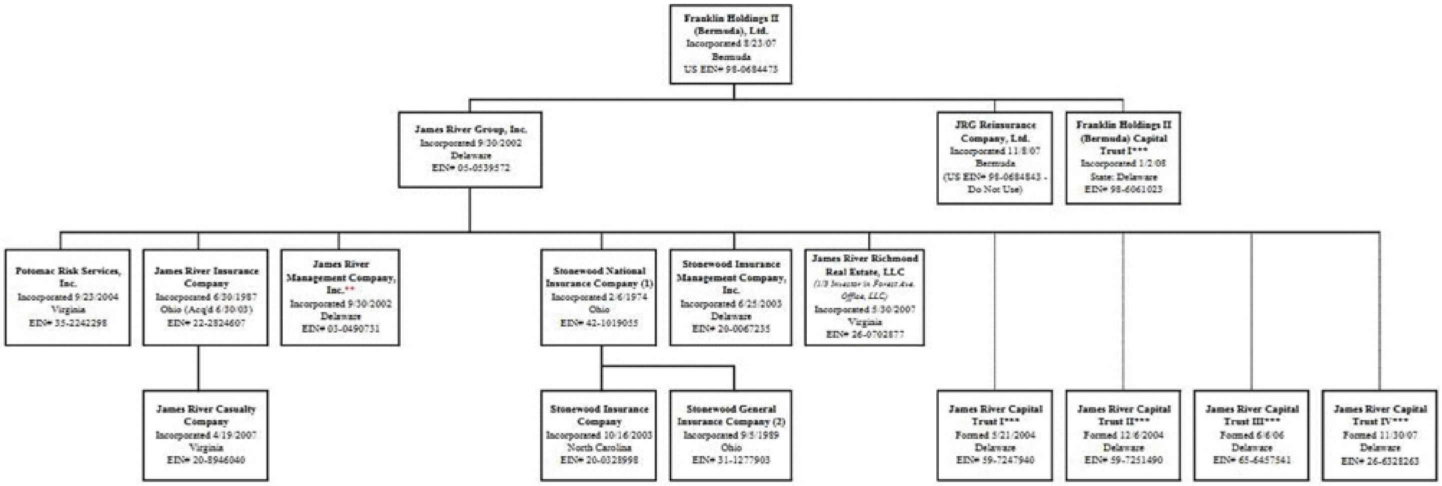
Schedule 3.05

Insurance Licenses

Bermuda

Schedule 3.06A

Subsidiaries


Franklin Holdings II (Bermuda), Ltd.
Incorporated 8/23/07
Bermuda
US EIN# 98-0684473
James River Group, Inc.
Incorporated 9/30/2002
Delaware
EIN# 05-0539572
JRG Reinsurance Company, Ltd.
Incorporated 11/8/07
Bermuda
(US EIN# 98-0684843 - Do Not Use)
Franklin Holdings II (Bermuda) Capital Trust I***
Incorporated 1/2/08
State: Delaware
EIN# 98-6061023
Potomac Risk Services, Inc.
Incorporated 9/23/2004
Virginia
EIN# 35-2242298
James River Insurance Company
Incorporated 6/30/1987
Ohio (Acq'd 6/30/03)
EIN# 22-2824607
James River Management Company, Inc.**
Incorporated 9/30/2002
Delaware
EIN# 03-0490731
Stonewood National Insurance Company (1)
Incorporated 2/6/1974
Ohio
EIN# 42-1019055
Stonewood Insurance Management Company, Inc.
Incorporated 6/25/2003
Delaware
EIN# 20-0067235
James River Richmond Real Estate, LLC
(1/3 Investor in Forest Ave. Office, LLC)
Incorporated 5/30/2007
Virginia
EIN# 26-0702877
James River Casualty Company
Incorporated 4/19/2007
Virginia
EIN# 20-8946040
Stonewood Insurance Company
Incorporated 10/16/2003
North Carolina
EIN# 20-0328998
Stonewood General Insurance Company (2)
Incorporated 9/5/1989
Ohio
EIN# 31-1277903
James River Capital Trust I***
Formed 5/21/2004
Delaware
EIN# 59-7247940
James River Capital Trust II***
Formed 12/6/2004
Delaware
EIN# 59-7251490
James River Capital Trust III***
Formed 6/6/06
Delaware
EIN# 65-6457541
James River Capital Trust IV***
Formed 11/30/07
Delaware
EIN# 26-6328263

* Represents a 10% shareholder that disclaims control

** JRMC operates under the trade name of "James River Insurance Company" in Arizona and under the assumed name of "JRMC of Virginia" in Texas

***Though the trusts are wholly-owned, they are not included in the Company's consolidated GAAP results

****Options to purchase Class B common stock were granted to management pursuant to an equity incentive plan. Shares held by management are the result of options exercised. Voting shares controlled by Chairman Abram and Director Oakes are the result of such exercises as well as voting proxies granted by the D. E. Shaw Investor Group.

(1) Formerly Infinity Specialty Insurance Company

(2) Formerly Infinity General Insurance Company

Schedule 3.06B

Investments

None

Schedule 3.11A

Material Debt Agreements

	Borrower	Principal	Maturity
DEBT			
Bermuda			
Franklin Holdings II (Bermuda) Capital Trust I	FHII	15,928,000	March 15, 2038
Comerica letter of credit in the aggregate principal amount of $90,000,000	JRG Reinsurance	Current amount of letter of credit issued as of 3/31/13 is 83,864,486.84	
U.S.			
James River Group Senior Debt	JRG	15,000,000	April 29, 2034
James River Capital Trust I	JRG	7,217,000	May 24, 2034
James River Capital Trust II	JRG	15,464,000	December 15, 2034
James River Capital Trust III	JRG	20,619,000	June 15, 2036
James River Capital Trust IV	JRG	44,827,000	December 15, 2037
		119,055,000	

Schedule 3.11B

Liens

Comerica debt secured by investment property as described in Schedule 3.11(A); and

Borrowers' property encumbered pursuant to any Security Document.

Schedule 3.13

Outstanding Obligations to Repurchase, Redeem or Otherwise Acquire Any Equity Interests of the Parent

None, other than:

(i) Redemption Agreement by and between the Parent and Lehman Brothers Offshore Partners, Ltd. dated April 3, 2013; and

(ii) Redemption Agreement by and between the Parent, Sunlight Capital Ventures, LLC, and Sunlight Capital Partners II, LLC dated April 3, 2013;

provided that the Agreements described in items (i) and (ii) will be terminated no later than the close of business on the Effective Date.

Schedule 3.15

ERISA

401(k) Plans:

JAMES RIVER GROUP, INC. 401(k) Plan
FRANKLIN HOLDINGS (BERMUDA), LTD. 401 (k) Plan

Schedule 6.02

Liens

None

Schedule 6.06

Surplus Relief Reinsurance

None

Exhibit 10.2

CONTINUING GUARANTY OF PAYMENT

WHEREAS, Franklin Holdings (Bermuda), Ltd. (the "Parent") directly or indirectly owns more than 99% of the issued and outstanding capital stock of Franklin Holdings II (Bermuda), Ltd. ("Holdings II");

WHEREAS, Holdings II directly or indirectly owns 100% of the issued and outstanding capital stock of each of (i) JRG Reinsurance Company Ltd. ("JRG Reinsurance" and, collectively with the Parent, the "Borrowers", with each being a "Borrower") and (ii) the undersigned JAMES RIVER GROUP, INC. (the "Guarantor");

WHEREAS, the Parent and JRG Reinsurance, as Borrowers; KeyBank National Association, as Administrative Agent (in such capacity, the "Administrative Agent") and as "Letter of Credit Issuer"; and certain "Lender" parties; and certain other parties are the parties to that certain Credit Agreement of even date herewith (as the same may from time to time be amended, supplemented or replaced, the "Credit Agreement");

WHEREAS, pursuant to the Credit Agreement, inter alia, the Lenders have agreed to advance Loans (as this and other capitalized terms used herein and not otherwise defined herein are defined in the Credit Agreement) to the Borrowers and issue Letters of Credit;

WHEREAS, the Guarantor will receive substantial benefit from the proceeds of the Loans; and

WHEREAS, the Lenders and the Administrative Agent have required that the Guarantor execute this guaranty of payment (this "Guaranty") as a condition to the effectiveness of the Credit Agreement and the Lenders' advance of Loans pursuant and subject to the terms and conditions of the Credit Agreement;

NOW, **THEREFORE**, in order to induce the Lenders and the Administrative Agent to enter into the Credit Agreement, and in consideration of the benefits to accrue to the Guarantor by reason thereof, and for other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby represents and warrants to, and covenants and agrees with each of each Lender, the Letter of Credit Issuer and the Administrative Agent (each a "Guaranteed Creditor" and, collectively, the "Guaranteed Creditors") as follows:

1. Guaranty; Guaranteed Obligations.

(a) The Guarantor does hereby irrevocably and unconditionally guarantee to the Guaranteed Creditors, and each of them, the punctual (i) payment of the full amount, when due (whether by demand, acceleration or otherwise), of the principal and interest on each of the notes issued by the Borrowers pursuant to the Credit Agreement (the "Notes") and any amendment or supplement thereto whether now outstanding or hereafter issued (including interest accruing thereon after the commencement of any case or proceeding under any federal or state bankruptcy, insolvency or similar law (a “Proceeding”) whether or not a claim for such interest is allowable in such Proceeding (“Post-Petition Interest”)) and (ii) payment and performance of all other Indebtedness and other obligations of each Borrower under the Credit Agreement and each of the other Loan Documents, whether now or hereafter existing, due or to become due, direct or contingent, joint, several or independent, secured or unsecured and whether matured or unmatured (including Post-Petition Interest) (all of the liabilities included in clauses (i) and (ii) of this Paragraph are hereinafter collectively referred to as the “Guaranteed Obligations”).

(b) This is a guaranty of payment and performance and not of collection and is the primary obligation of the Guarantor; and the Guaranteed Creditors, and each of them, may enforce this Guaranty against the Guarantor without any prior pursuit or enforcement of the Guaranteed Obligations against the Borrowers, any collateral, any right of set-off or similar right, any other guarantor or other obligor or any other recourse or remedy in the power of the Guaranteed Creditors or any of them.

(c) All payments made by the Guarantor under or by virtue of this Guaranty shall be paid to the Administrative Agent, for the benefit of the Guaranteed Creditors, at the Payment Office or such other place as the Administrative Agent may hereafter designate in writing. The Guarantor hereby agrees to make all payments under or by virtue of this Guaranty to the Administrative Agent as aforesaid on demand; *provided* that all of the Guaranteed Obligations shall automatically be due and payable in full upon the occurrence of an Event of Default of the type described in clause (h) or clause (i) of Article 7 of the Credit Agreement.

2 . Waivers. The Guarantor hereby waives (i) notice of acceptance of this Guaranty, notice of the creation, renewal or accrual of any of the Guaranteed Obligations and notice of any other liability to which it may apply, and notice of or proof of reliance by the Guaranteed Creditors upon this Guaranty, (ii) diligence, protest, notice of protest, presentment, demand of payment, notice of dishonor or nonpayment of any of the Guaranteed Obligations, suit or taking other action or making any demand against, and any other notice to the Borrowers or any other party liable thereon, (iii) any defense based upon any statute or rule of law to the effect that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal, (iv) any defense based upon any Guaranteed Creditor’s administration or handling of the Guaranteed Obligations, except behavior which amounts to bad faith and (v) to the fullest extent permitted by law, any defenses or benefits which may be derived from or afforded by law which limit the liability of or exonerate guarantors or sureties, or which may conflict with terms of this Guaranty.

3. Certain Rights of the Guaranteed Creditors.

(a) So far as the Guarantor is concerned, the Guaranteed Creditors may, at any time and from time to time, without the consent of, or notice to, the Guarantor, and without impairing or releasing any of the Guaranteed Obligations hereunder, upon or without any terms or conditions and in whole or in part:

1. modify or change the manner, place or terms of, and/or change or extend or accelerate the time of payment of, renew or alter any of the Guaranteed Obligations, any security therefor or any liability incurred directly or indirectly in respect thereof (including, without limitation, (A) increase or decrease in the Guaranteed Obligations or the rate of interest on the Guaranteed Obligations and (B) any amendment of the Guaranteed Obligations to permit any Guaranteed Creditors to extend further or additional accommodations to the Borrowers in any form, including credit by way of loan, lease, sale or purchase of assets, guarantee, or otherwise, which shall thereupon be Guaranteed Obligations), and this Guaranty shall apply to the Guaranteed Obligations as so modified, changed, extended, renewed or altered;

2. request, accept, sell, exchange, release, subordinate, surrender, realize upon or otherwise deal with, in any manner and in any order, (a) any other guaranty by whomsoever at any time made of the Guaranteed Obligations or any liabilities (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and/or any offset or right with respect thereto and (b) any property by whomsoever at any time pledged, mortgaged or otherwise encumbered to secure, or howsoever securing, the Guaranteed Obligations or any liabilities (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and/or any offset or right with respect thereto;

3. exercise or refrain from exercising any rights against the Borrowers or against any collateral or others (including, without limitation, any other guarantor) or otherwise act or refrain from acting;

4. settle or compromise any of the Guaranteed Obligations, and security therefor or any liability (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and subordinate the payment of all or any part thereof to the payment of any liability (whether due or not) of the Borrowers to creditors of the Borrowers other than the Guaranteed Creditors when, in the Required Lenders' sole judgment, it considers such subordination necessary or helpful in the protection of its interest or the exercise of its remedies, including, without limitation, the sale or other realization upon collateral;

5. apply in the manner determined by the Required Lenders any sums by whomsoever paid or howsoever realized to any of the Guaranteed Obligations, regardless of what liability or liabilities of the Borrowers remain unpaid; and

6. amend or otherwise modify, consent to or waive any breach of, or any act, omission or default or Event of Default under the Credit Agreement, the Notes, any other Loan Document or any agreements, instruments or documents referred to therein or executed and delivered pursuant thereto or in connection therewith.

(b) Without limiting the generality of paragraph (a), above, the Guarantor consents that the Guaranteed Creditors may, and authorizes the Guaranteed Creditors at any time in their discretion without notice demand and without affecting the indebtedness and liabilities of the Guarantor hereunder, to: (i) accept new or additional documents, instruments, or agreements relative to the Guaranteed Obligations, (ii) consent to the change, restructure or termination of the individual, partnership, or company structure or existence of a Borrower, the Guarantor, any other guarantor obligor or any Affiliate of a Borrower or the Guarantor and correspondingly restructure the Guaranteed Obligations, (iii) accept partial payments on the Guaranteed Obligations, (iv) amend, alter, exchange, substitute, transfer, enforce, perfect or fail to perfect, waive, subordinate, terminate, or release any collateral or other guaranties and (iv) assign the Guaranteed Obligations or any rights related thereto in whole or in part.

3. Obligations Absolute. This Guaranty and the obligations of the Guarantor hereunder shall be valid and enforceable and shall not be subject to limitation, impairment or discharge for any reason (other than the payment in full of the Guaranteed Obligations), including, without limitation, the occurrence of any of the following, whether or not the Guarantor shall have had notice or knowledge of any of them: (i) any failure to assert or enforce or agreement not to assert or enforce, or the stay or enjoining by order of court, by operation of law or otherwise, of the exercise or enforcement of, any claim or demand of any right, power or remedy with respect to the Guaranteed Obligations or any agreement relating thereto or with respect to any other guaranty thereof or security therefor, (ii) any waiver, amendment or modification of, or any consent to departure from, any of the terms or provisions (including, without limitation, provisions relating to Events of Default) of the Credit Agreement, the Notes, any other Loan Document or any other agreement at any time executed in connection therewith, (iii) the Guaranteed Obligations or any portion thereof at any time being found to be illegal, invalid or unenforceable in any respect, (iv) the application of payments received from any source to the payment of indebtedness other than the Guaranteed Obligations, even though the Guaranteed Creditors might have elected to apply such payment to the payment of all or any part of the Guaranteed Obligations, (v) any failure to perfect or continue perfection of a security interest in any collateral which secures any of the Guaranteed Obligations, (vi) any defenses, set-offs or counterclaims which the Borrowers may allege or assert against the Guaranteed Creditors or any of them in respect of the Guaranteed Obligations, (vii) the avoidance or voidability of the Guaranteed Obligations under the Bankruptcy Code or other applicable laws and (viii) any other act or thing or omission which may or might in any manner or to any extent vary the risk of the Guarantor as an obligor in respect of the Guaranteed Obligations.

4 . Representations and Warranties. The Guarantor hereby represents and warrants to the Guaranteed Creditors that the Guarantor has, independently and without reliance upon the Guaranteed Creditors and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Guaranty, and the Guarantor has established adequate means of obtaining from any other obligors on a continuing basis information pertaining to, and is now and on a continuing basis will be completely familiar with, the financial condition, operations, properties and prospects of such other obligors.

5. Subrogation.

(a) Any and all rights and claims of the Guarantor against a Borrower or any of its property arising by reason of any payment by the Guarantor to the Guaranteed Creditors or any of them pursuant to the provisions of this Guaranty, shall be subordinate and subject in right of payment to the prior and indefeasible payment in full of all Guaranteed Obligations to the Guaranteed Creditors, and until such time the Guarantor shall have no right of subrogation, contribution, reimbursement or similar right and hereby waives any right to enforce any remedy the Guaranteed Creditors or the Guarantor may now or hereafter have against such Borrower, any endorser of any other guarantor of all or any part of the Guaranteed Obligations of such Borrower and any right to participate in, or benefit from, any security given to the Guaranteed Creditors to secure any Guaranteed Obligations. Any promissory note evidencing such liability of such Borrower to the Guarantor shall be non-negotiable and shall expressly state that it is subordinated pursuant to this Guaranty.

(b) All Liens of the Guarantor, if any, whether now or hereafter arising and however existing, in any assets of a Borrower or any assets securing Guaranteed Obligations shall be and hereby are subordinated to the rights and interests of the Guaranteed Creditors in those assets until the prior and indefeasible payment in full of all Guaranteed Obligations to the Guaranteed Creditors and termination of all commitments and other financing arrangements between the Borrowers and the Guaranteed Creditors; *provided* that the provisions of this sentence shall not be construed as a waiver or modification of the provisions of the Credit Agreement restricting the Borrowers' right to grant or permit Liens on their respective property.

6. Borrower and Other Guarantor Information. The Guarantor acknowledges that the Guarantor is relying upon the Guarantor's own knowledge and is fully informed with respect to each Borrower's financial condition. The Guarantor assumes full responsibility for keeping fully informed of the financial condition of the Borrowers and all other circumstances affecting the Borrowers' ability to perform their obligations to the Guaranteed Creditors, and agrees that the Guaranteed Creditors will have no duty to report to the Guarantor any information that the Guaranteed Creditors or any of them receive about the Borrowers' financial condition or any circumstances bearing on the Borrowers' ability to perform all or any portion of the Guaranteed Obligations, regardless of whether any Guaranteed Creditor has reason to believe that any such facts materially increase the risk beyond that which the Guarantor intends to assume or has reason to believe that such facts are unknown to the Guarantor or has a reasonable opportunity to communicate such facts to the Guarantor.

7. Losses and Expenses. The Guarantor hereby agrees to defend, indemnify and hold harmless each Guaranteed Creditor from and against any losses, costs or expenses (including, without limitation, reasonable attorneys' fees and litigation costs) incurred by such Guaranteed Creditor in connection with any Guaranteed Creditor's collection of any sum due hereunder or its enforcement of its and the other Guaranteed Creditors' rights hereunder.

8. Payments Net. All payments made by the Guarantor hereunder will be made without setoff, counterclaim or other defense. All such payments will be made free and clear of, and

without deduction or withholding for, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein with respect to such payments (but excluding, except as provided in the second succeeding sentence, tax imposed on or measured by the net income or net profits of any Guaranteed Creditor pursuant to the laws of the jurisdiction in which such Guaranteed Creditor is organized or the jurisdiction in which the principal office or applicable lending office of such Guaranteed Creditor is located or any subdivision thereof or therein) and all interest, penalties or similar liabilities with respect thereto (all such non-excluded taxes, levies, imposts, duties, fees, assessments or other charges being referred to collectively as "Taxes"). If any Taxes are so levied or imposed, the Guarantor agrees to pay the full amount of such Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Guaranty, after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein. If any amounts are payable in respect of Taxes pursuant to the preceding sentence, the Guarantor agrees to reimburse each Guaranteed Creditor, upon the written request of such Guaranteed Creditor, for Taxes imposed on or measured by the net income or net profits of such Guaranteed Creditor pursuant to the laws of the jurisdiction in which the principal office or applicable lending office of such Guaranteed Creditor is located and for any withholding of Taxes as such Guaranteed Creditor shall determine are payable by, or withheld from, such Guaranteed Creditor in respect of such amounts so paid to or on behalf of such Guaranteed Creditor pursuant to the preceding sentence and in respect of any amounts paid to or on behalf of such Guaranteed Creditor pursuant to this sentence. The Guarantor will furnish to the Administrative Agent, within 30 days after the date the payment of any Taxes is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by the Guarantor. The Guarantor agrees to indemnify and hold harmless each Guaranteed Creditor, and reimburse such Guaranteed Creditor upon its written request, for the amount of any Taxes so levied or imposed and paid by such Guaranteed Creditor. Without prejudice to the survival of any other agreement of the Guarantor hereunder or under any other Loan Document, the agreements and obligations of the Guarantor contained in this paragraph shall survive the payment in full of the Guaranteed Obligations and all other amounts payable under this Guaranty.

9. Notices. All notices, requests, demands or other communications hereunder shall be in writing delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

If to the Guarantor:

3600 Glenwood Ave, Suite 310
Raleigh, North Carolina 27612
Attention of Gregg Davis, Chief Financial Officer
(Facsimile No. (919) ___-____)

If to a Guaranteed Creditor:

c/o KeyBank National Association, as Administrative Agent
127 Public Square
Cleveland, Ohio 44114
Attention of James Cribbet, Vice President
(Facsimile No. (216) 689-4981)

Any notice, request, demand or other communication hereunder shall be deemed to have been duly given when deposited in the mails, postage prepaid, or in the case of telecopy notice, when sent, addressed as aforesaid. The Administrative Agent and the Guarantor may change the person or address to whom or which notices are to be given hereunder, by notice duly given hereunder.

10. No Waiver by the Guaranteed Creditors. No delay on the part of the Guaranteed Creditors in exercising any of their options, powers or rights, and no partial or single exercise thereof, whether arising hereunder, under the Credit Agreement, the Notes, the other Loan Documents or otherwise, shall constitute a waiver thereof or affect any right hereunder. No waiver of any such rights and no modification, amendment or discharge of this Guaranty shall be deemed to be made by any Guaranteed Creditor or shall be effective unless the same shall be in writing signed by such Guaranteed Creditor, and then such waiver shall apply only with respect to the specific instance involved and shall in no way impair the rights of any other Guaranteed Creditor or of such Guaranteed Creditor or the obligations of the Guarantor to such Guaranteed Creditor in any other respect at any other time.

11. Authorization to Charge Account. If and to the extent payment owed to the Guaranteed Creditors is not made when due hereunder or within three (3) days thereafter, the Guarantor hereby authorizes each Guaranteed Creditor to charge from time to time against any or all of the Guarantor's general deposit accounts with any Guaranteed Creditor any amount so due.

12. Payments Final. Whenever the Guaranteed Creditors shall credit any payment to the Guaranteed Obligations or any part thereof, whatever the source or form of payment, the credit shall be conditional as to the Guarantor unless and until the payment shall be final and valid and indefeasible as to all the world. Without limiting the generality of the foregoing, the Guarantor agrees that if any check or other instrument so applied shall be dishonored by the drawer or any party thereto, or if any payment by the Guarantor or any proceeds of collateral so applied shall thereafter be recovered by any trustee in bankruptcy or anyone else, each Guaranteed Creditor in each case may reverse any entry relating thereto in its books, and the Guarantor shall remain liable therefor even if such Guaranteed Creditor may no longer have in its possession any evidence of the Guaranteed Obligations to which the payment in question was applied.

13. Governing Law; Service; No Set-off. This Guaranty and the respective rights and obligations of the Guaranteed Creditors and the Guarantor hereunder shall be construed and enforced in accordance with the laws of the State of New York applicable to contracts made and to be performed wholly within such state. The Guarantor irrevocably consents that service of

notice, summons or other process in any action or suit in any court of record to enforce this Guaranty may be made upon the Guarantor by mailing a copy of the summons to the Guarantor by certified or registered mail, at the address specified above. The Guarantor hereby waives the right to interpose counterclaims or set-offs of any kind and description in any such action or suit arising hereunder or in connection herewith.

14. Successors and Assigns. This Guaranty shall be binding upon the Guarantor and its successors and assigns, and shall inure to the benefit of the Guaranteed Creditors and their respective successors and assigns. Without limiting the generality of the foregoing, each Guaranteed Creditor may assign its rights under this Guaranty in whole or in part and upon any such assignment, all the terms and provisions of this Guaranty shall inure to the benefit of such assignee to the extent so assigned. The terms used to designate any of the parties herein shall be deemed to include the successors and assigns of such parties and the term “Lender” shall include, in addition to such Lender, any lawful owner, holder or pledgee of a Note or other Obligations or any of them.

15. Final Agreement. This Guaranty, the Credit Agreement and the other Loan Documents represent the final agreement among the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements. There are no unwritten oral agreements between the parties. All prior or contemporaneous agreements, understandings, representations and statements, oral or written, are merged into this Guaranty, the Credit Agreement and the other Loan Documents. Guarantor acknowledges that it has received copies of the Notes and all other Loan Documents.

16. Severability; Limitations.

(a) If this Guaranty by the Guarantor is held or determined to be void, invalid or unenforceable, in whole or in part, such holding or determination shall not impair or affect the validity and enforceability of any clause or provision not so held to be void, invalid or unenforceable. If this Guaranty as to the Guarantor would be held or determined by a court or tribunal having competent jurisdiction to be void, invalid or unenforceable on account of the amount of its aggregate liability under this Guaranty, then, notwithstanding any other provision of this Guaranty to the contrary, the aggregate amount of the liability of the Guarantor under this Guaranty shall, without any further action by the Guarantor, the Guaranteed Creditors or any other person, be automatically limited and reduced to an amount which is valid and enforceable.

(b) Without limiting the generality of paragraph (a), above, the Guarantor, and by acceptance hereof, the Guaranteed Creditors, hereby confirm that it is the intention of all such parties that this Guaranty not constitute a fraudulent transfer or conveyance under the federal Bankruptcy Code, the Uniform Fraudulent Conveyances Act, the Uniform Fraudulent Transfer Act or similar state statute applicable to this Guaranty. Therefore, such parties agree that the Guaranteed Obligations shall be limited to maximum amount as will, after giving effect to such maximum amount and other contingent and fixed liabilities of the Guarantor that are relevant under such laws, and after giving effect to any collections from, rights to receive contribution from or payments made by or on behalf of any other obligor, result in the Guaranteed Obligations not constituting a fraudulent transfer or conveyance.

17. Jurisdiction. This Guaranty is delivered in Cleveland, Ohio, and the Guarantor (a) hereby irrevocably submits to the jurisdiction of the state courts of the State of Ohio and to the jurisdiction of the United States District Court for the Northern District of Ohio, for the purpose of any suit, action or other proceeding arising out of or based upon this Guaranty or the subject matter hereof brought by the Guaranteed Creditors or their successors or assigns, (b) hereby waives, and agrees not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Guaranty or the subject matter hereof may not be enforced in or by such court and (c) hereby waives and agrees not to seek any review by any court of any other jurisdiction which may be called upon to grant an enforcement of the judgment of any such Ohio state or federal court. The Guarantor agrees that its submission to jurisdiction and its consent to service of process by mail is made for the express benefit of the Guaranteed Creditors. Final judgment against the Guarantor in any such action, suit or proceeding may be enforced in other jurisdictions (a) by suit, action or proceeding on the judgment or (b) in any other manner provided by or pursuant to the laws of such other jurisdiction; provided, however, that the Guaranteed Creditors may at their option bring suit, or institute other judicial proceedings, against the Guarantor in any state or federal court of the United States or of any country or place where the Guarantor or its property may be found.

18. Separate Indemnity. As a separate, additional and continuing obligation, the Guarantor unconditionally and irrevocably undertakes and agrees, for the benefit of the Guaranteed Creditors, that, should any amounts not be recoverable from the Guarantor under the above provisions of this Guaranty for any reason whatsoever (including, without limitation, by reason of any provision of the Credit Agreement or any other Loan Documents being or becoming void, unenforceable, or otherwise invalid under any applicable law) then, notwithstanding any notice or knowledge thereof by the Guaranteed Creditors, any of their Affiliates, or any other person, at any time, the Guarantor as sole, original and independent obligor, upon demand by the Administrative Agent or any other the Guaranteed Creditors, will make payment to the Guaranteed Creditors of all such obligations not so recoverable by way of full indemnity, in such currency and otherwise in such manner as is provided in the Credit Agreement or any other Loan Document.

19. Service. The Guarantor irrevocably consents to service of process in the manner provided for notices in Section 9, above. Nothing in any Loan Document will affect the right of any Guaranteed Creditor to serve process in any other manner permitted by law.

20. WAIVER OF JURY TRIAL. THE GUARANTOR AND, BY THEIR ACCEPTANCE OF THIS GUARANTY, THE GUARANTEED CREDITORS HEREBY IRREVOCABLY AGREE TO WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THE

CREDIT AGREEMENT, THE NOTES, THE OTHER LOAN DOCUMENTS OR THIS GUARANTY OR ANY DEALINGS AMONG THEM RELATING TO THE SUBJECT MATTER OF THE CREDIT AGREEMENT, THE NOTES, THE OTHER LOAN DOCUMENTS OR THIS GUARANTY AND THE RELATIONSHIPS THEREBY ESTABLISHED. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including, without limitation, contract claims, tort claims, breach of duty claims, and all other statutory and common law claims. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS OF THIS GUARANTY. In the event of litigation, this provision may be filed as a written consent to a trial by the court.

[No additional provisions are on this page; the page next following is the signature page.]

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be duly executed as fully written above as of this 5th day of June, 2013.

JAMES RIVER GROUP, INC.

By /s/ Gregg Davis HAMILTON, BDA
Gregg Davis, its Chief Financial Officer

Exhibit 10.3

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "First Amendment") is made and entered into as of the 24 th day of September, 2014, by and among:

(i) JAMES RIVER GROUP HOLDINGS, LTD., a Bermuda company (the former company name of which is Franklin Holdings (Bermuda), Ltd.), and JRG REINSURANCE COMPANY LTD., a regulated insurance company domiciled in Bermuda (each a "Borrower" and, collectively, the "Borrowers");

(ii) THE FINANCIAL INSTITUTIONS as signatory lender parties hereto and their successors and assigns (each a "Lender" and, collectively, the "Lenders");

(iii) KEYBANK NATIONAL ASSOCIATION, a national banking association, in its capacities as "Administrative Agent", and "Letter of Credit Issuer" under the Credit Agreement (defined below); and

(iv) BANK OF MONTREAL, CHICAGO BRANCH, which is joining KEYBANK NATIONAL ASSOCIATION and SUNTRUST ROBINSON HUMPHREY, INC. as an additional Joint Book Runner for the purposes of this First Amendment.

Recitals:

A. The Borrowers, the Lenders, the Letter of Credit Issuer and the Administrative Agent and certain other parties are the parties to that certain Credit Agreement dated as of June 5, 2013 (the "Credit Agreement"), pursuant to which, inter alia, the Lenders agreed, subject to the terms and conditions thereof, to advance Loans (as this and other capitalized terms used herein and not otherwise defined herein are defined in the Credit Agreement) to the Borrowers; and the Letter of Credit Issuer agreed, subject to the terms and conditions thereof, to issue Letters of Credit.

B. The Borrowers have requested the Lenders, the Letter of Credit Issuer and the Administrative Agent to (i) extend the Maturity Date, (ii) increase the Total Unsecured Facility Commitment to $112,500,000, and (iii) agree to certain other amendments to the Credit Agreement.

Agreements:

NOW, THEREFORE, in consideration of the foregoing Recitals and the mutual agreements hereinafter set forth, the Borrowers, the Lenders, the Letter of Credit Issuer and the Administrative Agent, intending to be legally bound, hereby agree as follows:

1. Amendments to Credit Agreement. Subject to the terms and conditions of this First Amendment, including, without limitation, Paragraph 2, below:

(a) The definitions of “Fixed Charges”, “LIBO Rate”, “Parent”, “Revolving Availability Termination Date”, and “Unsecured Facility Commitment” in Section 1.01 (Defined Terms) of the Credit Agreement are hereby amended and restated in their entirety to provide, respectively, as follows:

> **“Fixed Charges”** means, for any period, the sum, without duplication, of (a) Consolidated Interest Expense for such period and (b) Restricted Payments made or incurred by the Parent during such period, other than (i) the Restricted Payments made to the Redeemed Investors on or about April 3, 2013 in connection with the Parent’s redemption of Equity Interests of the Parent theretofore owned by the Redeemed Investors and (ii) the 2014 Special Dividend.

* * *

> **“LIBO Rate”** means, with respect to any Eurodollar Borrowing for any Interest Period, the greater of (i) zero percent (0.00%) per annum and (ii) the per annum rate of interest, determined by the Administrative Agent in accordance with its usual procedures (which determination shall be conclusive and binding absent manifest error) as of approximately 11:00 a.m. (London time) two (2) Business Days prior to the beginning of such Interest Period pertaining to such Eurodollar Borrowing, equal to the London Interbank Offered Rate, as published by Bloomberg (or other commercially available source providing quotations of such London Interbank Offered Rate as designated by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market), having a maturity comparable to such Interest Period. In the event that such a rate quotation is not available for any reason, then, subject to clause (i) of the immediately preceding sentence, the rate for such period shall be a comparable replacement rate determined by the Administrative Agent in its good faith commercial judgment at such time rate.

* * *

“Parent” means James River Group Holdings, Ltd., a Bermuda company, and its successors and permitted assigns.

* * *

“Revolving Availability Termination Date” means September 24, 2019 (or if such date is not a Business Day with respect to Eurodollar Loans, the next preceding day that is a Business Day with respect to Eurodollar Loans).

* * *

“Unsecured Facility Commitment” means, with respect to each Lender, the commitment of such Lender to make unsecured Loans and to acquire participations in unsecured Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Unsecured Exposure under the Unsecured Facility, as such commitment may be (a) reduced from time to time pursuant to Section 2.08, (b) increased from time to time pursuant to Section 2.11 and (c) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. As of the First Amendment Effective Date the initial amount of each Lender’s Unsecured Facility Commitment is set forth on Schedule 2.01(b). The aggregate amount of the Unsecured Facility Commitments as of the First Amendment Effective Date is $112,500,000.

(b) The following new defined terms are added to Section 1.01 (Defined Terms) of the Credit Agreement in the appropriate alphabetical order:

“2014 Special Dividend” means the dividend to be made by the Parent to the holders of its Equity Interests after the First Amendment Effective Date and on or before October 31, 2014, which dividend shall not exceed, in the aggregate as to all such holders taken together, seventy million dollars ($70,000,000).

“First Amendment Effective Date” has the meaning specified in the First Amendment to Credit Agreement dated as of September 24, 2014 among the parties to this Agreement as of such date.

(c) The first sentence of Section 5.10 (Use of Proceeds and Letters of Credit) of the Credit Agreement is hereby amended and restated in its entirety to provide as follows:

The proceeds of the Loans will be used only to finance the general corporate purposes of the Borrowers (including, without limitation, liquidity, acquisitions (except to the extent restricted pursuant to this Agreement), the satisfaction of Debt required by Section 4.01(j), a portion of the 2014 Special Dividend, and working capital needs of the Borrowers and their Subsidiaries).

(d) Section 6.08 (Restricted Payments) of the Credit Agreement is hereby amended and restated in its entirety to provide as follows:

Section 6.08. *Restricted Payments.* No Loan Party shall declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so unless, both immediately before and after giving effect to such Restricted Payment, no Default exists; *provided* that nothing in this Section shall be construed to restrict payments by a Subsidiary to its immediate parent entity; and *provided*, *further*, that the Parent may pay the 2014 Special Dividend so long as:

(a) immediately prior to and after giving *pro forma* effect to the payment of the 2014 Special Dividend, no Default has occurred or would result therefrom;

(b) the representations and warranties of the Borrowers under Paragraph 3 of the First Amendment to Credit Agreement dated as of September 24, 2014 among the parties to this Agreement as of such date shall be true and correct in all material respects as of the date on which the 2014 Special Dividend is paid;

(c) without limiting the generality of clause (a) above, as of the end of the Fiscal Quarter most recently ended prior to the payment of the 2014 Special Dividend for which financial statements are required pursuant to Section 5.01 (the "Test Quarter"), and after giving *pro forma* effect to the 2014 Special Dividend and to any Loans or other Debt incurred in connection therewith, as if, as applicable, paid or incurred during such Test Quarter, the Borrowers shall be in compliance with each of Section 6.11, Section 6.12, Section 6.13 and Section 6.14; and

(d) the Parent shall have delivered to the Administrative Agent, on the date of the 2014 Special Dividend, a certificate signed by a Financial Officer to the effect set forth in clauses (a), (b) and (c) above, which shall include, with respect to clause (c), a worksheet setting forth reasonably detailed calculations demonstrating compliance with Sections 6.11, 6.12, 6.13 and 6.14.

(e) The Pricing Schedule to the Credit Agreement is hereby amended and restated in its entirety by the Amended and Restated Pricing Schedule attached as Attachment 1 to this First Amendment and incorporated herein by reference. By way of clarification and not limitation, the Loans under the Unsecured Facility shall commence to accrue interest, the Letters of Credit under the Unsecured Facility shall commence to accrue participation fees, and facility fees under the Unsecured Facility shall commence to accrue in each case at rates per annum reflecting the decreased Applicable Rates as of the First Amendment Effective Date (defined below) and (together with the interest, participation fees and facility fees accrued and unpaid prior to the First Amendment Effective Date) shall be payable on the applicable Interest Payment Date next following the First Amendment Effective Date.

(f) Schedule 2.01(b) (Unsecured Facility Commitment Schedule) to the Credit Agreement is hereby amended and restated in its entirety by the Amended and Restated Schedule 2.01(b) attached as Attachment 2 to this First Amendment and incorporated herein by reference.

2 . Amendment Effective Date; Conditions Precedent. The amendments set forth in Paragraph 1, above, shall not be effective unless and until the date on which all of the following conditions precedent have been satisfied (such date of effectiveness being the "First Amendment Effective Date"):

(a) Officer's Certificate. On the First Amendment Effective Date, after giving effect to the amendments set forth in Paragraph 1, above, (i) there shall exist no Default, and a Financial Officer or other executive officer of each Borrower, on behalf of such Borrower, shall have delivered to the Administrative Agent written confirmation thereof dated as of the First Amendment Effective Date, (ii) the representations and warranties of the Borrowers under Article 3 of the Credit Agreement and under Paragraph 3 of this First Amendment shall have been reaffirmed in writing by each Borrower as being true and correct in all material respects as of the First Amendment Effective Date (unless and to the extent that any such representation and warranty is stated to relate solely to an earlier date, in which case such representation and warranty shall have been true and correct in all material respects as of such earlier date), and (iii) each Borrower shall have reaffirmed in writing that the Regulatory Condition Satisfaction remains effective.

(b) First Amendment. The Administrative Agent or the Special Counsel (defined below) shall have received from each Borrower and each Lender either (i) a counterpart of this First Amendment signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy or email transmission of a signed signature page of this First Amendment) that such party has signed a counterpart of this First Amendment.

(c) Corporate Authorization. Each Borrower shall have delivered to the Administrative Agent a copy, certified by its Secretary or Assistant Secretary, of resolutions of its Board of Directors (or equivalent body otherwise named) authorizing the execution and delivery of this First Amendment and the transactions contemplated hereby, together with the names and signatures of the officers of such Borrower executing or attesting to this First Amendment, in form and substance reasonably satisfactory to the Administrative Agent.

(d) Good Standing, etc. Each Borrower shall have delivered to the Administrative Agent (a) its certificate of incorporation (or equivalent document otherwise named) or a certification of its Secretary or an Assistant Secretary to the effect that the same has not been modified since the Effective Date, (b) a certificate of good standing for such Borrower, in each case certified by the office of the applicable Governmental Authority of the jurisdiction of its organization or formation of such Borrower, and (c) a certificate of qualification to transact business as a foreign company or other entity in every other jurisdiction where such Borrower's failure so to qualify could have a Material Adverse Effect.

(e) Restated Notes. The Borrowers shall have executed and delivered to the Administrative Agent (for further delivery to each Lender requesting same) an amended and restated Unsecured Facility note reflecting such Lender's increased Unsecured Facility Commitment.

(f) James River Confirmation. James River shall have executed and delivered to the Administrative Agent a confirmation of its Payment Guaranty in form and substance reasonably satisfactory to the Administrative Agent, accompanied by such certifications regarding good standing and authorization as the Administrative Agent may reasonably request.

(g) Opinions. The Borrowers shall have caused their and James River's special counsel, Bryan Cave LLP and Conyers Dill & Pearman, to deliver favorable opinions of counsel in favor of the Lenders, the Letter of Credit Issuer and the Administrative Agent, all in form and substance reasonably acceptable to the Administrative Agent.

(h) Agent Expenses. The Borrowers shall have paid or caused to be paid to the Administrative Agent all fees and other amounts due and payable on or prior to the First Amendment Effective Date, including, to the extent invoiced, reimbursement or payment of all reasonable out-of-pocket expenses (including fees, charges and disbursements of the Special Counsel) required to be reimbursed or paid by the Borrowers hereunder, under any other Loan Document or under said fee letter agreement.

(i) Closing Fees. The Borrowers shall have (a) paid to the Administrative Agent, in immediately available funds, for the ratable benefit of each Lender, upfront fees in an amount equal to sum of (i) seven and one-half basis points (0.00075) of the aggregate amount of such Lender's Secured Facility Commitment and its Unsecured Facility Commitment immediately prior to the effectiveness of this First Amendment and (ii) twenty basis points (0.00200) of the amount by which such Lender's Unsecured Facility Commitment is increased pursuant to this First Amendment and (b) reimbursed the Administrative Agent for all costs and expenses invoiced pursuant to Section 9.03 of the Credit Agreement, including those described in Paragraph 6 of this First Amendment

(j) Legal Matters. All legal matters incident to this First Amendment and the consummation of the transactions contemplated hereby shall be reasonably satisfactory to Squire Patton Boggs (US) LLP, Cleveland, Ohio, special counsel to the Administrative Agent (the "Special Counsel").

Notwithstanding the foregoing, if the First Amendment Effective Date has not occurred on or before September 30, 2014, this First Amendment shall not become effective and shall be deemed of no further force and effect.

3 . Certain Borrower Representations. The Borrowers hereby represent and warrant to the Lender Parties that (i) $50,000,000 of the 2014 Special Dividend will be funded by the Parent from the proceeds of a dividend paid to it by JRG Reinsurance, (ii) the payment by JRG Reinsurance of such $50,000,000 dividend to the Parent does not require any consent or approval of its Applicable Insurance Regulatory Authority or other Governmental Authority that has not been obtained and in effect, and (iii) the payment by JRG Reinsurance of such $50,000,000 dividend to the Parent does not, and will not, cause the shareholders' equity of JRG Reinsurance as of the end of the Fiscal Year ending December 31, 2014 (or if applicable, ending December 31, 2013) to be less than 2.50 times the Bermuda Minimum Solvency Requirement.

4. No Other Modifications. Except as expressly provided in this First Amendment, all of the terms and conditions of the Credit Agreement and the other Loan Documents remain unchanged and in full force and effect.

5. Confirmation of Obligations; Release. Each Borrower hereby affirms as of the date hereof all of its respective Debt and other obligations to each of the Lender Parties under and pursuant to the Credit Agreement and each of the other Loan Documents and that such Debt and other obligations are owed to each of the Lender Parties according to their respective terms.

Each Borrower hereby affirms as of the date hereof that there are no claims or defenses to the enforcement by the Lender Parties of the Debt and other obligations of such Borrower to each of them under and pursuant to the Credit Agreement or any of the other Loan Documents.

6 . Administrative Agent's Expense. The Borrowers agree to reimburse the Administrative Agent promptly for its reasonable invoiced out-of-pocket costs and expenses incurred in connection with this First Amendment and the transactions contemplated hereby, including, without limitation, the reasonable fees and expenses of the Special Counsel.

7 . Governing Law; Binding Effect. THIS FIRST AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK AND SHALL BE BINDING UPON AND INURE TO THE BENEFIT OF THE BORROWERS, THE LENDERS, THE LETTER OF CREDIT ISSUER AND THE ADMINISTRATIVE AGENT AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS.

7 . Counterparts. This First Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, but all such counterparts shall constitute one and the same instrument, and all signatures need not appear on any one counterpart. Any party hereto may execute and deliver a counterpart of this First Amendment by delivering by facsimile or email transmission a signature page of this First Amendment signed by such party, and any such facsimile or email signature shall be treated in all respects as having the same effect as an original signature. Any party delivering by facsimile or email transmission a counterpart executed by it shall promptly thereafter also deliver a manually signed counterpart of this First Amendment.

8. Miscellaneous.

(a) Upon the effectiveness of this First Amendment, this First Amendment shall be a Loan Document.

(b) The invalidity, illegality, or unenforceability of any provision in or Obligation under this First Amendment in any jurisdiction shall not affect or impair the validity, legality, or enforceability of the remaining provisions or obligations under this First Amendment or of such provision or obligation in any other jurisdiction.

(c) This First Amendment and all other agreements and documents executed in connection herewith have been prepared through the joint efforts of all of the parties. Neither the provisions of this First Amendment or any such other agreements and documents nor any alleged ambiguity shall be interpreted or resolved against any party on the ground that such party's counsel drafted this First Amendment or such other agreements and documents, or based on any other rule of strict construction. Each of the parties hereto represents and declares that such party has carefully read this First Amendment and all other agreements and documents executed in connection herewith and therewith, and that such party knows the contents thereof and signs the same freely and voluntarily. The parties hereby acknowledge that they have been represented by legal counsel of their own choosing in negotiations for and preparation of this First Amendment and all other agreements and documents executed in connection therewith and that each of them has read the same and had their contents fully explained by such counsel and is fully aware of their contents and legal effect.

(d) The Obligations of the Borrowers hereunder are joint and several, all as more fully set forth in Article 10 of the Credit Agreement.

9 . Waiver of Jury Trial. EACH OF THE PARTIES TO THIS FIRST AMENDMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS FIRST AMENDMENT, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY HERETO HEREBY (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS FIRST AMENDMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATION IN THIS SECTION.

[No additional provisions are on this page; the page next following is the signature page.]

IN WITNESS WHEREOF, the Borrowers, the Lenders, the Letter of Credit Issuer and the Administrative Agent have hereunto set their hands as of the date first above written.

BORROWERS

JAMES RIVER GROUP HOLDINGS, LTD.

By: /s/ Gregg Davis 9-22-14 HAMILTON, BDA
Gregg Davis, Chief Financial Officer

JRG REINSURANCE COMPANY LTD.

By: /s/ Kevin Copeland 09/23/14
Kevin Copeland, Chief Financial Officer

ADMINISTRATIVE AGENT AND LETTER OF CREDIT ISSUER

KEYBANK NATIONAL ASSOCIATION, as
Administrative Agent and Letter of Credit Issuer

LENDERS

KEYBANK NATIONAL ASSOCIATION,
as Lender

By: /s/ James Cribbet
James Cribbet, Senior Vice President

[Lender Signatures Continued]

SUNTRUST BANK,
as Lender

By: /s/ Paula Mueller
Name: Paula Mueller
Title: Director

[Lender Signatures Continued]

BANK OF MONTREAL, CHICAGO BRANCH, as Lender and joining as an additional Joint Book Runner for the purposes of this First Amendment

By: /s/ Debra Basler
Name: Debra Basler
Title: Managing Director

[Lender Signatures Continued]

THE BANK OF NOVA SCOTIA,
as Lender

By: /s/ Thane Rattew
Name: Thane Rattew
Title: Managing Director

[Lender Signatures Continued]

THE BANK OF N.T. BUTTERFIELD & SON
LIMITED, as Lender

By: /s/ ALAN DAY
Name: ALAN DAY
Title: Vice President

And: /s/ RAYMOND H. LONG
Name: RAYMOND H. LONG
Title: VICE PRESIDENT

[Lender Signatures Continued]

FIRST TENNESSEE BANK, N.A.,
as Lender

By: /s/ Jason Markey
Name: Jason Markey
Title: Vice President

[Lender Signatures Continued]

YADKIN BANK,
as Lender

By: /s/ Jeff Hendrick
Name: Jeff Hendrick
Title: Vice President

Attachment 1

Amended and Restated Pricing Schedule

PRICING SCHEDULE

Leverage Ratio	**Pricing Level**	**Eurodollar Margin**	**Base Rate Margin**	**Commitment Fee Rate**
< 0.15 to 1	Level I	1.500%	0.500%	0.150%
0.15 to 1 and < 0.25 to 1	Level II	1.750%	0.750%	0.200%
0.25 to 1	Level III	2.000%	1.000%	0.250%

The Eurodollar Margin, Base Rate Margin and Commitment Fee Rate will be determined by reference to the Leverage Ratio.

For purposes of this Schedule, "Pricing Level" means for any day, the Pricing Level (I, II or III) indicated on the table above that corresponds to the Leverage Ratio as of the end of the most recent Fiscal Quarter or Fiscal Year, as the case may be, for which the Parent delivered financial statements pursuant to the Loan Documents, effective on the business day immediately following the date on which such financial statements are delivered to the Administrative Agent; *provided*, *however*, that, at any and all times during which (a) the Parent is in default of the timely delivery of (1) the financial statements required by the Loan Documents for any period or (2) the accompanying compliance certificate required by the Loan Documents, the Eurodollar Margin, Base Rate Margin and Commitment Fee Rate shall be determined under Pricing Level III or (b) an Event of Default has occurred and is continuing, the Eurodollar Margin, Base Rate Margin and Commitment Fee Rate shall be determined under Pricing Level III.

Pricing Level III shall apply commencing on the First Amendment Effective Date until adjusted pursuant to the immediately preceding paragraph.

Attachment 2

Amended and Restated Schedule 2.01(b)

Schedule 2.01(b)

Unsecured Facility Commitment Schedule

Name of Lender		**Unsecured Facility Commitment**
KeyBank National Association	$	24,500,000.00
SunTrust Bank	$	24,500,000.00
Bank of Montreal, Chicago Branch	$	24,500,000.00
The Bank of Nova Scotia	$	17,000,000.00
The Bank of N.T. Butterfield & Son Limited	$	8,000,000.00
First Tennessee Bank, N.A.	$	8,000,000.00
Yadkin Bank	$	6,000,000.00
Total	$	112,500,000.00

Exhibit 10.4

REDEMPTION AGREEMENT

This **REDEMPTION AGREEMENT** (this "Agreement") is made as of April 3, 2013, by and between **FRANKLIN HOLDINGS (BERMUDA), LIMITED,** a company organized under the laws of Bermuda (the "Company"), and **LEHMAN BROTHERS OFFSHORE PARTNERS LTD.,** a Bermuda exempted company ("Shareholder") (Company and Shareholder are individually referred to herein as a "Party", and collectively referred to herein as the "Parties").

Recitals

Whereas, Shareholder owns, beneficially and of record, Twenty Five Thousand (25,000) Class A Common Shares of the Company (the " Redeemed Shares");

Whereas, Company wishes to purchase and redeem, and Shareholder wishes to sell, all of the Redeemed Shares, upon the terms and conditions set forth below;

Whereas, concurrently with the execution and delivery of this Agreement and the Promissory Note (as defined hereinafter), the Company is entering into a redemption agreement (the "Sunlight Redemption Agreement") with Sunlight Capital Ventures, LLC and Sunlight Capital Partners II, LLC (collectively, "Sunlight") and issuing a promissory note in favor of Sunlight; and

Whereas, capitalized terms not otherwise defined herein shall have the meanings ascribed to them in that certain Second Amended and Restated Investor Shareholders Agreement of the Company dated April 8, 2009 (the "Shareholders Agreement").

Agreement

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Redemption.

(a) At Closing, subject to the terms and conditions hereof, and for and in consideration of the Purchase Price, Shareholder hereby sells, transfers, assigns and delivers to Company, and Company hereby purchases, redeems, acquires and accepts from Shareholder, all of the right, title and interest in and to the Redeemed Shares, in each case free and clear of any Liens. As used herein, "Liens" shall mean any lien, pledge, hypothecation, mortgage, security interest, claim, lease, charge, option, right of first refusal, easement, servitude, transfer restriction under any stockholder or similar agreement, encumbrance or any other restriction or limitation whatsoever, except for those restrictions created by the Shareholders Agreement and applicable securities laws.

(b) The purchase price for the Redeemed Shares (the "Purchase Price") is Eighteen Million Four Hundred Sixty Thousand and 00/100 Dollars ($18,460,000.00). The Purchase Price shall be paid at Closing by the Company to Shareholder as follows: (i) Fourteen

Million Seven Hundred Sixty Eight Thousand and 00/100 Dollars ($14,768,000.00) shall be paid by wire transfer of immediately available funds to an account designated by Shareholder in writing, and (ii) the balance shall be paid via delivery by Company of a promissory note in favor of Shareholder in the original principal amount of Three Million Six Hundred Ninety Two Thousand and 00/100 Dollars ($3,692,000.00), substantially in the form attached hereto as Exhibit A (the "Promissory Note").

2 . Closing of Transactions. The consummation of the purchase and sale of the Redeemed Shares shall be effected by facsimile or other electronic exchange of documentation, and held on the date hereof contemporaneously with the execution and delivery of this Agreement and the Promissory Note, at the offices of Bryan Cave LLP, legal counsel to Company, at 1201 West Peachtree Street, 14 th Floor, One Atlantic Center, Atlanta, Georgia 30309, or at such other time, date, and place as shall be mutually agreed to by the Parties. The Parties acknowledge and agree that the consummation of the purchase and sale of the Redeemed Shares shall be effective as of 11:59 PM Eastern Time on the date hereof (which time and date are referred to herein as the "Closing" or the "Closing Date").

3. Representations and Warranties of Shareholder.

(a) Shareholder has the full legal right, capacity and power to enter into, execute and deliver this Agreement and to perform fully its obligations thereunder. This Agreement has been duly executed and delivered by Shareholder, and constitutes the valid and binding obligation of Shareholder, enforceable against Shareholder in accordance with its terms.

(b) Shareholder has, and at Closing will have, good and valid title to all of the Redeemed Shares. The Redeemed Shares will be transferred by Shareholder to Company at Closing, free and clear of any Lien.

(c) After giving effect to the Closing, Shareholder will not hold, beneficially or of record, any equity interests or rights in or to the Company.

(d) Shareholder acknowledges that it has been furnished all materials relating to Company, its subsidiaries and affiliates, their business and affairs, the sale and redemption of the Redeemed Shares, and other materials, that it has requested, and that it has been afforded the opportunity to ask questions and receive answers concerning the terms and conditions of the transactions contemplated by this Agreement, and to obtain additional information which the Company or its subsidiaries and affiliates possess or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of any representations or information set forth in any such material. Shareholder further acknowledges that Company, its subsidiaries and affiliates, and their officers, directors, and managers, have answered all inquiries that Shareholder has made of them concerning the Company and its subsidiaries and affiliates, or any other matters relating to the transactions contemplated by this Agreement. **IN CONNECTION WITH THIS AGREEMENT AND THE RELATED TRANSACTIONS, SHAREHOLDER ACKNOWLEDGES THAT IT HAS BEEN ADVISED TO RETAIN LEGAL COUNSEL, AND HAS OTHERWISE HAD THE OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL BEFORE EXECUTING THIS AGREEMENT AND COMPLETING THE CONTEMPLATED TRANSACTIONS.**

(e) The per share purchase price of the Company's Class A Common Shares subject to the Sunlight Redemption Agreement is the same as the per share purchase price for the Redeemed Shares. The Sunlight Redemption Agreement contains terms and conditions which vary from this Agreement, but such variances, when taken together, do not place Sunlight in a materially advantageous position vis-à-vis the Shareholder.

4. Representations and Warranties of Company.

(a) The Company has the full legal right, capacity and power to enter into, execute and deliver this Agreement and the Promissory Note and to perform fully its obligations hereunder and thereunder. This Agreement has been duly executed and delivered by Company, and constitutes the valid and binding obligation of Company, enforceable against Company in accordance with its terms.

(b) The Company has obtained the Supermajority Approval of the Company's shareholders in accordance with the Shareholders Agreement approving the Company entering into this Agreement and the Promissory Note, and the consummation of the transactions contemplated hereby and thereby. No other consent or authorization of, filing with, notice to or other act by, or in respect of, any entity, governmental authority, agency or any other Person (including any of the Company's shareholders) is required for the Company to execute, deliver, or perform any of its obligations under this Agreement, except such as have been obtained or made and are in full force and effect.

(c) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby do not and will not (i) violate or conflict with Company's organizational documents, (ii) violate any law or order applicable to the Company or by which any of its material properties or assets may be bound, or (iii) constitute a default under any agreement or contract that binds the Company, which default would materially adversely affect the ability of the Company to consummate the transactions contemplated by this Agreement.

(d) The Company has obtained the valid and enforceable waiver of all tag-along rights, rights of first refusal and similar rights arising under the Shareholders Agreement that are otherwise applicable to the transfer of the Redeemed Shares pursuant to this Agreement, and such waiver is in full force and effect.

5. Release.

(a) Each Party (the "Releasing Party") hereby releases and forever discharges the other Party and each of the other Party's affiliates and each of their respective, past, present, and future, as it may apply, shareholders, directors, officers, partners, managers, members, employees, counsel, agents and representatives, and each of their respective successors and assigns (individually, a "Releasee" and, collectively, the "Releasees") from any and all claims and liabilities whatsoever, whether known or unknown, suspected or unsuspected, both at law and in equity, arising contemporaneously with or prior to the Closing Date, or on account of or arising out of any matter, cause or event occurring contemporaneously with or prior to the Closing Date, including, but not limited to, any rights to indemnification, reimbursement, or compensation from any Releasee, whether pursuant to any charter documents, contracts, law, arrangement, commitment, undertaking or otherwise whether written or oral and whether or not relating to claims pending on, or asserted after, the Closing Date; provided, however, that nothing contained herein shall operate to release any obligations of the Company or Shareholder arising under this Agreement or the obligations of the Company arising under the Promissory Note, it being acknowledged that each Party shall retain all rights, obligations and claims available under the terms of this Agreement and the Promissory Note.

(b) Further, the Releasing Party hereby irrevocably covenants to refrain from, directly or indirectly, asserting any claim or demand, or commencing, instituting or causing to be commenced, any proceeding of any kind against any Releasee, based upon any matter released hereby.

6 . Expenses. Each Party shall pay all costs and expenses incurred or to be incurred by it in negotiating and preparing this Agreement and in closing and carrying out the transactions contemplated by this Agreement.

7. Further Assurances. At any time and from time to time after the Closing Date at the request of Company, and without further consideration, Shareholder will execute and deliver such other instruments of sale, transfer, conveyance, assignment and confirmation and take such other action as Company may reasonably deem necessary or desirable in order to transfer, convey and assign more effectively to Company the Redeemed Shares, to assist Company in exercising all rights with respect thereto, and to effect the transactions contemplated by this Agreement.

8 . Notices. All notices, requests, demands and other communications required or permitted to be given hereunder shall be in writing and shall be given personally, sent by facsimile transmission or sent by prepaid air courier or certified, registered or express mail, postage prepaid. Any such notice shall be deemed to have been given (a) when received, if delivered in person, sent by facsimile transmission and confirmed in writing within three (3) business days thereafter, or sent by prepaid air courier, (b) five (5) business days following the mailing thereof, if mailed by certified first class mail, postage prepaid, return receipt requested, in any such case as follows (or to such other address or addresses as a Party may have advised the other in the manner provided in this Section 8), or (c) on the date delivered if sent by email (provided confirmation of email receipt is obtained):

(i) if to Shareholder:

Lehman Brothers Offshore Partners Ltd.
c/o LAMCO LLC
1271 Avenue of the Americas, 40th Floor
New York, New York 10020
Attention: Ashvin Rao
Faruk Amin
Email: ashvin.rao@lehmanholdings.com
faruk.amin@lehmanholdings.com

with a copy (which shall not constitute notice) to:

Weil, Gotshal & Manges LLP
201 Redwood Shores Parkway
Redwood Shores, CA 94065
Attention: Craig Adas
Facsimile: (650) 802-3100

(iii) if to the Company:

Franklin Holdings (Bermuda), Ltd.
Clarendon House
2 Church Street
Hamilton HM 11 Bermuda
Attention: Secretary
Facsimile: (441) 292-4720

with a copy (which shall not constitute notice) to:

Bryan Cave LLP
1290 Avenue of the Americas
New York, New York 10104
Attention: Kenneth L. Henderson, Esq.
Facsimile: (212) 541-4630

9 . Publicity. Except to the extent required by law, no publicity release or announcement concerning this Agreement or the transactions contemplated by this Agreement shall be made without advance approval thereof as to form and content by each of the Parties.

10. Interpretation.

(a) This Agreement (including the Exhibits) and the agreements, certificates and other documents delivered pursuant to this Agreement contain the entire agreement among the Parties with respect to the transactions described herein, and supersede all prior agreements, written or oral, with respect thereto.

(b) This Agreement may be amended, superseded, cancelled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the Parties or, in the case of a waiver, by the Party waiving compliance.

(c) This Agreement may be executed by the Parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all, of the Parties hereto. The exchange of a fully executed Agreement (in counterparts or otherwise) by electronic transmission or facsimile shall be sufficient to bind the Parties to the terms and conditions of this Agreement.

(d) No remedy made available by any of the provisions of this Agreement is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity.

11. Binding Effect; No Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. This Agreement is not assignable by any Party without the prior written consent of each other Party except by operation of law and any other purported assignment shall be null and void.

12. Choice of Law; Jurisdiction; Waiver of Jury Trial; Specific Performance.

(a) This Agreement shall be governed and construed in accordance with the laws of the State of New York without regard to conflicts of laws principles thereof and all questions concerning the validity and construction hereof shall be determined in accordance with the laws of the State of New York.

(b) Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the parties in the courts of the State of New York, City of New York, or, if it has or can acquire jurisdiction, in the United States District Court for the Southern District of New York, and each of the Parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any Party anywhere in the world.

(c) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE BREACH, TERMINATION OR VALIDITY OF THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (I) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (II) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (III) EACH SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (IV) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 12(C).

(d) Each of the Parties acknowledges and agrees that the other Party would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the Parties agrees that the other Party shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any action instituted in any court of the United States or any state thereof having, in accordance with the terms of this Agreement, jurisdiction over the Parties and the matter, in addition to any other remedy to which it may be entitled, at law or in equity.

13. No Third Party Beneficiary. Nothing in this Agreement is intended to confer any rights or remedies, whether express or implied, on any Persons other than the Parties and their successors and permitted assigns.

14. Separate Counsel. EACH PARTY ACKNOWLEDGES THAT IT HAS HAD AN OPPORTUNITY TO CONSULT WITH ITS OWN LEGAL COUNSEL WITH REGARD TO THE MATTERS CONTAINED IN THIS AGREEMENT. EACH PARTY FURTHER ACKNOWLEDGES THAT BRYAN CAVE LLP REPRESENTS THE COMPANY WITH RESPECT TO THE DRAFTING AND NEGOTIATING OF THIS AGREEMENT, AND THAT BRYAN CAVE LLP DOES NOT REPRESENT ANY OTHER PERSON WITH RESPECT TO THE DRAFTING AND NEGOTIATING OF THIS AGREEMENT.

[**The Remainder of this Page has been Intentionally Left Blank**]

IN WITNESS WHEREOF, the undersigned have caused this Redemption Agreement to be executed as of the day and year first above written.

Company:

Franklin Holdings (Bermuda), Ltd.

By: /s/ Robert P. Myron
Name: Robert P. Myron
Title: CEO

Shareholder:

Lehman Brothers Offshore Partners Ltd.

By:
Name:
Title:

IN WITNESS WHEREOF, the undersigned have caused this Redemption Agreement to be executed as of the day and year first above written.

Company:

Franklin Holdings (Bermuda), Ltd.

By: ____________________
Name: ____________________
Title: ____________________

Shareholder:

Lehman Brothers Offshore Partners Ltd.

By: /s/ Ashvin Rao
Name: Ashvin Rao
Title: Vice President

Exhibit A

Promissory Note

PROMISSORY NOTE
(Lehman Brothers Offshore Partners, Ltd.)

Amount: U.S.$3,692,000

Dated: April 3, 2013

FOR VALUE RECEIVED, the undersigned Franklin Holdings (Bermuda) Ltd. ("Borrower"), with an address at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, promises to pay to the order of Lehman Brothers Offshore Partners, Ltd. ("Lender"), at its office located at 1271 Avenue of the Americas, 40th Floor, New York, NY 10020 or at such other place as Lender may direct, U.S. Three Million Six Hundred Ninety Two Thousand and 00/100 Dollars (U.S.$3,692,000.00) (the "Principal Amount"), together with interest at the rate, and fees and expenses on the terms provided in, this Promissory Note (the "Loan"). This Promissory Note ("Note") is made as of the date of Borrower's repurchase of one hundred percent (100%) of Lender's equity ownership interest in Borrower, and the Principal Amount represents the portion of the purchase price of such equity for which Borrower has not paid Lender in cash.

1. **INTEREST RATE.** Borrower will pay Lender interest on the unpaid Principal Amount at the annual rate set forth below (calculated on the actual number of days elapsed over a 365 day year) from the date of this Note (except as provided in the next sentence) until the entire outstanding Principal Amount and accrued and outstanding interest together with all fees and expenses due under this Note have been paid, whether or not judgment is obtained. At no time, however, will the interest rate exceed the maximum allowable by Law. Interest will compound annually.

   Fixed Rate. The rate of five and one-half percent (5.5%) per annum, subject to automatic (i) reduction to two and one-half percent (2.5%) per annum in the event Borrower repays all but not less than all amounts related to the Loan on or before April 3, 2014, and (ii) increase as provided in Section 7 of this Note.

2. **TERM.** This Note matures and all unpaid principal, accrued interest and unpaid fees and expenses are payable on October 3, 2014 (the "Maturity Date").

3. **FEES AND EXPENSES.** All fees and expenses incurred by Lender in connection with the enforcement of this Note, including but not limited to attorney's fees, will be promptly reimbursed by Borrower.

4. **PAYMENTS.** All unpaid Principal Amount, accrued interest and unpaid fees and expenses shall be due and payable on the Maturity Date by means of wire transfer of immediately available funds to an account designated in writing by Lender.

5. **PREPAYMENTS.** Borrower may prepay the Loan evidenced by this Note in whole or in part without penalty before the Maturity Date. All payments made hereunder shall be applied first to the payment of any fees or charges outstanding hereunder, second to accrued

but unpaid interest, and third to the payment of the Principal Amount outstanding under the Note.

6. **DEFAULT.** Each of the following shall constitute an event of default ("Event of Default") under this Note: (a) failure of Borrower to make any payment to Lender when due hereunder; (b) the breach or nonperformance of any representation, warranty or covenant of Borrower contained in this Note and such breach or nonperformance continues for a period of not less than thirty (30) days after written notice thereof from Lender to Borrower; provided, that, any breach or nonperformance of the provisions of Sections 4, 8(A)(i), 8(F), 8(G), 8(H), 8(I), 8(J), 9(A), 10(B), 10(C) or 10(E) shall immediately result in an Event of Default, without such thirty (30) day period; (c) any breach under the Redemption Agreement of even date herewith (the "Redemption Agreement") between Borrower and Lender and such breach continues beyond any applicable notice and cure period; or (d) the institution of proceedings by or against Borrower under any bankruptcy or insolvency law, or any law for the benefit of creditors or relief of debtors, (provided, however, that the institution of involuntary proceedings against Borrower will not be an Event of Default if such proceeding is discharged or dismissed within sixty (60) days after the commencement date thereof), or a custodianship, trusteeship, receivership or assignment for the benefit of creditors is imposed upon or sought by Borrower.

7. **REMEDIES.** Upon the occurrence and during the continuance of an Event of Default, at Lender's option, all amounts owing to Lender in connection with the Loan and this Note will become due and payable immediately, without notice of any kind to Borrower. Upon the occurrence and during the continuance of an Event of Default, interest will continue to accrue on all such amounts until paid, at a default rate of interest equal to two percent (2%) per annum above the otherwise applicable rate under this Note. In addition, Lender shall have all the rights and remedies available at law, in equity, or otherwise. All of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy or combination shall not exclude pursuit of any other remedy, and an election to make expenditures or take action to perform any obligation of Borrower shall not affect Lender's right to declare an Event of Default and to exercise its rights and remedies.

8. **REPRESENTATIONS.** As a material inducement to Lender's willingness to make the Loan, Borrower represents and warrants that:

(A) it is (i) a limited company duly incorporated, validly existing and in good standing under the Laws of Bermuda and has the requisite power and authority, and the legal right, to own, lease and operate its material properties and assets and to conduct its business as it is now being conducted in all material respects and (ii) in material compliance with all Laws and Orders applicable to it;

(B) Borrower has the power and authority, and the legal right, to execute and deliver this Note and to perform its obligations hereunder;

(C) Borrower has duly executed and delivered this Note;

(D) no consent or authorization of, filing with, notice to or other act by, or in respect of, any governmental authority or any other person (including its shareholders), entity or agency is required in order for Borrower to execute, deliver, or perform any of its obligations under this Note, except such as have been obtained or made and are in full force and effect;

(E) the execution and delivery of this Note and the consummation by Borrower of the transactions contemplated hereby do not and will not: (i) violate or conflict with Borrower's organizational documents; (ii) violate any Law or Order applicable to Borrower or by which any of its material properties or assets may be bound; or (iii) constitute a default under any material agreement or contract by which Borrower may be bound;

(F) this Note is a valid, legal and binding obligation of Borrower, enforceable against Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceedings in equity or at law;

(G) except for liens identified in Borrower's most recent audited financial statements delivered to Lender and liens encumbering certain investment property of JRG Reinsurance Company Ltd. under that certain Master Letter of Credit Reimbursement and Security Agreement dated as of July 7, 2011 (the "KeyBank Letter of Credit") between KeyBank National Association and JRG Reinsurance Company Ltd. in the stated amount of up to $50,000,000, the assets of neither Borrower nor any of its subsidiaries are encumbered by any lien or liens securing indebtedness outstanding on the date hereof the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) $5,000,000;

(H) excluding amounts that are due and payable within ninety (90) days after the date hereof (other than any such amounts that are outstanding under the KeyBank Credit Facility (as defined hereinafter), the KeyBank Letter of Credit or incurred outside the ordinary course of business), the aggregate outstanding indebtedness of Borrower and its subsidiaries as of the date hereof does not exceed $119,055,000;

(I) the aggregate principal amount outstanding under the Sunlight Notes (as defined hereinafter) as of the date hereof is Eighteen Million Four Hundred Sixty Thousand and 00/100 Dollars ($18,460,000.00);

(J) the terms and conditions of the Sunlight Notes with respect to interest rate, term, fees and expenses, payments, prepayments, remedies, taxes, maximum rate of interest permitted by law, and avoidance of debt payments are the same in all material respects as the corresponding terms and conditions set forth in Section 1, Section 2, Section 3, Section 4, Section 5, Section 7, Section 11, Section 12 and Section 13 of this Note; provided, however, that Borrower shall not be deemed to breach the representations and warranties in this Section 8(J) solely by virtue of the principal amount outstanding under the Sunlight Notes or the parties thereto; and

(K) no action, suit, litigation, investigation or proceeding of, or before, any arbitrator or governmental authority is pending or, to the knowledge of Borrower, threatened by or against Borrower or any of its property or assets (i) with respect to this Note or any of the transactions contemplated hereby or (ii) that would reasonably be expected to materially adversely affect Borrower's financial condition or the ability of Borrower to perform its obligations under this Note.

Borrower understands and acknowledges that Lender is reasonably, materially and detrimentally relying on each representation and warranty set forth in this Section 8 and would not be making this Loan "but for" each representation and warranty.

For the purposes of this Note:

"Law" means any law (including common law), statute, ordinance, treaty, rule, regulation, policy or requirement of any governmental authority or agency and authoritative interpretations thereon, whether now or hereafter in effect, in each case, applicable to or binding on such person or any of its properties or to which such person or any of its properties is subject.

"Order" means any order, decree, judgment, writ, injunction, settlement agreement, requirement or determination of an arbitrator or a court or other governmental authority, in each case, applicable to or binding on such person or any of its properties or to which such person or any of its properties is subject.

9. **AFFIRMATIVE COVENANTS**. Until all obligations of Borrower under this Note have been satisfied or terminated in accordance with this Note, Borrower shall:

(A) Preserve, renew and maintain in full force and effect its corporate or organizational existence and take all reasonable action to maintain all material rights, privileges and franchises necessary or desirable in the normal conduct of its business;

(B) Comply with all Laws and Orders applicable to it or its property, other than such Laws and Orders (i) the validity or applicability of which Borrower is contesting in good faith by appropriate proceedings or (ii) the failure to comply with which would not reasonably be expected to materially adversely affect Borrower's financial condition or the ability of Borrower to perform its obligations under this Note;

(C) Use its commercially reasonable efforts to obtain third party financing sufficient to pay all amounts due under this Note in full on or before October 3, 2013;

(D) Upon the request of Lender, promptly execute and deliver such further instruments and do or cause to be done such further acts as may be reasonably necessary or advisable to carry out the intent and purposes of this Note;

(E) Pay, discharge or otherwise satisfy all of its material obligations before the same shall become delinquent or in default, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings, and reserves in conformity with the generally accepted accounting principles of the United States with respect thereto have been provided on its books;

(F) As soon as practicable and in any event within five (5) business days after an executive officer of Borrower obtains actual knowledge that an Event of Default has occurred, notify Lender in writing of the nature and extent of such Event of Default and the action, if any, it has taken or proposes to take with respect to such Event of Default;

(G) Use the proceeds of any and all new debt incurred or borrowed outside of the ordinary course of business (including all new borrowings since the March 1, 2013 under that certain Credit Agreement dated as of September 24, 2008 (as in existence as of the date hereof, the "KeyBank Credit Agreement") among Borrower, as borrower, Franklin Holdings (II) (Bermuda), Ltd., as subsidiary guarantor, the lenders party thereto and KeyBank National Association, as administrative agent and letter of credit issuer, but excluding any reborrowing or refinancing of any amounts outstanding under the KeyBank Credit Agreement by a renewal or replacement facility) to repay Lender and Sunlight, on a pro rata basis according to the outstanding principal, interest and fees and expenses owed to Lender and Sunlight under this Note and the Sunlight Notes, respectively, any principal, interest and fees and expenses outstanding under this Note and the Sunlight Notes, respectively, within three (3) business days of Borrower's receipt of such proceeds; and

(H) Until all obligations of Borrower under this Note have been satisfied or terminated in accordance with this Note, Borrower shall provide Lender with (i) all information and reports required to be delivered to an Original Investor (as such term is defined in the Shareholders Agreement) holding the Access Minimum Equity (as such term is defined in the Shareholders Agreement) pursuant to Section 2.7(a) of the Shareholders Agreement and (ii) the access required to be provided to a Shareholder (as such term is defined in the Shareholders Agreement) holding the Access Minimum Equity pursuant to Section 2.7(c) of the Shareholders Agreement.

For the purposes of this Note:

"Shareholders Agreement" means that certain Second Amended and Restated Investor Shareholders Agreement of the Borrower dated April 8, 2009.

"Sunlight" means, collectively, Sunlight Capital Ventures, LLC and Sunlight Capital Partners II, T.T.C.

"Sunlight Notes" means those certain Promissory Notes dated as of the date hereof by Borrower, each in the original principal amount of Nine Million Two Hundred Thirty Thousand and 00/100 Dollars ($9,230,000.00), one of which is payable to Sunlight Capital Ventures, LLC and the other of which is payable to Sunlight Capital Partners II, T.T.C.

10. **NEGATIVE COVENANTS.** So long as any amount under this Note shall remain unpaid, Borrower will not, and will cause each of its subsidiaries not to, without the prior written consent of Lender (which consent shall not be unreasonably withheld, conditioned or delayed):

(A) Create or suffer to exist any lien, security interest or other charge or encumbrance, or any other type of preferential arrangement, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or assign any right to receive income, in each case to secure any debt of any person, other than:

(i) liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.05 of the KeyBank Credit Agreement;

(ii) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than thirty (30) days or are being contested in compliance with Section 5.05 of the KeyBank Credit Agreement;

(iii) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations (including, without limitation, deposits made in the ordinary course of business to cash collateralize letters of credit described in the parenthetical in clause (i) of the definition of "Debt" in the KeyBank Credit Agreement);

(iv) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature and liens imposed by statutory or common law relating to banker's liens or rights of setoff or similar rights relating to deposit accounts, in each case in the ordinary course of business;

(v) liens arising under escrows, trusts, custodianships, separate accounts, funds withheld procedures, and similar deposits, arrangements, or agreements established with respect to insurance policies, annuities, guaranteed investment contracts and similar products underwritten by, or reinsurance agreements entered into by, any Insurance Subsidiary (as such term is defined in the KeyBank Credit Agreement) in the ordinary course of business;

(vi) deposits with insurance regulatory authorities in the ordinary course of business (which deposits may be in the form of cash collateralized letters of credit);

(vii) easements, zoning restrictions, rights-of-way, licenses, reservations, minor irregularities of title and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligation and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of Borrower;

(viii) any lien on any property of Borrower or any subsidiary existing on the date hereof and described in Section 8(G) above; *provided* that (A) such lien shall not apply to any other property of Borrower or such subsidiary and (B) such lien shall secure only those obligations that it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the aggregate commitment amount secured thereby;

(ix) any lien existing on any fixed or capital asset before the acquisition thereof by a Borrower or any subsidiary or existing on any fixed or capital asset of any person that first becomes a subsidiary after the date hereof before the time such person becomes a subsidiary; *provided* that (A) such lien is not created in contemplation of or in connection with such acquisition or such person becoming a subsidiary, (B) such lien will not apply to any other property or asset of Borrower or any subsidiary, (C) such lien will secure only those obligations which it secures on the date of such acquisition or the date such person first becomes a subsidiary, as the case may be, and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof, (D) the principal amount of debt secured by any such lien shall at no time exceed 80% of the fair market value (as determined in good faith by a senior financial officer of Borrower or a subsidiary) of such fixed or capital asset at the time it was acquired (by purchase, construction or otherwise) , and (E) the aggregate principal amount of debt secured by any and all such liens permitted under this clause (ix) shall not at any time exceed $10,000,000;

(x) liens on fixed or capital assets acquired, constructed or improved by Borrower or any subsidiary; *provided* that (A) such liens and the debt secured thereby are incurred before or within ninety (90) days after such acquisition or the completion of such construction or improvement, (C) the debt secured thereby does not exceed the cost of acquiring, constructing or improving such fixed or capital assets, (C) such liens will not apply to any other property of Borrower or any subsidiary, and (D) the aggregate principal amount of debt secured by any and all such liens permitted under this clause (x) shall not at any time exceed $10,000,000;

(xi) liens to secure a debt owing to Borrower or a subsidiary;

(xii) liens on the assets of an insurance subsidiary to secure debt owing by such subsidiary to the Federal Home Loan Bank of which such subsidiary is a member;

(xiii) cash deposited as collateral to secure letter of credit debt incurred by an insurance subsidiary of Borrower in the ordinary course of business; and

(xiv) any lien arising out of the refinancing, extension, renewal or refunding of any debt secured by a lien permitted by any of clauses (viii), (ix), (x), (xi), (xii) or (xiii) of this Section; *provided* that such debt under any of clauses (viii), (ix) and (x) is not increased (except by the amount of fees, expenses and premiums required to be paid in connection with such refinancing, extension, renewal or refunding) and is not secured by any additional assets;

provided that, except as provided in clause (iii) above, the liens permitted pursuant to clauses (i) through (vii) above shall not include any lien that secures indebtedness for borrowed money;

(B) Except for payments to Sunlight made on the date hereof and to be made pursuant to the Sunlight Notes, pay any cash dividends, cash distributions or other cash payments, including by way of loans, indemnities or guaranties, to the shareholders of Borrower; provided, however, that the foregoing shall in no way limit any right to indemnification afforded any director or officer of Borrower by corporate policy or applicable statute for their actions (or inactions) in such capacity;

(C) Merge or consolidate with or into, or convey, transfer, otherwise dispose of (other than in the ordinary course of business) any of its assets (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets of, or otherwise enter into a material business combination with, any person, unless the surviving or acquiring entity in such transaction expressly agrees in writing to assume and perform all of Borrower's obligations under this Note;

(D) Prepay any amount under the Sunlight Notes without concurrently making a pro rata (according to the amount of principal, interest, fees and expenses outstanding under each of this Note and the Sunlight Notes) prepayment against the Loan in accordance with Section 5 of this Note; or

(E) materially amend, supplement or modify the Sunlight Notes.

11. **TAXES.**

(A) Any and all payments by Borrower under this Note shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto (all such taxes, levies imposts, deductions, charges, withholdings and liabilities, but excluding any taxes based on Lender's income, being hereinafter referred to as "Taxes").

(B) In addition, Borrower shall pay any present or future stamp, documentary, excise, property or similar taxes, charges or levies that arise from any payment made under this Note or from the execution, delivery or registration of, or otherwise with respect to, this Note (all such taxes, charges and levies being hereinafter referred to as "Other Taxes").

(C) Borrower shall indemnify Lender for the full amount of Taxes and Other Taxes, and for the full amount of Taxes imposed by any jurisdiction on amounts payable under this paragraph, paid by Lender and any liability (including, without limitation, penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto. This indemnification payment shall be made within thirty days from the date Lender makes written demand therefor.

(D) Without prejudice to the survival of any other agreement of Borrower under this Note, the agreements and obligations of Borrower contained in this paragraph shall survive the payment in full of principal and interest under this Note.

12. **MAXIMUM RATE PERMITTED BY LAW.** All agreements in this Note are expressly limited so that in no contingency or event whatsoever, whether reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount agreed to be paid hereunder for the use, forbearance, or detention of money exceed the highest lawful rate permitted under applicable usury laws. If, from any circumstance whatsoever, fulfillment of any provision of this Note at the time performance of such provision shall be

due shall involve exceeding any usury limit prescribed by law that a court of competent jurisdiction may deem applicable hereto, then, ipso facto, the obligations to be fulfilled shall be reduced to allow compliance with such limit, and if, from any circumstance whatsoever, Lender shall ever receive as interest an amount that would exceed the highest lawful rate, the receipt of such excess shall be deemed a mistake and shall be canceled automatically or, if theretofore paid, such excess shall be credited against the principal amount of the indebtedness evidenced hereby to which the same may lawfully be credited, and any portion of such excess not capable of being so credited shall be refunded immediately to Borrower.

13. **AVOIDANCE OF DEBT PAYMENTS.** To the extent that any payment to Lender and/or any payment or proceeds of any collateral received by Lender in reduction of the Loan is subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, to Borrower (or Borrower's successor) as a debtor in possession, or to a receiver, creditor, or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then the portion of the Loan intended to have been satisfied by such payment or proceeds shall remain due and payable hereunder, be evidenced by this Note, and shall continue in full force and effect as if such payment or proceeds had never been received by Lender whether or not this Note has been marked "paid" or otherwise cancelled or satisfied and/or has been delivered to Borrower, and in such event Borrower shall be immediately obligated to return the original Note to Lender and any marking of "paid" or other similar marking shall be of no force and effect.

14. **SEVERABILITY.** If any provision of this Note is found to be invalid or unenforceable, such provision shall be stricken and all remaining provisions of this Note shall remain valid and enforceable.

15. **WAIVER; AMENDMENTS.** No amendment of this Note, and no waiver of any one or more of the provisions hereof, shall be effective unless set forth in a writing signed by Lender and Borrower; provided, however, that any such waiver shall be restricted to the matters specified in such writing.

16. **ENTIRE AGREEMENT.** This Note and the associated Redemption Agreement constitute the sole agreements of the parties regarding the subject matter hereof and thereof and supersede all oral negotiations and prior writings regarding the subject matter hereof and thereof.

17. **APPLICABLE LAW; JURISDICTION. THIS NOTE WILL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ANY PRINCIPLES OF CONFLICTS OF LAW. ANY LEGAL ACTION OR PROCEEDING BY OR AGAINST ANY PARTY HERETO OR WITH RESPECT TO OR ARISING OUT OF THIS NOTE MAY BE BROUGHT IN OR REMOVED TO THE COURTS OF THE STATE OF NEW YORK, IN AND FOR THE COUNTY OF NEW YORK, OR OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK (IN EACH CASE SITTING IN THE BOROUGH OF MANHATTAN). BY EXECUTION AND DELIVERY OF THIS NOTE, BORROWER ACCEPTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE**

JURISDICTION OF THE AFORESAID COURTS (AND COURTS OF APPEALS THEREFROM) FOR ANY LEGAL PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS NOTE.

18. **SUCCESSORS AND ASSIGNS.** This Note shall be binding upon Borrower and Borrower's successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Borrower may not assign or transfer its rights or obligations under this Note without the prior written consent of Lender. Lender may not assign or transfer its rights or obligations under this Note without the prior written consent of Borrower, which consent shall not be unreasonably withheld. By acceptance of this Note, Lender is hereby deemed to have accepted the terms and conditions hereof.

19. **NO WAIVER, MODIFICATION OR PARTNERSHIP.** Nothing set forth in this Note shall be construed as making Lender or Borrower the partner, agent or joint venturer of the other party. Borrower and Lender shall have no relationship to each other than as debtor and creditor.

IN WITNESS WHEREOF, BORROWER, INTENDING TO BE LEGALLY BOUND, HAS EXECUTED THIS NOTE IN FAVOR OF LENDER AS OF THE DATE ABOVE WRITTEN.

BORROWER:

FRANKLIN HOLDINGS (BERMUDA) LTD.

By: ________________________________
Name:
Title:

Exhibit 10.5

REDEMPTION AGREEMENT

by and among

SUNLIGHT CAPITAL VENTURES, LLC

SUNLIGHT CAPITAL PARTNERS II, LLC

and

FRANKLIN HOLDINGS (BERMUDA), LTD.

Dated: April 3, 2013

ARTICLE I	DEFINITIONS AND RULES OF CONSTRUCTION	1
1.1.	Definitions	1
1.2.	Rules of Construction	3
ARTICLE II	REDEMPTION	4
2.1.	Redemption	4
2.2.	Payments of the Purchase Price	4
2.3.	Deliverables	5
ARTICLE III	REPRESENTATIONS AND WARRANTIES OF THE SELLERS	5
3.1.	Organization and Power	5
3.2.	Authorization and Enforceability	5
3.3.	No Violation	5
3.4.	Governmental Authorizations and Consents	6
3.5.	Ownership of the Purchased Stock	6
3.6.	Litigation	6
3.7.	No Brokers	6
3.8.	Investigation	6
3.9.	Disclaimer	7
ARTICLE IV	REPRESENTATIONS AND WARRANTIES OF THE COMPANY	7
4.1.	Organization and Power	7
4.2.	Execution and Enforceability	7
4.3.	No Violation	7
4.4.	Governmental Authorizations and Consents	7
4.5.	Litigation	8
4.6.	Financial Capacity; Solvency	8
4.7.	No Brokers	8
4.8.	No Inducement or Reliance	8
4.9.	Disclaimer	9
ARTICLE V	COVENANTS	9
5.1.	Access to Financial Statements	9
5.2.	Public Announcements	9
5.3.	Director Indemnification and Insurance	9
5.4.	Reasonable Best Efforts	10
5.5.	Release	10
ARTICLE VI	INDEMNIFICATION; SURVIVAL	10
6.1.	Expiration of Representations and Warranties	10
6.2.	Indemnification	11
ARTICLE VII	MISCELLANEOUS	12
7.1.	Expenses	12
7.2.	Notices	12
7.3.	Governing Law	13

7.4.	Entire Agreement	13
7.5.	Severability	13
7.6.	Amendment	13
7.7.	Effect of Waiver or Consent	13
7.8.	Parties in Interest; Limitation on Rights of Others	14
7.9.	Assignability	14
7.10.	Jurisdiction; Court Proceedings; Waiver of Jury Trial	14
7.11.	No Other Duties	14
7.12.	Reliance on Counsel and Other Advisors	15
7.13.	Remedies	15
7.14.	Specific Performance	15
7.15.	Counterparts	15
7.16.	Further Assurance	15

Exhibits

Exhibit A	-	Purchased Stock
Exhibit B	-	Form of Promissory Note

REDEMPTION AGREEMENT

This REDEMPTION AGREEMENT is entered into as of April 3, 2013, by and among FRANKLIN HOLDINGS (BERMUDA), LTD., a Bermuda company (the "Company"), SUNLIGHT CAPITAL VENTURES, LLC, a Delaware limited liability company ("SCV", and SUNLIGHT CAPITAL PARTNERS II, LLC, a Delaware limited liability company ("SCP," and together with SCV, the "Sellers").

RECITALS

WHEREAS, the Company desires to purchase and redeem from the Sellers, and the Sellers desire to sell to the Company, all of each Seller's right, title and interest in and to all of the outstanding equity interests of the Company held by each Seller upon the terms and subject to the conditions hereinafter set forth.

NOW THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I
Definitions and Rules of Construction

1.1. Definitions.

As used in this Agreement, the following terms shall have the meanings set forth below:

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (a) vote 10% or more of the securities having ordinary voting power for the election of directors of such Person or (b) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"Agreement" means this Redemption Agreement, as it may be amended from time to time.

"Business Day" means any day other than a Saturday, Sunday or day on which banks are closed in New York, New York. If any period expires on a day which is not a Business Day or any event or condition is required by the terms of this Agreement to occur or be fulfilled on a day which is not a Business Day, such period shall expire or such event or condition shall occur or be fulfilled, as the case may be, on the next succeeding Business Day.

"Cash Purchase Price" has the meaning set forth in Section 2.2(b)(i).

"Closing Date" has the meaning set forth in Section 2.1.

"Company" has the meaning set forth in the Preamble.

"Company Indemnitees" has the meaning set forth in Section 6.2(b).

"Contemplated Transactions" means the transactions contemplated by this Agreement, the Notes, and each other Transaction Document.

"Contract" means any written agreement, license, contract, arrangement, understanding, obligation or commitment to which a party is bound.

"Equity Securities" of any Person means any and all shares of capital stock, warrants, options, membership interests or partnership interests of such Person, and all securities exchangeable for or convertible or exercisable into, any of the foregoing.

"GAAP" means generally accepted accounting principles as set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession in the United States.

"Governmental Authority" means any nation or government, any foreign or domestic federal, state, county, municipal or other political instrumentality or subdivision thereof and any foreign or domestic entity or body exercising executive, legislative, judicial, regulatory, administrative or taxing functions of or pertaining to government, including any court.

"Indebtedness" means all obligations and indebtedness of the Company or its Subsidiaries for borrowed money; provided, that Indebtedness shall not include (a) accounts payable to trade creditors, accrued expenses and deferred revenues arising in the ordinary course of business, (b) the endorsement of negotiable instruments for collection in the ordinary course of business, (c) capitalized lease obligations or liabilities and (d) Indebtedness owing from the Company to any of its wholly owned Subsidiaries or from any of the Subsidiaries of the Company to the Company.

"Indemnitee" has the meaning set forth in Section 6.2(c)(i).

"Indemnitor" has the meaning set forth in Section 6.2(c)(i).

"Laws" means all laws, Orders, statutes, codes, regulations, ordinances, decrees, rules, or other requirements with similar effect of any Governmental Authority.

"Lien" means any lien, security interest, pledge or other similar encumbrance.

"Litigation" means any claims, actions, suits, audits, inquiries, proceedings or governmental investigations, pending or threatened, at Law or in equity or before any Governmental Authority.

"Loss" or "Losses" means all claims, losses, liabilities, damages, costs and expenses, including, without limitation, reasonable attorneys' fees and the costs of enforcing any indemnity or injunctive relief rights, provided, that Losses shall not include consequential damages, special damages, punitive damages, or lost profits.

"Notes" has the meaning set forth in Section 2.2(b)(ii).

"Note Period" has the meaning set forth in Section 5.1(a).

"Orders" means all judgments, orders, writs, injunctions, decisions, rulings, decrees and awards of any Governmental Authority.

"Person" means any individual, person, entity, general partnership, limited partnership, limited liability partnership, limited liability company, corporation, joint venture, trust, business trust, cooperative, association, foreign trust or foreign business organization.

"Purchased Stock" has the meaning set forth in Section 2.1.

"Purchase Price" has the meaning set forth in Section 2.2(a).

"Releasee" and "Releasees" has the meaning set forth in Section 5.5(a).

"Sellers" has the meaning set forth in the Preamble.

"Seller Indemnitee" has the meaning set forth in Section 6.2(a).

"SCP" has the meaning set forth in the Preamble.

"SCV" has the meaning set forth in the Preamble.

"Subsidiary" means, with respect to any Person, any corporation or other organization, whether incorporated or unincorporated, (a) of which such Person or any other Subsidiary of such Person is a general partner (excluding partnerships, the general partnership interests of which held by such Person or any Subsidiary of such Person do not have a majority of the voting interests in such partnership), or (b) at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries.

"Third Party Claim" has the meaning set forth in Section 6.2(c)(ii)(A).

"Transaction Documents" means this Agreement, the Notes and any other documents being executed and delivered in connection with this Agreement, the Notes and the transactions contemplated hereby and thereby.

1.2. Rules of Construction.

Unless the context otherwise requires:

(a) A capitalized term has the meaning assigned to it;

(b) An accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(c) References in the singular or to "him," "her," "it," "itself," or other like references, and references in the plural or the feminine or masculine reference, as the case may be, shall also, when the context so requires, be deemed to include the plural or singular, or the masculine or feminine reference, as the case may be;

(d) References to Articles, Sections and Exhibits shall refer to articles, sections and exhibits of this Agreement, unless otherwise specified;

(e) The headings in this Agreement are for convenience and identification only and are not intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision thereof;

(f) This Agreement shall be construed without regard to any presumption or other rule requiring construction against the party that drafted and caused this Agreement to be drafted;

(g) All monetary figures shall be in United States dollars unless otherwise specified; and

(h) References to "including" in this Agreement shall mean "including, without limitation," whether or not so specified.

ARTICLE II
Redemption

2.1. Redemption.

Simultaneously with the execution of this Agreement and on the date hereof (the "Closing Date"), the Company shall purchase and redeem from each Seller, and each Seller shall sell, transfer and assign to the Company, all of the Equity Securities of the Company beneficially owned by such Seller, as set forth on Exhibit A hereto (the "Purchased Stock"), in accordance with the provisions of this Agreement.

2.2. Payments of the Purchase Price.

(a) The aggregate purchase price to be paid by the Company for the Purchased Stock shall be Ninety-Two Million Three Hundred Thousand Dollars ($92,300,000) (the "Purchase Price"), Forty-Six Million One Hundred Fifty Thousand Dollars ($46,150,000) of which will be payable to SCV and Forty-Six Million One Hundred Fifty Thousand Dollars ($46,150,000) of which will be payable to SCP.

(b) Following the delivery of all the deliverables required by Section 2.3, the Purchase Price shall be paid on the Closing Date by the Company to Sellers as follows:

(i) Thirty-Six Million Nine Hundred Twenty Thousand Dollars ($36,920,000) in cash (the "Cash Purchase Price") shall be paid by Company to each Seller by wire transfer of immediately available funds to accounts designated by the Sellers; and

(ii) an executed Promissory Note, in the form attached as Exhibit B hereto (the "Notes"), in the initial principal amount of Nine Million Two Hundred Thirty Thousand Dollars ($9,230,000), shall be delivered by Company to each Seller.

2.3. Deliverables.

(a) Simultaneously with the execution of this Agreement, the Company shall deliver to the Sellers:

(i) The Cash Purchase Price, as set forth above.

(ii) The Notes.

(b) Simultaneously with the payment of the Cash Purchase Price, the Sellers shall deliver, or cause to be delivered, to the Company (i) a resignation of Mark Cicirelli from his role as a director of the Company, and (ii) original share certificates, if any, representing the Purchased Stock.

ARTICLE III
Representations and Warranties of the Sellers

Each Seller hereby severally, and not jointly, represents and warrants to the Company as follows:

3.1. Organization and Power.

The Seller is a limited liability company duly organized, validly existing and in good standing under the Laws of Delaware. The Seller has full power and authority to execute, deliver and perform this Agreement and the Transaction Documents to which it is a party and to consummate the Contemplated Transactions.

3.2. Authorization and Enforceability.

The Seller has duly authorized the execution and delivery of this Agreement and the Transaction Documents to which it is a party and the performance of its obligations hereunder and thereunder. This Agreement and each of the Transaction Documents constitute, or when executed and delivered will constitute, the valid and legally binding obligation of the Seller, enforceable in accordance with its terms, except as such enforceability may be limited by equitable principles and by applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar Laws relating to or affecting the rights of creditors generally.

3.3. No Violation.

The execution, delivery and performance of this Agreement and the Transaction Documents executed or to be executed by the Seller pursuant to this Agreement, and the consummation of the Contemplated Transactions will not (i) conflict with or violate any provision of the organizational documents of the Seller, (ii) conflict with or violate any provision of any Law or Order applicable to the Seller or by which the Seller or its properties are bound or affected, or (iii) constitute a default under any agreement or contract that binds the Seller, which default would materially adversely affect the ability of the Seller to consummate the Contemplated Transactions.

3.4. Governmental Authorizations and Consents.

No consent or authorization of, filing with, notice to or other act by, or in respect of, any Governmental Authority or any other person (including its members), entity or agency is required in order for the Sellers to execute, deliver, or perform any of its obligations under this Agreement and the Transaction Documents, except such as have been obtained or made and are in full force and effect.

3.5. Ownership of the Purchased Stock.

The Purchased Stock, as set forth on Exhibit A hereto, accurately reflects all of the Equity Securities of the Company beneficially owned by the Seller. The Seller has not transferred, assigned, encumbered, hypothecated or otherwise disposed of any of the Purchased Stock owned by such Seller and the Seller owns all such Purchased Stock, free and clear of any Lien. The Seller is not a party to any Contract, right of first refusal, right of first offer, proxy, voting agreement, voting trust, registration rights agreement or shareholders agreement with respect to the Purchased Stock. The Purchased Stock will be transferred by Sellers to Company at Closing, free and clear of any Lien other than those created in favor of the Company by this Agreement. After giving effect to the Closing, Sellers will not hold, beneficially or of record, any Equity Securities of the Company.

3.6. Litigation.

No Litigation is pending or, to the knowledge of the Seller, threatened by or against such Seller or any of its property or assets (a) with respect to this Agreement or the Transaction Documents or any of the Contemplated Transactions or (b) that would reasonably be expected to adversely affect the ability of such Seller to perform its obligations under this Agreement or the Transaction Documents.

3.7. No Brokers.

The Seller has not employed or incurred any liability to any broker, finder or agent for any brokerage fees, finder's fees, commissions or other amounts with respect to this Agreement, the Transaction Documents or the Contemplated Transactions.

3.8. Investigation.

Each Seller acknowledges that it has been furnished all materials relating to Company, its Subsidiaries and Affiliates, their business and affairs, the sale and redemption of the Purchased Stock, and other materials, that it has requested, and that it has been afforded the opportunity to ask questions and receive answers concerning the terms and conditions of the transactions contemplated by this Agreement, and to obtain additional information which the Company or its Subsidiaries and Affiliates possess or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of any representations or information set forth in any such material. Each Seller further acknowledges that Company, its Subsidiaries and Affiliates, and their officers, directors, and managers, have answered all inquiries that such Seller has made of them concerning the Company and its Subsidiaries and Affiliates, or any other matters relating to the transactions contemplated by this Agreement.

3.9. Disclaimer.

Neither Seller nor any of their Affiliates, representatives or advisors has made, or shall be deemed to have made, to the Company or any other Person any representations or warranty other than those expressly made by the Sellers in this Article III.

ARTICLE IV
Representations and Warranties of the Company

The Company hereby represents and warrants to the Sellers as follows:

4.1. Organization and Power.

The Company is a company, duly formed, validly existing and in good standing under the Laws of Bermuda and has the requisite power and authority, and the legal right, to own, lease and operate its properties and assets and to conduct its business as it is now being conducted and the Company is in material compliance with all Laws and Orders applicable to it. The Company has the power and authority, and the legal right, to execute and deliver this Agreement and the Transaction Documents and to perform its obligations hereunder and thereunder.

4.2. Execution and Enforceability.

The Company has duly executed and delivered this Agreement and the Transaction Documents. This Agreement and each Transaction Document is a valid, legal and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceedings in equity or at law

4.3. No Violation.

The execution and delivery of this Agreement and the Transaction Documents and the consummation by the Company of the Contemplated Transactions do not and will not (i) violate or conflict with the Company's organizational documents, (ii) violate any Law or Order applicable to the Company or by which any of its material properties or assets may be bound, or (iii) constitute a default under any agreement or contract that binds the Company, which default would materially adversely affect the ability of the Company to consummate the Contemplated Transactions.

4.4. Governmental Authorizations and Consents.

No consent or authorization of, filing with, notice to or other act by, or in respect of, any Governmental Authority or any other person (including its members), entity or agency is required in order for the Company to execute, deliver, or perform any of its obligations under this Agreement and the Transaction Documents, except such as have been obtained or made and are in full force and effect.

4.5. Litigation.

No Litigation is pending or, to the knowledge of the Company, threatened by or against the Company or any of its property or assets (a) with respect to this Agreement or the Transaction Documents or any of the Contemplated Transactions or (b) that would reasonably be expected to adversely affect the Company's financial condition or the ability of the Company to perform its obligations under this Agreement or the Transaction Documents.

4.6. Financial Capacity; Solvency.

(a) The Company has, as of the date hereof, available capital in an amount that is sufficient to pay the Cash Purchase Price, and the Company will have available capital in an amount that is sufficient to make each other payment that may be required by and in accordance with this Agreement, each other Transaction Document and the Contemplated Transactions.

(b) Immediately after giving effect to the Contemplated Transactions, including the payment by the Company of the Cash Purchase Price and each other payment required by the Transaction Documents and the incurrence of any Indebtedness by the Company in connection therewith, (i) the Company and its Subsidiaries, respectively, shall be able to pay their debts as they become due and shall own assets which have a fair saleable value greater than the amounts required to pay such debts (including a reasonable estimate of the amount of all contingent liabilities), and (ii) the Company and its Subsidiaries shall have adequate capital to carry on their respective businesses. No transfer of property is being made and no obligation is being incurred in connection with the Contemplated Transactions with the intent to hinder, delay or defraud either present or future creditors of the Company or its Subsidiaries.

4.7. No Brokers.

Neither the Company nor or any of its Affiliates has employed or incurred any liability to any broker, finder or agent for any brokerage fees, finder's fees, commissions or other amounts with respect to this Agreement, the Transaction Documents or the Contemplated Transactions.

4.8. No Inducement or Reliance.

The Company has not been induced by and has not relied upon any representations, warranties or statements, whether express or implied, made by either Seller (or their Affiliates, officers, directors, employees, agents or representatives) that are not expressly set forth in Article III hereof, whether or not any such representations, warranties or statements were made in writing or orally.

4.9. Disclaimer.

Neither Company nor any of their Affiliates, representatives or advisors has made, or shall be deemed to have made, to the Sellers or any other Person any representations or warranty other than those expressly made by the Company in this Article IV.

ARTICLE V
Covenants

5.1. Access to Financial Statements.

During the period from the date hereof through the date that all payments and obligations under the Notes have been satisfied (the "Note Period"), upon the written request of the Sellers, the Company shall provide to the Sellers, within fifteen (15) days of such request, (i) the unaudited consolidated balance sheet of the Company and its Subsidiaries for the immediately preceding quarter, and the related unaudited statements of operations and cash flows, respectively, for such quarter, and (ii) the most recent audited consolidated balance sheet of the Company and its Subsidiaries and the related statements of income, changes in equity and cash flows for such audit period.

5.2. Public Announcements.

No press release regarding this Agreement, the Transaction Documents or the Contemplated Transactions shall be made unless the substance and form of such press release are agreed to in writing by the Company and the Sellers; provided, that in the event that the parties cannot come to an agreement, either party shall be permitted to make any disclosure required by Law; provided, further, that the party proposing to issue any press release or similar public announcement or communication in compliance with any such disclosure obligations shall use reasonable best efforts to consult in good faith with the other party before doing so.

5.3. Director Indemnification and Insurance.

(a) From and after the date hereof, the Company shall honor in all respects the obligations of the Company to its directors and officers (and those of its Subsidiaries) pursuant to any indemnification provisions under the organizational documents of the Company as in effect as of the date hereof. Until the sixth anniversary of the date hereof, the Company shall maintain the provisions with respect to indemnification and exculpation from liability as set forth in the organizational documents of the Company as of the date of this Agreement, which provisions shall not be amended, repealed or otherwise modified during such period in any manner that would adversely affect the rights thereunder of the Sellers or Mark Cicirelli.

(b) The Company agrees to pay from time to time as warranted all expenses, including attorneys' fees, that may be incurred by the Sellers or Mark Cicirelli in enforcing the indemnity and other obligations provided for in this Section 5.3.

(c) This Section 5.3 shall survive the closing of the Contemplated Transactions, is intended to benefit and may be enforced by the Sellers or Mark Cicirelli, and shall be binding on all successors and assigns (including by merger, asset sale, reorganization and other material transaction) of the Company.

5.4. Reasonable Best Efforts.

Each of the parties shall cooperate and use their respective reasonable best efforts to take, or cause to be taken, all appropriate action, and do, or cause to be done, and assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Contemplated Transactions.

5.5. Release.

(a) Effective only upon the end of the Note Period, (i) each Seller hereby releases and forever discharges the Company, and (ii) the Company hereby releases and forever discharges Seller, and (in the case of both (i) and (ii) above) each of its affiliates and each of their respective, past, present, and future, as it may apply, shareholders, directors, officers, partners, managers, members, employees, counsel, agents and representatives, and each of their respective successors and assigns (individually, a "Releasee" and, collectively, the "Releasees") from any and all claims and liabilities whatsoever, whether known or unknown, suspected or unsuspected, both at law and in equity, arising contemporaneously with or prior to the Closing Date, or on account of or arising out of any matter, cause or event occurring contemporaneously with or prior to the Closing Date, including, but not limited to, any rights to indemnification, reimbursement, or compensation from any Releasee, whether pursuant to any charter documents, contracts, law, arrangement, commitment, undertaking or otherwise whether written or oral and whether or not relating to claims pending on, or asserted after, the Closing Date; *provided, however,* that nothing contained herein shall operate to release (x) any obligations of the Company or the Sellers arising under this Agreement, the Notes or any of the other Transaction Documents, it being acknowledged that each party shall retain all rights, obligations and claims available under the terms of this Agreement, the Notes and the other Transaction Documents, or (y) any right of Mark Cicirelli to receive indemnification as a former director of the Company.

(b) Further, each Seller and the Company hereby irrevocably covenants to refrain from, directly or indirectly, asserting any claim or demand, or commencing, instituting or causing to be commenced, any proceeding of any kind against any Releasee, based upon any matter released hereby.

ARTICLE VI
Indemnification; Survival

6.1. Expiration of Representations and Warranties.

The representations and warranties of the parties set forth in this Agreement shall terminate and expire, and shall cease to be of any force or effect, at 5:00 P.M. (Eastern time) on the date that is the twenty-four (24) month anniversary of the date hereof and all liability and indemnification obligations with respect to such representations and warranties shall thereupon be extinguished (except to the extent a claim for indemnification has been made prior to such time for any breach thereof). The parties acknowledge and agree that the time period set forth in this Section 6.1 for the assertion of claims under this Agreement is the result of arms'-length negotiation among the parties and that they intend for such time period to be enforced as agreed among the parties.

6.2. Indemnification.

(a) By the Company. Subject to the provisions of Section 6.1, the Company agrees to indemnify, defend and hold harmless the Sellers, each of their Affiliates, and their respective officers, directors, employees, shareholders, members, partners, agents, representatives, successors and assigns (collectively, "Seller Indemnitees") from and against all Losses incurred by any of the Seller Indemnitees arising out of or relating to: (i) any breach of any representation or warranty made by the Company in this Agreement or any Transaction Document, or (ii) any breach of any covenant or agreement of the Company contained in this Agreement or any Transaction Document.

(b) By the Seller. Subject to the provisions of Section 6.1, the Sellers agree, severally and not jointly, to indemnify, defend and hold harmless the Company, each of its Affiliates, and their respective officers, directors, employees, shareholders, members, partners, agents, representatives, successors and assigns (collectively, "Company Indemnitees") from and against all Losses incurred by any of the Company Indemnitees arising out of or relating to: (i) any breach of any representation or warranty made by the Sellers in this Agreement or any Transaction Document, or (ii) any breach of any covenant or agreement of the Sellers contained in this Agreement or any Transaction Document.

(c) Procedure.

(i) Direct Claims. If a Seller Indemnitee or a Company Indemnitee, as applicable (an "Indemnitee"), shall have a claim for indemnification hereunder for any claim other than a claim asserted by a third party, the Indemnitee shall, as promptly as is practicable, give written notice to the indemnifying party (such party, the "Indemnitor") of the nature and, to the extent practicable, a good faith estimate of the amount, of the claim, which notice must certify that the Indemnitee has in good faith already sustained some (though not necessarily all) Losses with respect to such claim. The failure to make prompt delivery of such written notice by the Indemnitee to the Indemnitor (so long as a notice pursuant to this Section 6.2(c)(i), including the requisite certification, is given before the expiration of the applicable period set forth in Section 6.1) shall not relieve the Indemnitor from any liability under this Section 6.2 with respect to such matter, except to the extent the Indemnitor is actually prejudiced by failure to give such notice.

(ii) Third-Party Actions.

(A) If an Indemnitee receives notice or otherwise obtains knowledge of any matter or any threatened matter that may give rise to an indemnification claim against an Indemnitor (the "Third Party Claim"), then the Indemnitee shall promptly, and in any event within twenty (20) days of the receipt of notice or other knowledge of any such claim against a Indemnitee, deliver to the Indemnitor a written notice describing, to the extent practicable, such matter in reasonable detail and such notice must be accompanied by a copy of any written notice of the third party claimant to the Indemnitee asserting the Third Party Claim.

The failure to make timely prompt delivery of such written notice or of the copy of the written notice of the third party claimant by the Indemnitee to the Indemnitor (so long as a notice pursuant to this Section 6.2(c)(ii)(A) that includes any written notice of the third party claimant is given before the expiration of the applicable period set forth in Section 6.1) shall not relieve the Indemnitor from any liability under this Section 6.2 with respect to such matter, except to the extent the Indemnitor is actually prejudiced by failure to give such notice.

ARTICLE VII
Miscellaneous

7.1. Expenses.

Except as specified in Section 6.2, all fees and expenses incurred in connection with the Contemplated Transactions shall be paid by the party incurring such expenses, whether or not the Contemplated Transactions are consummated.

7.2. Notices.

All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made (a) as of the date delivered, if delivered personally, (b) on the date the delivering party receives confirmation, if delivered by facsimile, (c) three (3) Business Days after being mailed by registered or certified mail (postage prepaid, return receipt requested) or (d) one (1) Business Day after being sent by overnight courier (providing proof of delivery), to the parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 7.2):

If to the Company:

Franklin Holdings (Bermuda), Ltd.
Clarendon House
2 Church Street
Hamilton HM 11 Bermuda
Attention: Secretary
Facsimile: (441) 292-4720

With a copy (which shall not constitute notice) to:

Bryan Cave LLP
1290 Avenue of the Americas
New York, New York 10104
Attention: Kenneth L. Henderson, Esq.
Facsimile: (212) 541-4630

If to the Sellers:

Elliott Management Corporation
40 West 57th Street, 31st Floor

New York, NY 10019
Attn: Mark Cicirelli

With a copy (which shall not constitute notice) to:

Kleinberg, Kaplan, Wolff & Cohen P.C.
551 Fifth Avenue
New York, NY 10176
Attn: Christopher P. Davis

7.3. Governing Law.

This Agreement shall in all respects be governed by, and construed in accordance with, the Laws (excluding conflict of laws rules and principles) of the State of New York applicable to agreements made and to be performed entirely within such State, including all matters of construction, validity and performance.

7.4. Entire Agreement.

This Agreement, together with the Exhibits hereto, the Notes and any other Transaction Documents, constitute the entire agreement of the parties relating to the subject matter hereof and supersede all prior contracts or agreements, whether oral or written.

7.5. Severability.

Should any provision of this Agreement or the application thereof to any Person or circumstance be held invalid or unenforceable to any extent: (a) such provision shall be ineffective to the extent, and only to the extent, of such unenforceability or prohibition and shall be enforced to the greatest extent permitted by Law, (b) such unenforceability or prohibition in any jurisdiction shall not invalidate or render unenforceable such provision as applied (i) to other Persons or circumstances or (ii) in any other jurisdiction, and (c) such unenforceability or prohibition shall not affect or invalidate any other provision of this Agreement.

7.6. Amendment.

Neither this Agreement nor any of the terms hereof may be terminated, amended, supplemented or modified orally, but only by an instrument in writing signed by the Company and each Seller; provided, that the observance of any provision of this Agreement may be waived in writing by the party that will lose the benefit of such provision as a result of such waiver.

7.7. Effect of Waiver or Consent.

No waiver or consent, express or implied, by any party to or of any breach or default by any party in the performance by such party of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such party of the same or any other obligations of such party hereunder. No single or partial exercise of any right or power, or any abandonment or discontinuance of steps to enforce any right or power, shall preclude any other or further exercise thereof or the exercise of any other right or power. Failure on the part of a party to complain of any act of any party or to declare any party in default, irrespective of how long such failure continues, shall not constitute a waiver by such party of its rights hereunder until the applicable statute of limitation period has run.

7.8. Parties in Interest; Limitation on Rights of Others.

The terms of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective legal representatives, successors and assigns. Nothing in this Agreement, whether express or implied, shall be construed to give any Person (other than the parties hereto and their respective legal representatives, successors and assigns and as expressly provided herein) any legal or equitable right, remedy or claim under or in respect of this Agreement or any covenants, conditions or provisions contained herein, as a third party beneficiary or otherwise.

7.9. Assignability.

This Agreement shall not be assigned by a party without the prior written consent of each of the other parties hereto.

7.10. Jurisdiction; Court Proceedings; Waiver of Jury Trial.

Any Litigation against any party to this Agreement arising out of or in any way relating to this Agreement shall be brought in any federal or state court located in the State of New York in New York County and each of the parties hereby submits to the exclusive jurisdiction of such courts for the purpose of any such Litigation; provided, that a final judgment in any such Litigation shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. **Each party irrevocably and unconditionally agrees not to assert (a) any objection which it may ever have to the laying of venue of any such Litigation in any federal or state court located in the State of New York in New York County, (b) any claim that any such Litigation brought in any such court has been brought in an inconvenient forum and (c) any claim that such court does not have jurisdiction with respect to such Litigation.** To the extent that service of process by mail is permitted by applicable Law, each party irrevocably consents to the service of process in any such Litigation in such courts by the mailing of such process by registered or certified mail, postage prepaid, at its address for notices provided for herein. **Each party irrevocably and unconditionally waives any right to a trial by jury and agrees that any of them may file a copy of this paragraph with any court as written evidence of the knowing, voluntary and bargained-for agreement among the parties irrevocably to waive its right to trial by jury in any Litigation.**

7.11. No Other Duties.

The only duties and obligations of the parties under this Agreement are as specifically set forth in this Agreement, and no other duties or obligations shall be implied in fact, Law or equity, or under any principle of fiduciary obligation.

7.12. Reliance on Counsel and Other Advisors.

Each party has consulted such legal, financial, technical or other expert as it deems necessary or desirable before entering into this Agreement. Each party represents and warrants that it has read, knows, understands and agrees with the terms and conditions of this Agreement.

7.13. Remedies.

All remedies, either under this Agreement or by Law or otherwise afforded to the parties hereunder, shall be cumulative and not alternative, and any Person having any rights under any provision of this Agreement will be entitled to enforce such rights specifically, to recover damages by reason of any breach of this Agreement and to exercise all other rights granted by Law, equity or otherwise.

7.14. Specific Performance.

The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, the parties agree that, in addition to any other remedies, each party shall be entitled to enforce the terms of this Agreement by a decree of specific performance without the necessity of proving the inadequacy of money damages as a remedy. Each party hereby waives any requirement for the securing or posting of any bond in connection with such remedy. Each party further agrees that the only permitted objection that it may raise in response to any action for equitable relief is that it contests the existence of a breach or threatened breach of this Agreement.

7.15. Counterparts.

This Agreement may be executed by facsimile signatures and in any number of counterparts with the same effect as if all signatory parties had signed the same document. All counterparts shall be construed together and shall constitute one and the same instrument.

7.16. Further Assurance.

If at any time after the date hereof any further action is necessary or desirable to fully effect the transactions contemplated by this Agreement or any other of the Transaction Documents, each of the parties shall take such further action (including the execution and delivery of such further instruments and documents) as any other party reasonably may request.

(signature pages follow)

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed and delivered in its name and on its behalf, all as of the day and year first above written.

FRANKLIN HOLDINGS (BERMUDA), LTD.

By: /s/ Robert P. Myron
Name: Robert P. Myron
Title: CEO

SUNLIGHT CAPITAL VENTURES, LLC

By:
Name:
Title:

SUNLIGHT CAPITAL PARTNERS II, LLC

By:
Name:
Title:

[*signature page to the Stock Purchase Agreement*]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed and delivered in its name and on its behalf, all as of the day and year first above written.

FRANKLIN HOLDINGS (BERMUDA), LTD.

By: ____________________________
Name:
Title:

SUNLIGHT CAPITAL VENTURES, LLC

By: /s/ ELLIOT GREENBERG
Name: ELLIOT GREENBERG
Title: VICE PRESIDENT

SUNLIGHT CAPITAL PARTNERS II, LLC

By: /s/ ELLIOT GREENBERG
Name: ELLIOT GREENBERG
Title: VICE PRESIDENT

[*signature page to the Stock Purchase Agreement*]

EXHIBIT A

PURCHASED STOCK

HOLDER	SHARES
Sunlight Capital Ventures, LLC	62,500
Sunlight Capital Partners II, LLC	62,500

EXHIBIT B
FORM OF PROMISSORY NOTE

PROMISSORY NOTE
(Sunlight Capital Ventures, LLC)

Amount: U.S.$9,230,000

Dated: April 3, 2013

FOR VALUE RECEIVED, the undersigned Franklin Holdings (Bermuda) Ltd. ("Borrower"), with an address at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, promises to pay to the order of Sunlight Capital Ventures, LLC ("Lender"), at its office located at 40 West 57th Street, New York, NY 10019 or at such other place as Lender may direct, U.S. Nine Million Two Hundred Thirty Thousand Dollars and 00/100 Dollars (U.S.$9,230,000) (the "Principal Amount"), together with interest at the rate, and fees and expenses on the terms provided in, this Promissory Note (the "Loan"). This Promissory Note ("Note") is made as of the date of Borrower's repurchase of one hundred percent (100%) of Lender's equity ownership interest in Borrower, and the Principal Amount represents the portion of the purchase price of such equity for which Borrower has not paid Lender in cash.

1. **INTEREST RATE.** Borrower will pay Lender interest on the unpaid Principal Amount at the annual rate set forth below (calculated on the actual number of days elapsed over a 365 day year) from the date of this Note (except as provided in the next sentence) until the entire outstanding Principal Amount and accrued and outstanding interest together with all fees and expenses due under this Note have been paid, whether or not judgment is obtained. At no time, however, will the interest rate exceed the maximum allowable by Law. Interest will compound annually.

   Fixed Rate. The rate of five and one-half percent (5.5%) per annum, subject to automatic (i) reduction to two and one-half percent (2.5%) per annum in the event Borrower repays all but not less than all amounts related to the Loan on or before April 3, 2014, and (ii) increase as provided in Section 7 of this Note.

2. **TERM.** This Note matures and all unpaid principal, accrued interest and unpaid fees and expenses are payable on October 3, 2014 (the "Maturity Date").

3. **FEES AND EXPENSES.** All fees and expenses incurred by Lender in connection with the enforcement of this Note, including but not limited to attorney's fees, will be promptly reimbursed by Borrower.

4. **PAYMENTS.** All unpaid Principal Amount, accrued interest and unpaid fees and expenses shall be due and payable on the Maturity Date by means of wire transfer of immediately available funds to an account designated in writing by Lender.

5. **PREPAYMENTS.** Borrower may prepay the Loan evidenced by this Note in whole or in part without penalty before the Maturity Date. All payments made hereunder shall be applied first to the payment of any fees or charges outstanding hereunder, second to

accrued but unpaid interest, and third to the payment of the Principal Amount outstanding under the Note.

6. **DEFAULT.** Each of the following shall constitute an event of default ("Event of Default") under this Note: (a) failure of Borrower to make any payment to Lender when due hereunder; (b) the breach or nonperformance of any representation, warranty or covenant of Borrower contained in this Note and such breach or nonperformance continues for a period of not less than thirty (30) days after written notice thereof from Lender to Borrower; provided, that, any breach or nonperformance of the provisions of Sections 4, 8(A)(i), 8(F), 9(A), 10(B) or 10(C) shall immediately result in an Event of Default, without such thirty (30) day period; (c) any breach under the Redemption Agreement of even date herewith (the "Redemption Agreement") between Borrower and Lender and such breach continues beyond any applicable notice and cure period; or (d) the institution of proceedings by or against Borrower under any bankruptcy or insolvency law, or any law for the benefit of creditors or relief of debtors, (provided, however, that the institution of involuntary proceedings against Borrower will not be an Event of Default if such proceeding is discharged or dismissed within sixty (60) days after the commencement date thereof), or a custodianship, trusteeship, receivership or assignment for the benefit of creditors is imposed upon or sought by Borrower.

7. **REMEDIES.** Upon the occurrence and during the continuance of an Event of Default, at Lender's option, all amounts owing to Lender in connection with the Loan and this Note will become due and payable immediately, without notice of any kind to Borrower. Upon the occurrence and during the continuance of an Event of Default, interest will continue to accrue on all such amounts until paid, at a default rate of interest equal to two percent (2%) per annum above the otherwise applicable rate under this Note. In addition, Lender shall have all the rights and remedies available at law, in equity, or otherwise. All of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy or combination shall not exclude pursuit of any other remedy, and an election to make expenditures or take action to perform any obligation of Borrower shall not affect Lender's right to declare an Event of Default and to exercise its rights and remedies.

8. **REPRESENTATIONS.** As a material inducement to Lender's willingness to make the Loan, Borrower represents and warrants that:

(A) it is (i) a limited company duly incorporated, validly existing and in good standing under the Laws of Bermuda and has the requisite power and authority, and the legal right, to own, lease and operate its material properties and assets and to conduct its business as it is now being conducted in all material respects and (ii) in material compliance with all Laws and Orders applicable to it;
(B) Borrower has the power and authority, and the legal right, to execute and deliver this Note and to perform its obligations hereunder;
(C) Borrower has duly executed and delivered this Note;
(D) no consent or authorization of, filing with, notice to or other act by, or in respect of, any governmental authority or any other person (including its shareholders), entity or agency is required in order for Borrower to execute, deliver, or perform any of its

obligations under this Note, except such as have been obtained or made and are in full force and effect;
(E) the execution and delivery of this Note and the consummation by Borrower of the transactions contemplated hereby do not and will not (i) violate or conflict with Borrower's organizational documents (ii) violate any Law or Order applicable to Borrower or by which any of its material properties or assets may be bound; or (iii) constitute a default under any material agreement or contract by which Borrower may be bound;
(F) this Note is a valid, legal and binding obligation of Borrower, enforceable against Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceedings in equity or at law;
(G) Except for liens identified in Borrower's most recent audited financial statements and liens encumbering certain investment property of JRG Reinsurance Company Ltd. under that certain Master Letter of Credit Reimbursement and Security Agreement dated as of July 7, 2011 between KeyBank National Association and JRG Reinsurance Company Ltd., the assets of neither Borrower nor any of its subsidiaries are encumbered by any liens securing indebtedness of any person outstanding on the date hereof the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) $5,000,000; and
(H) no action, suit, litigation, investigation or proceeding of, or before, any arbitrator or governmental authority is pending or, to the knowledge of Borrower, threatened by or against Borrower or any of its property or assets (a) with respect to this Note or any of the transactions contemplated hereby or (b) that would reasonably be expected to materially adversely affect Borrower's financial condition or the ability of Borrower to perform its obligations under this Note.

Borrower understands and acknowledges that Lender is reasonably, materially and detrimentally relying on each representation and warranty set forth in this Section 8 and would not be making this Loan "but for" each representation and warranty.

For the purposes of this Note:

"Law" means any law (including common law), statute, ordinance, treaty, rule, regulation, policy or requirement of any governmental authority or agency and authoritative interpretations thereon, whether now or hereafter in effect, in each case, applicable to or binding on such person or any of its properties or to which such person or any of its properties is subject.

"Order" means any order, decree, judgment, writ, injunction, settlement agreement, requirement or determination of an arbitrator or a court or other governmental authority, in each case, applicable to or binding on such person or any of its properties or to which such person or any of its properties is subject.

9. **AFFIRMATIVE COVENANTS.** Until all obligations of Borrower under this Note have been satisfied or terminated in accordance with this Note, Borrower shall:

(A) Preserve, renew and maintain in full force and effect its corporate or organizational existence and take all reasonable action to maintain all material rights, privileges and franchises necessary or desirable in the normal conduct of its business;
(B) Comply with all Laws and Orders applicable to it or its property, other than such Laws and Orders (i) the validity or applicability of which Borrower is contesting in good faith by appropriate proceedings or (ii) the failure to comply with which would not reasonably be expected to materially adversely affect Borrower's financial condition or the ability of Borrower to perform its obligations under this Note;
(C) Use its commercially reasonable efforts to obtain third party financing sufficient to pay all amounts due under this Note in full on or before October 3, 2013;
(D) Upon the request of Lender, promptly execute and deliver such further instruments and do or cause to be done such further acts as may be reasonably necessary or advisable to carry out the intent and purposes of this Note;
(E) Pay, discharge or otherwise satisfy all of its material obligations before the same shall become delinquent or in default, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings, and reserves in conformity with the generally accepted accounting principles of the United States with respect thereto have been provided on its books;
(F) As soon as practicable and in any event within five (5) business days after an executive officer of Borrower obtains actual knowledge that an Event of Default has occurred, notify Lender in writing of the nature and extent of such Event of Default and the action, if any, it has taken or proposes to take with respect to such Event of Default; and
(G) Use the proceeds of any and all new debt incurred or borrowed outside of the ordinary course of business (including all new borrowings since the March 1, 2013 under that certain Credit Agreement dated as of September 24, 2008 (as in existence as of the date hereof, the "KeyBank Credit Agreement") among Borrower, as borrower, Franklin Holdings (II) (Bermuda), Ltd., as subsidiary guarantor, the lenders party thereto and KeyBank National Association, as administrative agent and letter of credit issuer, but excluding any reborrowing or refinancing of any amounts outstanding under the KeyBank Credit Agreement by a renewal or replacement facility) to repay Lender and Lehman, on a pro rata basis according to the outstanding principal, interest and fees and expenses owed to Lender and Lehman under this Note and the Lehman Note, respectively, any principal, interest and fees and expenses outstanding under this Note and the Lehman Note, respectively, within three (3) business days of Borrower's receipt of such proceeds.

For the purposes of this Note:

"Lehman" means Lehman Brothers Offshore Partners, Ltd.

"Lehman Note" means that certain Promissory Note dated as of the date hereof by Borrower in favor of Lehman in the principal amount of $3,692,000.00.

10. **NEGATIVE COVENANTS.** So long as any amount under this Note shall remain unpaid, Borrower will not, and will cause each of its subsidiaries not to, without the prior written consent of Lender (which consent shall not be unreasonably withheld, conditioned or delayed):

(A) Create or suffer to exist any lien, security interest or other charge or encumbrance, or any other type of preferential arrangement, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or assign any right to receive income, in each case to secure any debt of any person, other than:

(i) liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.05 of the KeyBank Credit Agreement;

(ii) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than thirty (30) days or are being contested in compliance with Section 5.05 of the KeyBank Credit Agreement;

(iii) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations (including, without limitation, deposits made in the ordinary course of business to cash collateralize letters of credit described in the parenthetical in clause (i) of the definition of "Debt" in the KeyBank Credit Agreement);

(iv) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature and liens imposed by statutory or common law relating to banker's liens or rights of setoff or similar rights relating to deposit accounts, in each case in the ordinary course of business;

(v) liens arising under escrows, trusts, custodianships, separate accounts, funds withheld procedures, and similar deposits, arrangements, or agreements established with respect to insurance policies, annuities, guaranteed investment contracts and similar products underwritten by, or reinsurance agreements entered into by, any Insurance Subsidiary (as such term is defined in the KeyBank Credit Agreement) in the ordinary course of business;

(vi) deposits with insurance regulatory authorities in the ordinary course of business (which deposits may be in the form of cash collateralized letters of credit);

(vii) easements, zoning restrictions, rights-of-way, licenses, reservations, minor irregularities of title and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligation and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of Borrower;

(viii) any lien on any property of Borrower or any subsidiary existing on the date hereof and described in Section 8(G) above; *provided* that (A) such lien shall not apply to any other property of Borrower or such subsidiary and (B) such lien shall secure only those obligations that it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the aggregate commitment amount secured thereby;

(ix) any lien existing on any fixed or capital asset before the acquisition thereof by a Borrower or any subsidiary or existing on any fixed or capital asset of any person that first becomes a subsidiary after the date hereof before the time such person becomes a subsidiary; *provided* that (A) such lien is not created in contemplation of or in connection with such acquisition or such person becoming a subsidiary, (B) such lien will not apply to any other property or asset of Borrower or any subsidiary, (C) such lien will secure only those obligations which it secures on the date of such acquisition or the date such person first becomes a subsidiary, as the case may be, and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof, (D) the principal amount of debt secured by any such lien shall at no time exceed 80% of the fair market value (as determined in good faith by a senior financial officer of Borrower or a subsidiary) of such fixed or capital asset at the time it was acquired (by purchase, construction or otherwise) , and (E) the aggregate principal amount of debt secured by any and all such liens permitted under this clause (ix) shall not at any time exceed $10,000,000;

(x) liens on fixed or capital assets acquired, constructed or improved by Borrower or any subsidiary; *provided* that (A) such liens and the debt secured thereby are incurred before or within ninety (90) days after such acquisition or the completion of such construction or improvement, (C) the debt secured thereby does not exceed the cost of acquiring, constructing or improving such fixed or capital assets, (C) such liens will not apply to any other property of Borrower or any subsidiary, and (D) the aggregate principal amount of debt secured by any and all such liens permitted under this clause (x) shall not at any time exceed $10,000,000;

(xi) liens to secure a debt owing to Borrower or a subsidiary;

(xii) liens on the assets of an insurance subsidiary to secure debt owing by such subsidiary to the Federal Home Loan Bank of which such subsidiary is a member;

(xiii) cash deposited as collateral to secure letter of credit debt incurred by an insurance subsidiary of Borrower in the ordinary course of business; and

(xiv) any lien arising out of the refinancing, extension, renewal or refunding of any debt secured by a lien permitted by any of clauses (viii), (ix), (x), (xi), (xii) or (xiii) of this Section; *provided* that such debt under any of clauses (viii), (ix) and (x) is not increased (except by the amount of fees, expenses and premiums required to be paid in connection with such refinancing, extension, renewal or refunding) and is not secured by any additional assets;

provided that, except as provided in clause (iii) above, the liens permitted pursuant to clauses (i) through (vii) above shall not include any lien that secures indebtedness for borrowed money.

(B) Except for payments to Lehman made on the date hereof and to be made pursuant to the Lehman Note, pay any cash dividends, cash distributions or other cash payments, including by way of loans, indemnities or guaranties, to the shareholders of Borrower; provided, however, that the foregoing shall in no way limit any right to indemnification afforded any director or officer of Borrower by corporate policy or applicable statute for their actions (or inactions) in such capacity.

(C) Merge or consolidate with or into, or convey, transfer, otherwise dispose of (other than in the ordinary course of business) any of its assets (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets of, or otherwise enter into a material business combination with, any person, unless the surviving or acquiring entity in such transaction expressly agrees in writing to assume and perform all of Borrower's obligations under this Note.

(D) Prepay any amount under the Lehman Note without concurrently making a pro rata (according to the amount of principal, interest, fees and expenses outstanding under each of this Note and the Lehman Note) prepayment against the Loan in accordance with Section 5 of this Note.

(E) Materially amend, supplement or modify the Lehman Note.

11. **TAXES.**

(A) Any and all payments by Borrower under this Note shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto (all such taxes, levies imposts, deductions, charges, withholdings and liabilities, but excluding any taxes based on Lender's income, being hereinafter referred to as "Taxes").

(B) In addition, Borrower shall pay any present or future stamp, documentary, excise, property or similar taxes, charges or levies that arise from any payment made under this Note or from the execution, delivery or registration of, or otherwise with respect to, this Note (all such taxes, charges and levies being hereinafter referred to as "Other Taxes").

(C) Borrower shall indemnify Lender for the full amount of Taxes and Other Taxes, and for the full amount of Taxes imposed by any jurisdiction on amounts payable under this paragraph, paid by Lender and any liability (including, without limitation, penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto. This indemnification payment shall be made within thirty days from the date Lender makes written demand therefor.

(D) Without prejudice to the survival of any other agreement of Borrower under this Note, the agreements and obligations of Borrower contained in this paragraph shall survive the payment in full of principal and interest under this Note.

12. **MAXIMUM RATE PERMITTED BY LAW.** All agreements in this Note are expressly limited so that in no contingency or event whatsoever, whether reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount agreed to be paid hereunder for the use, forbearance, or detention of money exceed the highest lawful rate permitted under applicable usury laws. If, from any circumstance whatsoever, fulfillment of any provision of this Note at the time performance of such provision shall be due shall involve exceeding any usury limit prescribed by law that a court of competent jurisdiction may deem applicable hereto, then, ipso facto, the obligations to be fulfilled shall be reduced to allow compliance with such limit, and if, from any circumstance whatsoever, Lender shall ever receive as interest an amount that would exceed the highest lawful rate, the receipt of such excess shall be deemed a mistake and shall be canceled automatically or, if theretofore paid, such excess shall be credited against the principal amount of the indebtedness evidenced

hereby to which the same may lawfully be credited, and any portion of such excess not capable of being so credited shall be refunded immediately to Borrower.

13. **AVOIDANCE OF DEBT PAYMENTS.** To the extent that any payment to Lender and/or any payment or proceeds of any collateral received by Lender in reduction of the Loan is subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, to Borrower (or Borrower's successor) as a debtor in possession, or to a receiver, creditor, or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then the portion of the Loan intended to have been satisfied by such payment or proceeds shall remain due and payable hereunder, be evidenced by this Note, and shall continue in full force and effect as if such payment or proceeds had never been received by Lender whether or not this Note has been marked "paid" or otherwise cancelled or satisfied and/or has been delivered to Borrower, and in such event Borrower shall be immediately obligated to return the original Note to Lender and any marking of "paid" or other similar marking shall be of no force and effect.

14. **SEVERABILITY.** If any provision of this Note is found to be invalid or unenforceable, such provision shall be stricken and all remaining provisions of this Note shall remain valid and enforceable.

15. **WAIVER; AMENDMENTS.** No amendment of this Note, and no waiver of any one or more of the provisions hereof, shall be effective unless set forth in a writing signed by Lender and Borrower; provided, however, that any such waiver shall be restricted to the matters specified in such writing.

16. **ENTIRE AGREEMENT.** This Note and the associated Redemption Agreement constitute the sole agreements of the parties regarding the subject matter hereof and thereof and supersede all oral negotiations and prior writings regarding the subject matter hereof and thereof.

17. **APPLICABLE LAW; JURISDICTION. THIS NOTE WILL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ANY PRINCIPLES OF CONFLICTS OF LAW. ANY LEGAL ACTION OR PROCEEDING BY OR AGAINST ANY PARTY HERETO OR WITH RESPECT TO OR ARISING OUT OF THIS NOTE MAY BE BROUGHT IN OR REMOVED TO THE COURTS OF THE STATE OF NEW YORK, IN AND FOR THE COUNTY OF NEW YORK, OR OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK (IN EACH CASE SITTING IN THE BOROUGH OF MANHATTAN). BY EXECUTION AND DELIVERY OF THIS NOTE, BORROWER ACCEPTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS (AND COURTS OF APPEALS THEREFROM) FOR ANY LEGAL PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS NOTE.**

18. **SUCCESSORS AND ASSIGNS.** This Note shall be binding upon Borrower and Borrower's successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Neither party may assign or transfer its rights or obligations under this Note without the prior written consent of the other party. By acceptance of this Note, Lender is hereby deemed to have accepted the terms and conditions hereof.

19. **NO WAIVER, MODIFICATION OR PARTNERSHIP.** Nothing set forth in this Note shall be construed as making Lender or Borrower the partner, agent or joint venturer of the other party. Borrower and Lender shall have no relationship to each other than as debtor and creditor.

IN WITNESS WHEREOF, BORROWER, INTENDING TO BE LEGALLY BOUND, HAS EXECUTED THIS NOTE IN FAVOR OF LENDER AS OF THE DATE ABOVE WRITTEN.

BORROWER:

FRANKLIN HOLDINGS (BERMUDA) LTD.

By: ____
Name:
Title:

PROMISSORY NOTE
(Sunlight Capital Partners II, LLC)

Amount:	U.S.$9,230,000
Dated:	April 3, 2013

FOR VALUE RECEIVED, the undersigned Franklin Holdings (Bermuda) Ltd. ("Borrower"), with an address at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, promises to pay to the order of Sunlight Capital Partners II, LLC ("Lender"), at its office located at 40 West 57th Street, New York, NY 10019 or at such other place as Lender may direct, U.S. Nine Million Two Hundred Thirty Thousand Dollars and 00/100 Dollars (U.S.$9,230,000) (the "Principal Amount"), together with interest at the rate, and fees and expenses on the terms provided in, this Promissory Note (the "Loan"). This Promissory Note ("Note") is made as of the date of Borrower's repurchase of one hundred percent (100%) of Lender's equity ownership interest in Borrower, and the Principal Amount represents the portion of the purchase price of such equity for which Borrower has not paid Lender in cash.

1. **INTEREST RATE.** Borrower will pay Lender interest on the unpaid Principal Amount at the annual rate set forth below (calculated on the actual number of days elapsed over a 365 day year) from the date of this Note (except as provided in the next sentence) until the entire outstanding Principal Amount and accrued and outstanding interest together with all fees and expenses due under this Note have been paid, whether or not judgment is obtained. At no time, however, will the interest rate exceed the maximum allowable by Law. Interest will compound annually.

   Fixed Rate. The rate of five and one-half percent (5.5%) per annum, subject to automatic (i) reduction to two and one-half percent (2.5%) per annum in the event Borrower repays all but not less than all amounts related to the Loan on or before April 3, 2014, and (ii) increase as provided in Section 7 of this Note.

2. **TERM.** This Note matures and all unpaid principal, accrued interest and unpaid fees and expenses are payable on October 3, 2014 (the "Maturity Date").

3. **FEES AND EXPENSES.** All fees and expenses incurred by Lender in connection with the enforcement of this Note, including but not limited to attorney's fees, will be promptly reimbursed by Borrower.

4. **PAYMENTS.** All unpaid Principal Amount, accrued interest and unpaid fees and expenses shall be due and payable on the Maturity Date by means of wire transfer of immediately available funds to an account designated in writing by Lender.

5. **PREPAYMENTS.** Borrower may prepay the Loan evidenced by this Note in whole or in part without penalty before the Maturity Date. All payments made hereunder shall be applied first to the payment of any fees or charges outstanding hereunder, second to accrued but unpaid interest, and third to the payment of the Principal Amount outstanding under the Note.

6. **DEFAULT.** Each of the following shall constitute an event of default ("Event of Default") under this Note: (a) failure of Borrower to make any payment to Lender when due hereunder; (b) the breach or nonperformance of any representation, warranty or covenant of Borrower contained in this Note and such breach or nonperformance continues for a period of not less than thirty (30) days after written notice thereof from Lender to Borrower; provided, that, any breach or nonperformance of the provisions of Sections 4, 8(A)(i), 8(F), 9(A), 10(B) or 10(C) shall immediately result in an Event of Default, without such thirty (30) day period; (c) any breach under the Redemption Agreement of even date herewith (the "Redemption Agreement") between Borrower and Lender and such breach continues beyond any applicable notice and cure period; or (d) the institution of proceedings by or against Borrower under any bankruptcy or insolvency law, or any law for the benefit of creditors or relief of debtors, (provided, however, that the institution of involuntary proceedings against Borrower will not be an Event of Default if such proceeding is discharged or dismissed within sixty (60) days after the commencement date thereof), or a custodianship, trusteeship, receivership or assignment for the benefit of creditors is imposed upon or sought by Borrower.

7. **REMEDIES.** Upon the occurrence and during the continuance of an Event of Default, at Lender's option, all amounts owing to Lender in connection with the Loan and this Note will become due and payable immediately, without notice of any kind to Borrower. Upon the occurrence and during the continuance of an Event of Default, interest will continue to accrue on all such amounts until paid, at a default rate of interest equal to two percent (2%) per annum above the otherwise applicable rate under this Note. In addition, Lender shall have all the rights and remedies available at law, in equity, or otherwise. All of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy or combination shall not exclude pursuit of any other remedy, and an election to make expenditures or take action to perform any obligation of Borrower shall not affect Lender's right to declare an Event of Default and to exercise its rights and remedies.

8. **REPRESENTATIONS.** As a material inducement to Lender's willingness to make the Loan, Borrower represents and warrants that:

(A) it is (i) a limited company duly incorporated, validly existing and in good standing under the Laws of Bermuda and has the requisite power and authority, and the legal right, to own, lease and operate its material properties and assets and to conduct its business as it is now being conducted in all material respects and (ii) in material compliance with all Laws and Orders applicable to it;

(B) Borrower has the power and authority, and the legal right, to execute and deliver this Note and to perform its obligations hereunder;

(C) Borrower has duly executed and delivered this Note;

(D) no consent or authorization of, filing with, notice to or other act by, or in respect of, any governmental authority or any other person (including its shareholders), entity or agency is required in order for Borrower to execute, deliver, or perform any of its obligations under this Note, except such as have been obtained or made and are in full force and effect;

(E) the execution and delivery of this Note and the consummation by Borrower of the transactions contemplated hereby do not and will not (i) violate or conflict with Borrower's organizational documents (ii) violate any Law or Order applicable to Borrower or by which any of its material properties or assets may be bound; or (iii) constitute a default under any material agreement or contract by which Borrower may be bound;
(F) this Note is a valid, legal and binding obligation of Borrower, enforceable against Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceedings in equity or at law;
(G) Except for liens identified in Borrower's most recent audited financial statements and liens encumbering certain investment property of JRG Reinsurance Company Ltd. under that certain Master Letter of Credit Reimbursement and Security Agreement dated as of July 7, 2011 between KeyBank National Association and JRG Reinsurance Company Ltd., the assets of neither Borrower nor any of its subsidiaries are encumbered by any liens securing indebtedness of any person outstanding on the date hereof the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) $5,000,000; and
(H) no action, suit, litigation, investigation or proceeding of, or before, any arbitrator or governmental authority is pending or, to the knowledge of Borrower, threatened by or against Borrower or any of its property or assets (a) with respect to this Note or any of the transactions contemplated hereby or (b) that would reasonably be expected to materially adversely affect Borrower's financial condition or the ability of Borrower to perform its obligations under this Note.

Borrower understands and acknowledges that Lender is reasonably, materially and detrimentally relying on each representation and warranty set forth in this Section 8 and would not be making this Loan "but for" each representation and warranty.

For the purposes of this Note:

"Law" means any law (including common law), statute, ordinance, treaty, rule, regulation, policy or requirement of any governmental authority or agency and authoritative interpretations thereon, whether now or hereafter in effect, in each case, applicable to or binding on such person or any of its properties or to which such person or any of its properties is subject.

"Order" means any order, decree, judgment, writ, injunction, settlement agreement, requirement or determination of an arbitrator or a court or other governmental authority, in each case, applicable to or binding on such person or any of its properties or to which such person or any of its properties is subject.

9. **AFFIRMATIVE COVENANTS.** Until all obligations of Borrower under this Note have been satisfied or terminated in accordance with this Note, Borrower shall:

(A) Preserve, renew and maintain in full force and effect its corporate or organizational existence and take all reasonable action to maintain all material rights, privileges and franchises necessary or desirable in the normal conduct of its business;
(B) Comply with all Laws and Orders applicable to it or its property, other than such Laws and Orders (i) the validity or applicability of which Borrower is contesting in good faith by appropriate proceedings or (ii) the failure to comply with which would not reasonably be expected to materially adversely affect Borrower's financial condition or the ability of Borrower to perform its obligations under this Note;
(C) Use its commercially reasonable efforts to obtain third party financing sufficient to pay all amounts due under this Note in full on or before October 3, 2013;
(D) Upon the request of Lender, promptly execute and deliver such further instruments and do or cause to be done such further acts as may be reasonably necessary or advisable to carry out the intent and purposes of this Note;
(E) Pay, discharge or otherwise satisfy all of its material obligations before the same shall become delinquent or in default, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings, and reserves in conformity with the generally accepted accounting principles of the United States with respect thereto have been provided on its books;
(F) As soon as practicable and in any event within five (5) business days after an executive officer of Borrower obtains actual knowledge that an Event of Default has occurred, notify Lender in writing of the nature and extent of such Event of Default and the action, if any, it has taken or proposes to take with respect to such Event of Default; and
(G) Use the proceeds of any and all new debt incurred or borrowed outside of the ordinary course of business (including all new borrowings since the March 1, 2013 under that certain Credit Agreement dated as of September 24, 2008 (as in existence as of the date hereof, the "KeyBank Credit Agreement") among Borrower, as borrower, Franklin Holdings (II) (Bermuda), Ltd., as subsidiary guarantor, the lenders party thereto and KeyBank National Association, as administrative agent and letter of credit issuer, but excluding any reborrowing or refinancing of any amounts outstanding under the KeyBank Credit Agreement by a renewal or replacement facility) to repay Lender and Lehman, on a pro rata basis according to the outstanding principal, interest and fees and expenses owed to Lender and Lehman under this Note and the Lehman Note, respectively, any principal, interest and fees and expenses outstanding under this Note and the Lehman Note, respectively, within three (3) business days of Borrower's receipt of such proceeds.

For the purposes of this Note:

"Lehman" means Lehman Brothers Offshore Partners, Ltd.

"Lehman Note" means that certain Promissory Note dated as of the date hereof by Borrower in favor of Lehman in the principal amount of $3,692,000.00.

10. **NEGATIVE COVENANTS.** So long as any amount under this Note shall remain unpaid, Borrower will not, and will cause each of its subsidiaries not to, without the prior

written consent of Lender (which consent shall not be unreasonably withheld, conditioned or delayed):

(A) Create or suffer to exist any lien, security interest or other charge or encumbrance, or any other type of preferential arrangement, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or assign any right to receive income, in each case to secure any debt of any person, other than:

(i) liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.05 of the KeyBank Credit Agreement;

(ii) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than thirty (30) days or are being contested in compliance with Section 5.05 of the KeyBank Credit Agreement;

(iii) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations (including, without limitation, deposits made in the ordinary course of business to cash collateralize letters of credit described in the parenthetical in clause (i) of the definition of "Debt" in the KeyBank Credit Agreement);

(iv) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature and liens imposed by statutory or common law relating to banker's liens or rights of setoff or similar rights relating to deposit accounts, in each case in the ordinary course of business;

(v) liens arising under escrows, trusts, custodianships, separate accounts, funds withheld procedures, and similar deposits, arrangements, or agreements established with respect to insurance policies, annuities, guaranteed investment contracts and similar products underwritten by, or reinsurance agreements entered into by, any Insurance Subsidiary (as such term is defined in the KeyBank Credit Agreement) in the ordinary course of business;

(vi) deposits with insurance regulatory authorities in the ordinary course of business (which deposits may be in the form of cash collateralized letters of credit);

(vii) easements, zoning restrictions, rights-of-way, licenses, reservations, minor irregularities of title and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligation and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of Borrower;

(viii) any lien on any property of Borrower or any subsidiary existing on the date hereof and described in Section 8(G) above; *provided* that (A) such lien shall not apply to any other property of Borrower or such subsidiary and (B) such lien shall secure only those obligations that it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the aggregate commitment amount secured thereby;

(ix) any lien existing on any fixed or capital asset before the acquisition thereof by a Borrower or any subsidiary or existing on any fixed or capital asset of any person that first becomes a subsidiary after the date hereof before the time such person becomes a subsidiary; *provided* that (A) such lien is not created in contemplation of or in connection with such acquisition or such person becoming a subsidiary, (B) such lien will not apply to any other property or asset of Borrower or any subsidiary, (C) such lien will secure only those obligations which it secures on the date of such acquisition or the date such person first becomes a subsidiary, as the case may be, and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof, (D) the principal amount of debt secured by any such lien shall at no time exceed 80% of the fair market value (as determined in good faith by a senior financial officer of Borrower or a subsidiary) of such fixed or capital asset at the time it was acquired (by purchase, construction or otherwise) , and (E) the aggregate principal amount of debt secured by any and all such liens permitted under this clause (ix) shall not at any time exceed $10,000,000;

(x) liens on fixed or capital assets acquired, constructed or improved by Borrower or any subsidiary; *provided* that (A) such liens and the debt secured thereby are incurred before or within ninety (90) days after such acquisition or the completion of such construction or improvement, (C) the debt secured thereby does not exceed the cost of acquiring, constructing or improving such fixed or capital assets, (C) such liens will not apply to any other property of Borrower or any subsidiary, and (D) the aggregate principal amount of debt secured by any and all such liens permitted under this clause (x) shall not at any time exceed $10,000,000;

(xi) liens to secure a debt owing to Borrower or a subsidiary;

(xii) liens on the assets of an insurance subsidiary to secure debt owing by such subsidiary to the Federal Home Loan Bank of which such subsidiary is a member;

(xiii) cash deposited as collateral to secure letter of credit debt incurred by an insurance subsidiary of Borrower in the ordinary course of business; and

(xiv) any lien arising out of the refinancing, extension, renewal or refunding of any debt secured by a lien permitted by any of clauses (viii), (ix), (x), (xi), (xii) or (xiii) of this Section; *provided* that such debt under any of clauses (viii), (ix) and (x) is not increased (except by the amount of fees, expenses and premiums required to be paid in connection with such refinancing, extension, renewal or refunding) and is not secured by any additional assets;

provided that, except as provided in clause (iii) above, the liens permitted pursuant to clauses (i) through (vii) above shall not include any lien that secures indebtedness for borrowed money.

(B) Except for payments to Lehman made on the date hereof and to be made pursuant to the Lehman Note, pay any cash dividends, cash distributions or other cash payments, including by way of loans, indemnities or guaranties, to the shareholders of Borrower; provided, however, that the foregoing shall in no way limit any right to indemnification afforded any director or officer of Borrower by corporate policy or applicable statute for their actions (or inactions) in such capacity.

(C) Merge or consolidate with or into, or convey, transfer, otherwise dispose of (other than in the ordinary course of business) any of its assets (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets of, or otherwise enter into a material business combination with, any person, unless the surviving or acquiring entity in such transaction expressly agrees in writing to assume and perform all of Borrower's obligations under this Note.

(D) Prepay any amount under the Lehman Note without concurrently making a pro rata (according to the amount of principal, interest, fees and expenses outstanding under each of this Note and the Lehman Note) prepayment against the Loan in accordance with Section 5 of this Note.

(E) Materially amend, supplement or modify the Lehman Note.

11. **TAXES.**

(A) Any and all payments by Borrower under this Note shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto (all such taxes, levies imposts, deductions, charges, withholdings and liabilities, but excluding any taxes based on Lender's income, being hereinafter referred to as "Taxes").

(B) In addition, Borrower shall pay any present or future stamp, documentary, excise, property or similar taxes, charges or levies that arise from any payment made under this Note or from the execution, delivery or registration of, or otherwise with respect to, this Note (all such taxes, charges and levies being hereinafter referred to as "Other Taxes").

(C) Borrower shall indemnify Lender for the full amount of Taxes and Other Taxes, and for the full amount of Taxes imposed by any jurisdiction on amounts payable under this paragraph, paid by Lender and any liability (including, without limitation, penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto. This indemnification payment shall be made within thirty days from the date Lender makes written demand therefor.

(D) Without prejudice to the survival of any other agreement of Borrower under this Note, the agreements and obligations of Borrower contained in this paragraph shall survive the payment in full of principal and interest under this Note.

12. **MAXIMUM RATE PERMITTED BY LAW.** All agreements in this Note are expressly limited so that in no contingency or event whatsoever, whether reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount agreed to be paid hereunder for the use, forbearance, or detention of money exceed the highest lawful rate permitted under applicable usury laws. If, from any circumstance whatsoever, fulfillment of any provision of this Note at the time performance of such provision shall be due shall involve exceeding any usury limit prescribed by law that a court of competent jurisdiction may deem applicable hereto, then, ipso facto, the obligations to be fulfilled shall be reduced to allow compliance with such limit, and if, from any circumstance whatsoever, Lender shall ever receive as interest an amount that would exceed the highest lawful rate, the receipt of such excess shall be deemed a mistake and shall be canceled automatically or, if theretofore paid, such excess shall be credited against the principal amount of the indebtedness evidenced hereby to which the same may lawfully be credited, and any portion of such excess not capable of being so credited shall be refunded immediately to Borrower.

13. **AVOIDANCE OF DEBT PAYMENTS.** To the extent that any payment to Lender and/or any payment or proceeds of any collateral received by Lender in reduction of the Loan is subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, to Borrower (or Borrower's successor) as a debtor in possession, or to a receiver, creditor, or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then the portion of the Loan intended to have been satisfied by such payment or proceeds shall remain due and payable hereunder, be evidenced by this Note, and shall continue in full force and effect as if such payment or proceeds had never been received by Lender whether or not this Note has been marked "paid" or otherwise cancelled or satisfied and/or has been delivered to Borrower, and in such event Borrower shall be immediately obligated to return the original Note to Lender and any marking of "paid" or other similar marking shall be of no force and effect.

14. **SEVERABILITY.** If any provision of this Note is found to be invalid or unenforceable, such provision shall be stricken and all remaining provisions of this Note shall remain valid and enforceable.

15. **WAIVER; AMENDMENTS.** No amendment of this Note, and no waiver of any one or more of the provisions hereof, shall be effective unless set forth in a writing signed by Lender and Borrower; provided, however, that any such waiver shall be restricted to the matters specified in such writing.

16. **ENTIRE AGREEMENT.** This Note and the associated Redemption Agreement constitute the sole agreements of the parties regarding the subject matter hereof and thereof and supersede all oral negotiations and prior writings regarding the subject matter hereof and thereof.

17. **APPLICABLE LAW; JURISDICTION. THIS NOTE WILL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ANY PRINCIPLES OF CONFLICTS OF LAW. ANY LEGAL ACTION OR PROCEEDING BY OR AGAINST ANY PARTY HERETO OR WITH RESPECT TO OR ARISING OUT OF THIS NOTE MAY BE BROUGHT IN OR REMOVED TO THE COURTS OF THE STATE OF NEW YORK, IN AND FOR THE COUNTY OF NEW YORK, OR OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK (IN EACH CASE SITTING IN THE BOROUGH OF MANHATTAN). BY EXECUTION AND DELIVERY OF THIS NOTE, BORROWER ACCEPTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS (AND COURTS OF APPEALS THEREFROM) FOR ANY LEGAL PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS NOTE.**

18. **SUCCESSORS AND ASSIGNS.** This Note shall be binding upon Borrower and Borrower's successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Neither party may assign or transfer its rights or obligations under this Note

without the prior written consent of the other party. By acceptance of this Note, Lender is hereby deemed to have accepted the terms and conditions hereof.

19. **NO WAIVER, MODIFICATION OR PARTNERSHIP.** Nothing set forth in this Note shall be construed as making Lender or Borrower the partner, agent or joint venturer of the other party. Borrower and Lender shall have no relationship to each other than as debtor and creditor.

IN WITNESS WHEREOF, BORROWER, INTENDING TO BE LEGALLY BOUND, HAS EXECUTED THIS NOTE IN FAVOR OF LENDER AS OF THE DATE ABOVE WRITTEN.

BORROWER:

FRANKLIN HOLDINGS (BERMUDA) LTD.

By: ______________________________
Name:
Title:

Exhibit 10.6

Form of Shareholder Indemnification Agreement

CONFIDENTIAL

This INDEMNIFICATION AGREEMENT, dated as of December 11, 2007 (the " Agreement"), is among (i) Franklin Holdings (Bermuda), Ltd., a Bermuda exempted company (the "Company"), (ii) James River Group, Inc., a Delaware corporation (James River), and (iii) [●] (each an "Investor" and, together, the "Investors"). Capitalized terms used in this Agreement without definition have the meanings set forth in Section 1 below.

RECITALS

A . The Company and Franklin Acquisition Corp. ("Merger Sub") have entered into an Agreement and Plan of Merger, dated as of June 11, 2007 (as it may be amended from time to time in accordance with its terms, the "Merger Agreement"), with James River, pursuant to which the Company has agreed to acquire, on the terms and subject to the conditions set forth in the Merger Agreement, all of the outstanding shares of capital stock of James River via the merger of Merger Sub with and into James River (the "Merger").

B . The Company and certain of its shareholders, including the Investors, have entered into an Investor Shareholders Agreement (as the same may be amended from time to time in accordance with its terms, the "Shareholders Agreement"), dated as of the date of this Agreement, setting forth certain terms and conditions regarding the ownership of Equity Securities, including certain restrictions on the transfer of such Equity Securities, and the governance of the Company and its Subsidiaries.

C . In order to fund the merger consideration payable under the Merger Agreement, to capitalize the proposed Bermuda reinsurance Subsidiary of the Company, and to pay or reimburse expenses and incidental activities related to such funding and capitalization, (a) the Company is selling Preferred Shares, to each Investor and to other shareholders of the Company as are listed in the signature pages to the Shareholders Agreement (the "Equity Offering"), and (b) James River and affiliates of the Company are entering into the Debt Financing.

D . The Company or one or more of its Subsidiaries from time to time in the future may (a) offer and sell or cause to be offered and sold equity or debt securities or instruments (such offerings, collectively, the "Subsequent Offerings"), including (i) offerings of shares of capital stock of the Company or any of its Subsidiaries, and/or options to purchase such shares or other equity-linked securities to employees and directors of the Company or any of its Subsidiaries (any such offering, a "Management Offering"), and (ii) one or more offerings of debt securities or instruments, and (b) repurchase, redeem, or otherwise acquire certain securities of the Company or any of its Subsidiaries or engage in recapitalization or structural reorganization transactions relating thereto (any such repurchase, redemption, acquisition, recapitalization, or reorganization, a "Redemption"), in each case, subject to the terms and conditions of the Shareholders Agreement and any other applicable agreement.

E. The parties to this Agreement recognize the possibility that claims might be made against and liabilities incurred by any of the Investors or any Excluded Person under applicable securities laws or otherwise in connection with the Transactions or the Offerings, or relating to the provision of financial, investment banking, management, advisory, consulting, monitoring or other services (the "Transaction Services") or actions or omissions of or by the Company or any of its Subsidiaries, and the parties to this Agreement accordingly wish to provide for the Investors and the other Indemnitees to be indemnified in respect of any such claims and liabilities.

F. The parties to this Agreement recognize that claims might be made against and liabilities incurred by Investors that hold Voting Proxies in connection with their exercise of their rights to vote the Voting Securities subject to such Voting Proxies, and the parties to this Agreement accordingly wish to provide for such holders to be indemnified in respect of any such claims and liabilities.

G. The parties to this Agreement recognize that claims might be made against and liabilities incurred by directors and officers of the Company or any of its Subsidiaries in connection with their acting in such capacity, and that breach of fiduciary duty claims might be made against and liabilities incurred by shareholders of the Company, and accordingly wish to provide for such shareholders, directors, and officers to be indemnified to the fullest extent permitted by law in respect of any such claims and liabilities.

NOW, THEREFORE, in consideration of the foregoing premises, and the mutual agreements and covenants and provisions set forth in this Agreement, the parties to this Agreement agree as follows:

1. Definitions.

(a) "Affiliate" means, with respect to any Person, (i) any other Person directly or indirectly Controlling, Controlled by or under common Control with, such Person; (ii) any Person directly or indirectly owning or Controlling ten percent or more of any class of outstanding voting securities of such Person; or (iii) any officer, director, general partner, special limited partner, or trustee of any such Person described in clause (i) or (ii).

(b) "Claim" means, with respect to any Indemnitee, any claim by or against such Indemnitee involving any Obligation with respect to which such Indemnitee may be entitled to be indemnified by the Company or any of its Subsidiaries under this Agreement.

(c) "Commission" means the United States Securities and Exchange Commission or any successor entity thereto.

(d) "Common Shares" means the common shares, par value $0.01 per share, of the Company and any securities issued in respect thereof, or in substitution therefor, in connection with any stock split, dividend, or combination, or any reclassification, recapitalization, merger, consolidation, exchange, or other similar reorganization.

(e) "Control" of any Person means the power to direct the management and policies of such Person (whether through the ownership of voting securities, by contract, as trustee or executor, or otherwise).

(f) "Debt Financing" means the financing contemplated by the Debt Commitment Letters (as defined in the Shareholders Agreement), and any replacement financing for, or refinancing of, such financing.

(g) "Determination" means a determination that either (i) there is a reasonable basis for the conclusion that indemnification of an Indemnitee is proper in the circumstances because such Indemnitee met a particular standard of conduct (a "Favorable Determination") or (ii) solely in the case of an Indemnitee making a Claim in such Indemnitee's capacity as director or officer of the Company or any of its Subsidiaries, there is no reasonable basis for the conclusion that indemnification of an Indemnitee is proper in the circumstances because such Indemnitee met a particular standard of conduct (an "Adverse Determination"). An Adverse Determination includes both the decision that a Determination was required by applicable law and this Agreement in connection with indemnification and the decision as to the applicable standard of conduct.

(h) "Equity Securities" means any and all (a) Common Shares, (b) Preferred Shares, or (c) securities of the Company convertible into, or exchangeable or exercisable for, Common Shares, and options, warrants, or other rights to acquire Common Shares.

(i) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(j) "Excluded Person" means any former, current, or future director, officer, employee, agent, general or limited partner, manager, member, stockholder, Affiliate, or assignee of the Investors or any former, current, or future director, officer, employee, agent, general or limited partner, manager, member, stockholder, Affiliate, or assignee of any of the foregoing.

(k) "Expenses" means all reasonable and reasonably documented attorneys' fees and expenses, retainers, court, arbitration and mediation costs, transcript costs, fees of experts, bonds, witness fees, costs of collecting and producing documents, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements, costs, or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, appealing, or otherwise participating in a Proceeding.

(l) "Extraordinary Transaction" means: (i) the acquisition by any Person or Group of (x) Voting Securities representing 50 percent or more of the voting power of the Company's then outstanding Voting Securities or (y) 50 percent or more of the Shares then outstanding, in each case other than any such acquisition by the Company or any Subsidiary of the Company, any member of an Investor Group (as defined in the Shareholders Agreement), any employee benefit plan of the Company or any of its Subsidiaries, or any Affiliates of any of the foregoing; (ii) the merger, consolidation, recapitalization, stock purchase, or other similar transaction involving the Company, as a result of which Persons who were shareholders immediately prior to such merger, consolidation, or other similar transaction do not, immediately thereafter, own, directly or indirectly, more than 50 percent of the combined voting power entitled to vote generally in the election of directors of the merged, consolidated, or surviving company; (iii) a majority of the votes of the total authorized membership of the board of directors of the Company shall cease to be held by directors designated by the Investors, the GS Investors (as defined in the Shareholders Agreement), the Elliott Investors (as defined in the Shareholders Agreement), any Additional Co-Investor (as defined in the Shareholders Agreement), or members of their respective Investor Groups; or (iv) the sale, transfer, or other disposition of all or substantially all of the assets of the Company to one or more Persons that are not, immediately prior to such sale, transfer, or other disposition, Affiliates of the Company. Notwithstanding the foregoing, a Public Offering shall not constitute an Extraordinary Transaction.

(m) "Group" has the meaning assigned to such term in Section 13(d)(3) of the Exchange Act.

(n) "Indemnitee" means each of the Investors, their respective Affiliates (other than the Company and any of its Subsidiaries), each Related Entity, their respective successors and assigns, and the respective directors, officers, liquidators, partners, members, stockholders, employees, agents, advisers, consultants, representatives, and controlling persons (within the meaning of the Securities Act) of each of them, or of their partners, members, and controlling persons, and each other person who is or becomes a director or an officer of any member of the Company or any of its Subsidiaries, in each case irrespective of the capacity in which such person acts, and whether or not such Person continues to have the applicable status referred to above.

(o) "Independent Legal Counsel" means an attorney or firm of attorneys competent to render an opinion under the applicable law, selected in accordance with the provisions of Section 4(e) below, who has not otherwise performed any services for the Company, any of its Subsidiaries, or for any Indemnitee within the last three years (other than with respect to matters concerning the rights of an Indemnitee under this Agreement or other indemnitees under indemnity agreements similar to this Agreement).

(p) "Obligations" means, collectively, any and all claims, obligations, liabilities, causes of actions, Proceedings, investigations, judgments, decrees, losses, damages (including punitive, consequential, special, and exemplary damages), fees, fines, penalties, amounts paid in settlement, costs (including costs of investigation and preparations) and Expenses (including interest, assessments, and other charges in connection therewith and disbursements of attorneys, accountants, investment bankers, and other professional advisers), in each case whether incurred, arising, or existing with respect to third parties or otherwise at any time or from time to time, other than, for the avoidance of doubt, (i) solely in the case of a Shareholder (as such term is defined in the Shareholders Agreement) or former Shareholder, any such claims, obligations, liabilities, causes of actions, Proceedings, investigations, judgments, decrees, losses, damages, fees, fines, penalties, amounts paid in settlement, costs or Expenses incurred or arising in connection with a breach of contract claim under the Shareholders Agreement or the Voting Proxies against such Shareholder or former Shareholder by another party to the Shareholders

Agreement or the Voting Proxies, it being understood that this clause (i) shall not apply to any Obligations of an Excluded Person of such Shareholder or former Shareholder incurred or arising in connection therewith; (ii) any such claims, obligations, liabilities, causes of actions, Proceedings, investigations, judgments, decrees, losses, damages, fees, fines, penalties, amounts paid in settlement, costs or Expenses incurred or arising in connection with any claim against an Indemnitee by a direct or indirect equityholder of an Indemnitee arising out of such equityholder's direct or indirect ownership of equity interests in Indemnitee or its Affiliates or any related contractual arrangements; or (iii) any such claims, obligations, liabilities, causes of actions, Proceedings, investigations, judgments, decrees, losses, damages, fees, fines, penalties, amounts paid in settlement, costs, or Expenses incurred or arising in connection with any claim against an Indemnitee by any service provider of such Indemnitee or its affiliates arising in connection with the provision of services by such service provider to such Indemnitee or affiliates.

(q) "Offerings" means the Equity Offering, any Management Offering, any Redemption, and any Subsequent Offering.

(r) "Person" means an individual, corporation, limited liability company, limited or general partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivisions thereof, or any other entity or Group.

(s) "Preferred Shares" means the 2,500,000 shares of Series A Preferred Stock, par value $0.01 per share, of the Company and any other preference shares issued in accordance with the Bye-laws.

(t) "Proceeding" means a threatened, pending or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative, including a claim, demand, discovery request, formal or informal investigation, inquiry, administrative hearing, arbitration or other form of alternative dispute resolution, including an appeal from any of the foregoing.

(u) "Public Offering" means an offering of Common Shares pursuant to a registration statement filed in accordance with the Securities Act.

(v) "Related Document" means any agreement, certificate, instrument, or other document to which the Company or any of its Subsidiaries may be a party or by which it or any of its properties or assets may be bound or affected from time to time relating in any way to the Transactions or any Offering or any of the transactions contemplated thereby, including in each case as the same may be amended from time to time, (i) any registration statement filed by or on behalf of the Company or any of its Subsidiaries with the Commission in connection with the Transactions or any Offering, including all exhibits, financial statements, and schedules appended to such registration statement, and any submissions to the Commission in connection with such registration statement; (ii) any prospectus (preliminary, final, free-writing, or otherwise), included in such registration statements or otherwise filed by or on behalf of the Company or any of its Subsidiaries in connection with the Transactions or any Offering or used to offer or confirm sales of their respective securities or instruments in any Offering; (iii) any private placement or offering memorandum or circular, information statement, or other information or materials distributed by or on behalf of the Company or any of its Subsidiaries or any placement agent or underwriter in connection with the Transactions or any Offering; (iv) any federal, state, or foreign securities law or other governmental or regulatory filings or applications made in connection with any Offering, the Transactions, or any of the transactions contemplated thereby; (v) any dealer-manager, underwriting, subscription, purchase, shareholders, option, or registration rights agreement or plan entered into or adopted by the Company or any of its Subsidiaries in connection with any Offering; (vi) any purchase, repurchase, redemption, recapitalization or reorganization, or other agreement entered into by the Company or any of its Subsidiaries in connection with any Redemption; or (vii) any quarterly, annual, or current reports or other filing filed, furnished, or supplementally provided by the Company or any of its Subsidiaries with or to the Commission or any securities exchange, including all exhibits, financial statements, and schedules appended to such reports or filings, and any submission to the Commission or any securities exchange in connection with such reports or filings.

(w) "Related Entity" means [●]; any entity directly or indirectly affiliated with any of the Investor or [●]; investment funds directly or indirectly affiliated with, or controlled by, any of the Investor or [●]; subsidiaries of and entities directly or indirectly controlled by any of the Investor, [●] and/or such entities; and investment vehicles to which investment management services are provided by any of the foregoing.

(x) "Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(y) "Subsidiary" means each Person in which a Person owns or Controls, directly or indirectly, capital stock or other equity interests representing more than 50 percent of the outstanding capital stock or other equity interests.

(z) "Transactions" means the Merger, the Equity Offering, the Debt Financing, and any transaction for which Transaction Services are or have been provided to the Company or any of its Subsidiaries.

(aa) "Voting Securities" means, at any time, shares of any class of Equity Securities of the Company, which are then entitled to vote generally in the election of directors.

2. Indemnification.

(a) Without in any way limiting any rights of indemnification any Indemnitee may have pursuant to Article V of the Shareholders Agreement, each of the Company and James River (each an "Indemnifying Party" and collectively the "Indemnifying Parties"), jointly and severally, agrees to indemnify, defend, and hold harmless each Indemnitee:

(i) from and against any and all Obligations, whether incurred with respect to third parties or otherwise, in any way resulting from, arising out of or in connection with, based upon, or relating to liabilities under the Securities Act, the Exchange Act, or any other applicable securities or other laws, rules, or regulations in connection with (i) the inaccuracy or breach of or default under any representation, warranty, covenant, or agreement in any Related Document, or any allegation of inaccuracy, breach, or default; (ii) any untrue statement or alleged untrue statement of a material fact contained in any Related Document; or (iii) any omission or alleged omission to state in any Related Document a material fact required to be stated in such Related Document or necessary to make the statements in such Related Document not misleading. Notwithstanding the foregoing, the Indemnifying Parties shall not be obligated to indemnify such Indemnitee from and against any such Obligation to the extent that such Obligation arises out of or is based upon (x) any representation, warranty, covenant, or agreement of, or made by, an Indemnitee in any Related Document or (y) an untrue statement or omission made in such Related Document in reliance upon and in conformity with written information furnished to the Indemnifying Parties, as the case may be, in an instrument duly executed by such Indemnitee and specifically stating that it is for use in the preparation of such Related Document;

(ii) with respect to Indemnitees that are the holders of any Voting Proxies, from and against any and all Obligations, whether incurred with respect to third parties or otherwise, in any way resulting from, arising out of or in connection with, based upon, or relating to the exercise by such Indemnitee of its rights to vote the Voting Securities, except where a court of competent jurisdiction has rendered a final determination that the Obligations were incurred by reason of such Indemnitees' fraud or willful misconduct;

(iii) to the fullest extent permitted by the law of the place of organization of an Indemnifying Party, or by any other applicable law in effect as of the date of this Agreement or as amended to increase the scope of permitted indemnification, whichever is greater (except, with respect to any Indemnifying Party, to the extent that such indemnification may be prohibited by the law of the place of incorporation of such Indemnifying Party), from and against any and all Obligations whether incurred with respect to third parties or otherwise, in any way resulting from, arising out of or in connection with, based upon or relating to (A) the fact that such Indemnitee is or was a director or an officer of the Company or any of its Subsidiaries or is or was serving at the request of such entity as a director, officer, member, employee, or agent of, or adviser or consultant to another corporation, partnership, joint venture, trust, or other enterprise; (B) any breach or alleged breach by such Indemnitee of his or her fiduciary duty as a shareholder (direct or indirect), a director, or an officer of the Company or any of its Subsidiaries; or (C) any payment by any of the Investors or any Excluded Person to an Indemnitee with respect to the Obligations referred to in this Section 2(a)(iii), in each case except where a court of competent jurisdiction has rendered a final determination that the Obligations were incurred by reason of such Indemnitees' fraud or willful misconduct;

in each case including, but not limited to, any and all reasonable and reasonably documented fees, costs, and Expenses (including reasonable and reasonably documented fees and disbursements of attorneys and other professional advisers) incurred by or on behalf of any Indemnitee in asserting, exercising, or enforcing any of its rights, powers, privileges, or remedies in respect of this Agreement.

(b) Without limiting the foregoing, in the event that any Proceeding is initiated by an Indemnitee or the Company or any of its Subsidiaries to enforce or interpret this Agreement or any rights of such Indemnitee to indemnification or advancement of Expenses (or related obligations of such Indemnitee) under the Company's memorandum of association or bye-laws or any Subsidiary of the Company's certificate of incorporation or by-laws or similar organizational documents, any other agreement to which such Indemnitee and the Company or any of its Subsidiaries are party, any vote of the directors of the Company or any of its Subsidiaries, any applicable law, or any liability insurance policy, the Indemnifying Parties shall indemnify such Indemnitee against all costs and Expenses incurred by such Indemnitee or on such Indemnitee's behalf (including by any managing member of or adviser to such Indemnitee) in connection with such Proceeding, whether or not such Indemnitee is successful in such Proceeding, except to the extent that the Person presiding over such Proceeding determines that (i) material assertions made by such Indemnitee in such proceeding were in bad faith or were frivolous or (ii) as a matter of applicable law, such Expenses must be limited in proportion to the success achieved by such Indemnitee in such Proceeding and the efforts required to obtain that success, as determined by such presiding Person.

3. Contribution.

(a) If for any reason the indemnity provided for in Section 2(a) above is unavailable or is insufficient to hold harmless any Indemnitee from any of the Obligations covered by such indemnity, then the Indemnifying Parties, jointly and severally, shall contribute to the amount paid or payable by such Indemnitee as a result of such Obligation in such proportion as is appropriate to reflect (i) the relative fault of each of the Company and its Subsidiaries, on the one hand, and such Indemnitee, on the other, in connection with the state of facts giving rise to such Obligation; (ii) if such Obligation results from, arises out of, is based upon or relates to the Transactions or any Offering, the relative benefits received by each of the Company and its Subsidiaries, on the one hand, and such Indemnitee, on the other, from such Transaction or Offering; and (iii) if required by applicable law, any other relevant equitable considerations.

(b) For purposes of Section 3(a) above, the relative fault of each of the Company and its Subsidiaries, on the one hand, and of an Indemnitee, on the other, shall be determined by reference to, among other things, their respective relative intent, knowledge, access to information (including whether such information was supplied by the Company and its Subsidiaries, on the one hand, or by such Indemnitee, on the other), opportunity to correct the state of facts giving rise to such Obligation, and applicable law. For purposes of Section 3(a) above, the relative benefits received by each of the Company and its Subsidiaries, on the one hand, and an Indemnitee, on the other, shall be determined by weighing the direct monetary proceeds to the Company and its Subsidiaries, on the one hand, and such Indemnitee, on the other, from such Transaction or Offering.

(c) The parties to this Agreement acknowledge and agree that it would not be just and equitable if contributions pursuant to Section 3(a) above were determined *by pro rata* allocation or by any other method of allocation that does not take into account the equitable considerations referred to in such Section. No Indemnifying Party shall be liable under Section

3(a) above, as applicable, for contribution to the amount paid or payable by any Indemnitee except to the extent and under such circumstances such Indemnifying Party would have been liable to indemnify, defend, and hold harmless such Indemnitee under the Section 2(a) above if such indemnity were enforceable under applicable law. No Indemnitee shall be entitled to contribution from any Indemnifying Party with respect to any Obligation covered by the indemnity specifically provided for in Section 2(a) above in the event that such Indemnitee is finally determined to be guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) in connection with such Obligation and such Indemnifying Party is not guilty of such fraudulent misrepresentation. For the avoidance of doubt, no Indemnifying Party shall be liable for contribution pursuant to Section 3(a) above with respect to any Obligation to the extent such Obligation would not be indemnifiable under this Agreement.

4. Indemnification Procedures.

(a) Whenever any Indemnitee shall have actual knowledge of the assertion of a Claim against it, such Indemnitee shall notify the Company or its appropriate Subsidiary in writing of the Claim (the "Notice of Claim") with reasonable promptness after such Indemnitee has such knowledge relating to such Claim; provided that the failure or delay of such Indemnitee to give such Notice of Claim shall not relieve any Indemnifying Party of its indemnification obligations under this Agreement except to the extent that such omission results in a failure of actual notice to it and it is materially injured as a result of the failure to give such Notice of Claim. The Notice of Claim shall specify all material facts known to such Indemnitee relating to such Claim and the monetary amount or an estimate of the monetary amount of the Obligation involved if such Indemnitee has knowledge of such amount or a reasonable basis for making such an estimate. The Indemnifying Parties shall, at their expense, undertake the defense of such Claim with attorneys of their own choosing reasonably satisfactory in all respects to such Indemnitee, subject to the right of such Indemnitee to undertake such defense as provided below. An Indemnitee may participate in such defense with counsel of such Indemnitee's choosing at the expense of the Indemnifying Parties. In the event that the Indemnifying Parties do not undertake the defense of the Claim within a reasonable time after such Indemnitee has given the Notice of Claim, or in the event that such Indemnitee shall in good faith determine that the defense of any Claim by the Indemnifying Parties is inadequate or may conflict with the interest of any Indemnitee (including Claims brought by or on behalf of the Company or its Subsidiaries), such Indemnitee may, at the expense of the Indemnifying Parties and after giving notice to the Indemnifying Parties of such action, undertake the defense of the Claim and, subject to the prior written consent of the Indemnifying Parties in the case of any compromise or settlement that requires the payment in respect of the Claim of any amount indemnifiable under this Agreement, such consent not to be unreasonably withheld or delayed, compromise or settle the Claim, all for the account of and at the risk of the Indemnifying Parties. In the defense of any Claim against an Indemnitee, no Indemnifying Party shall, except with the prior written consent of such Indemnitee, consent to entry of any judgment or enter into any settlement that includes any injunctive or other non-monetary relief or any payment of money by such Indemnitee, or that does not include as an unconditional term of such judgment or settlement the giving by the Person or Persons asserting such Claim to such Indemnitee of an unconditional release from all liability on any of the matters that are the subject of such Claim and an acknowledgement that such Indemnitee denies all wrongdoing in connection with such matters. Notwithstanding anything to the contrary contained in this Agreement, the Indemnifying Parties shall not be obligated to indemnify Indemnitee against amounts paid in settlement of a Claim if such settlement is effected by such Indemnitee without the prior written consent of the Company (on behalf of all Indemnifying Parties), which shall not be unreasonably withheld or delayed. In each case, each Indemnitee seeking indemnification hereunder will cooperate with the Indemnifying Parties, so long as an Indemnifying Party is conducting the defense of the Claim, in the preparation for and the prosecution of the defense of such Claim, including making available evidence within the control of such Indemnitee, as the case may be, and persons needed as witnesses who are employed by such Indemnitee, as the case may be, in each case as reasonably needed for such defense and at cost, which cost, to the extent reasonably incurred, shall be paid by the Indemnifying Parties.

(b) An Indemnitee shall notify the Indemnifying Parties in writing of the amount requested for advances ("Notice of Advances"). Each of the Indemnifying Parties, jointly and severally, agrees to advance all Expenses incurred by any Indemnitee in connection with any Claim (but not for any Claim initiated or brought voluntarily by an Indemnitee other than a Proceeding pursuant to Section 2(b) above) in advance of the final disposition of such Claim without regard to whether such Indemnitee will ultimately be entitled to be indemnified for such Expenses upon receipt of an undertaking by or on behalf of such Indemnitee to repay amounts so advanced if it shall ultimately be determined in a decision of a court of competent jurisdiction from which no appeal can be taken that such Indemnitee is not entitled to be indemnified by the Indemnifying Parties as authorized by this Agreement. Such repayment undertaking shall be unsecured and shall not bear interest. No Indemnifying Party shall impose on any Indemnitee additional conditions to advancement or require from such Indemnitee additional undertakings regarding repayment. The Indemnifying Parties shall make payment of such advances no later than ten days after the receipt of the Notice of Advances.

(c) An Indemnitee shall notify the Indemnifying Parties in writing of the amount of any Claim actually paid by such Indemnitee (the "Notice of Payment"). The amount of any Claim actually paid by such Indemnitee shall bear simple interest at the rate equal to the HSBC Bank USA, N.A. prime rate as of the date of such payment plus 2 percent per annum, from the date the Indemnifying Parties receive the Notice of Payment to the date on which any Indemnifying Party shall repay the amount of such Claim plus interest on such Claim to such Indemnitee. The Indemnifying Parties shall make indemnification payments to such Indemnitee no later than 30 days after receipt of the Notice of Payment.

(d) Determination. The Company and its Subsidiaries intend that an Indemnitee shall be indemnified to the fullest extent permitted by law as provided in Section 2 above and that no Determination shall be required in connection with such indemnification. In no event shall a Determination be required in connection with (i) indemnification of any Indemnitee other than a director or officer of the Company or its Subsidiaries in connection with a Claim against such Indemnitee acting in such capacity (and then, only to the extent required by applicable law), (ii) advancement of Expenses pursuant to Section 4(b) above, (iii) indemnification for Expenses incurred as a witness, or (iv) any Claim or portion of a Claim with respect to which an Indemnitee has been successful on the merits or otherwise. Any decision that a Determination is required by law in connection with any other indemnification of an Indemnitee, and any such Determination, shall be made within 30 days after receipt of a Notice of Claim, as follows:

(i) if no Extraordinary Transaction has occurred, (x) by a majority vote of the directors of the Indemnifying Parties who are not parties to such Claim, even though less than a quorum, or (y) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (z) if there are no such directors, or if such directors so direct, by Independent Legal Counsel in a written opinion to the Indemnifying Party and such Indemnitee; and

(ii) if an Extraordinary Transaction has occurred, by Independent Legal Counsel in a written opinion to the Indemnifying Parties (or their successors) and such Indemnitee.

The Indemnifying Parties shall pay all expenses incurred by an Indemnitee in connection with a Determination.

(e) Independent Legal Counsel. If there has not been an Extraordinary Transaction, Independent Legal Counsel shall be selected by the board of directors of the Company and approved by the Indemnitee (which approval shall not be unreasonably withheld or delayed). If there has been an Extraordinary Transaction, Independent Legal Counsel shall be selected by the Indemnitee and approved by the Company (which approval shall not be unreasonably withheld or delayed). The Indemnifying Parties shall pay the reasonable and reasonably documented fees and expenses of Independent Legal Counsel and indemnify Independent Legal Counsel against any and all Expenses, claims, liabilities, and damages arising out of or relating to its engagement.

(f) Consequences of Determination; Remedies of Indemnitee. The Indemnifying Parties shall be bound by and shall have no right to challenge a Favorable Determination. If an Adverse Determination is made, or if for any other reason any Indemnifying Party does not make timely indemnification payments or advances of expenses, Indemnitee shall have the right to commence a Proceeding before a court of competent jurisdiction to challenge such Adverse Determination and/or to require such Indemnifying Party to make such payments or advances. An Indemnitee shall be entitled to be indemnified for all Expenses incurred in connection with such a Proceeding in accordance with Section 2 above and to have such Expenses advanced by the Company in accordance with Section 4(b) above. If an Indemnitee fails to timely challenge an Adverse Determination, or if an Indemnitee challenges an Adverse Determination and such Adverse Determination has been upheld by a final judgment of a court of competent jurisdiction from which no appeal can be taken, then, to the extent and only to the extent required by such Adverse Determination or final judgment, no Indemnifying Party shall be obligated to indemnify or advance expenses to such Indemnitee under this Agreement.

(g) Presumptions; Burden and Standard of Proof. In connection with any Determination, or any review of any Determination, by any person, including a court:

(i) It shall be a presumption that a Determination is not required.

(ii) The burden of proof shall be on the Indemnifying Parties to overcome the presumption set forth in the preceding clause (i), and such presumption shall only be overcome if the Indemnifying Parties establish that there is no reasonable basis to support it.

(iii) The termination of any Proceeding by judgment, order, finding, settlement (whether with or without court approval), or conviction, or upon a plea of *nolo contendere,* or its equivalent, shall not create a presumption that indemnification is not proper or that an Indemnitee did not meet the applicable standard of conduct or that a court has determined that indemnification is not permitted by this Agreement or otherwise.

(iv) Neither the failure of any person or persons to have made a Determination nor an Adverse Determination by any person or persons shall be a defense to an Indemnitee's claim or create a presumption that an Indemnitee did not meet the applicable standard of conduct, and any Proceeding commenced by an Indemnitee pursuant to Section 4(f)above shall be *de novo* with respect to all determinations of fact and law.

5. Certain Covenants. The rights of each Indemnitee to be indemnified under any other agreement, document, certificate, or instrument or applicable law are independent of and in addition to any rights of such Indemnitee to be indemnified under this Agreement, provided that to the extent that an Indemnitee is entitled to be indemnified by the Indemnifying Parties under this Agreement and by any other Indemnitee under any other agreement, document, certificate, or instrument, the obligations of the Indemnifying Parties hereunder shall be primary, and the obligations of such other Indemnitee secondary, and the Indemnifying Parties shall not be entitled to contribution or indemnification from or subrogation against such other Indemnitee. Notwithstanding the foregoing, any Indemnitee may choose to seek indemnification from any potential source of indemnification regardless of whether such indemnitor is primary or secondary. An Indemnitee's election to seek advancement of indemnified sums from any secondary indemnifying party will not limit the right of such Indemnitee, or any secondary indemnitor proceeding under subrogation rights or otherwise, from seeking indemnification from the Indemnifying Parties to the extent that the obligations of the Indemnifying Parties are primary. The rights of each Indemnitee and the obligations of the Indemnifying Parties under this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnitee. Following the Transactions, each of the Company and its Subsidiaries, and each of their corporate successors, shall implement and maintain in full force and effect any and all provisions in their certificate of incorporation, memorandum of association, bye-laws, or similar organizational documents that may be necessary or appropriate to enable such Company or Subsidiary of the Company (or successor to the Company or Subsidiary of the Company) to carry out its obligations under this Agreement to the fullest extent permitted by applicable law, including a provision of its certificate of incorporation (or comparable organizational document under its jurisdiction of incorporation) eliminating liability of a director for breach of fiduciary duty to the fullest extent permitted by applicable law, as amended from time to time. So long as the Company or any of its Subsidiaries maintains liability insurance for any directors, officers, employees, or agents of any such Person, the Indemnifying Parties shall ensure that each Indemnitee serving in such capacity is covered by such insurance in such a manner as to provide such Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's and its Subsidiaries' then current directors and officers.

6 . Notices. All notices and other communications under this Agreement shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt; (b) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service; or (c) on the third Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices under this Agreement shall be delivered to the addresses set forth on the attached Annex A to this Agreement, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

7 . Governing Law; Jurisdiction; Waiver of Jury Trial. All disputes, claims, or controversies arising out of or relating to this Agreement, or the negotiation, validity, or performance of this Agreement, or the transactions contemplated by this Agreement shall be governed by and construed in accordance with the laws of the State of New York. In any action or proceeding between any of the parties arising out of or relating to this Agreement or any of the transactions contemplated by this Agreement, each of the parties to this Agreement: (a) irrevocably and unconditionally consents and submits, for itself and its property, to the exclusive jurisdiction and venue of the courts of the State of New York or the United States District Court, in each case located in the Borough of Manhattan in New York City; (b) agrees that all claims in respect of such action or proceeding must be commenced, and may be heard and determined, exclusively in the courts of the State of New York or the United States District Court, in each case located in the Borough of Manhattan in New York City; (c) waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any such action or proceeding in the courts of the State of New York or the United States District Court, in each case located in the Borough of Manhattan in New York City; and (d) waives, to the fullest extent permitted by Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in the courts of the State of New York or the United States District Court, in each case located in the Borough of Manhattan in New York City. Each party to this Agreement agrees that a final judgment in any such action or proceeding may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. EACH PARTY TO THIS AGREEMENT ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (I) NO REPRESENTATIVE, AGENT, OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (II) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (III) EACH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (IV) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 7. NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, NONE OF THE INVESTORS, INDEMNITEES, OR ANY EXCLUDED PERSON SHALL BE LIABLE TO

THE COMPANY, JAMES RIVER, OR TO ANY OTHER PERSON MAKING CLAIMS ON BEHALF OF THE FOREGOING FOR CONSEQUENTIAL, EXEMPLARY, PUNITIVE, INCIDENTAL, INDIRECT, OR SPECIAL DAMAGES, INCLUDING DAMAGES FOR LOSS OF PROFITS, LOSS OF USE OR REVENUE, OR LOSSES BY REASON OF COST OF CAPITAL, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, REGARDLESS OF WHETHER BASED ON CONTRACT, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY, VIOLATION OF ANY APPLICABLE DECEPTIVE TRADE PRACTICES ACT OR SIMILAR LAW, OR ANY OTHER LEGAL OR EQUITABLE DUTY OR PRINCIPLE, AND THE COMPANY AND JAMES RIVER RELEASE EACH SUCH PERSON FROM LIABILITY FOR ANY SUCH DAMAGES.

8. Severability. If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any Law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect. Notwithstanding the foregoing, upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the agreements set forth in this Agreement are adhered to as originally contemplated to the greatest extent possible.

9. Successors; Binding Effect. Each Indemnifying Party will require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization, or otherwise) to all or substantially all of the business and assets of such Indemnifying Party, by agreement in form and substance satisfactory to each of the Investors and their counsel, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that such Indemnifying Party would be required to perform if no such succession had taken place. This Agreement shall be binding upon and inure to the benefit of each party to this Agreement and its successors and permitted assigns, and each other Indemnitee. The Investors may assign this Agreement or any of their rights, interests, and obligations under this Agreement to any Person or Persons to whom they transfer all or a portion of their Equity Securities in accordance with the terms and conditions of the Shareholders Agreement, but neither this Agreement nor any right, interest, or obligation under this Agreement shall be assigned, whether by operation of law or otherwise, by the Company without the prior written consent of each of the Investors.

10. Miscellaneous. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Except where expressly specified to the contrary, whenever the words “include,” “includes,” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” This Agreement is not intended to confer any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement upon any Person other than each of the parties hereto and their respective successors and permitted assigns and each other Indemnitee. No amendment, modification, supplement, or discharge of this Agreement, and no waiver under this Agreement shall be valid and binding unless set forth in writing and duly executed by the party or other Indemnitee against whom enforcement of the amendment, modification, supplement, or discharge is sought. Neither the waiver by any of the parties to this Agreement or any other Indemnitee of a breach of or a default

under any of the provisions of this Agreement, nor the failure by any party to this Agreement or any other Indemnitee on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right, powers, or privilege under this Agreement, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any provisions of this Agreement, or any rights, powers, or privileges under this Agreement. The rights, indemnities, and remedies provided in this Agreement are cumulative and are not exclusive of any rights, indemnities, or remedies that any party or other Indemnitee may otherwise have by contract, at law or in equity, or otherwise. This Agreement may be executed in any number of counterparts, including by facsimile, each of which shall be an original, but all of which together shall constitute one and the same instrument.

[The remainder of this page has been left blank intentionally; signature pages follow.]

IN WITNESS WHEREOF, the parties to this Agreement have duly executed this Agreement by their authorized representatives as of the date first above written.

FRANKLIN HOLDINGS (BERMUDA), LTD.

By: ____
Name:
Title:

[Signature Page to Indemnification Agreement]

JAMES RIVER GROUP, INC.

By: ____
Name:
Title:

[Signature Page to Indemnification Agreement]

[●]

By: ______________________________

Name:

Title: Authorized Signatory

[Signature Page to Indemnification Agreement]

Annex A
Notice Addresses

If to the Company to:

Franklin Holdings (Bermuda), Ltd.
Clarendon House
2 Church Street
Hamilton HM 11 Bermuda
Attention: Charles Collis, Esq.
Telephone: (441) 295-1422
Facsimile: (441) 292-4720

D. E. Shaw Oculus Portfolios, L.L.C., D. E. Shaw CH-SP Franklin, L.L.C., and
D. E. Shaw CF-SP Franklin, L.L.C.
Tower 45, 39th Floor
120 West 45th Street
New York, NY 10036
Attention: Andrew Lindholm, Esq.
Telephone: (212) 478-0000
Facsimile: (212) 478-0100

with a copy to (which shall not constitute notice):

Debevoise & Plimpton LLP
919 Third Avenue
New York, NY 10022
Attention: Andrew L. Sommer, Esq.
Telephone: (212) 909-6000
Facsimile: (212) 909-6836

If to any Subsidiary of the Company to:

James River Group, Inc.
300 Meadowmont Village Circle
Suite 333
Chapel Hill, NC 27517
Attention: J. Adam Abram
Telephone: (919) 883-4171
Facsimile: (919) 883-4177

with a copy to (which shall not constitute notice):

D. E. Shaw & Co., L.L.C.
Tower 45, 39th Floor
120 West 45th Street
New York, NY 10036
Attention: Andrew Lindholm, Esq.
Telephone: (212) 478-0000
Facsimile: (212) 478-0100

If to the Investors to:

[•]

with a copy to (which shall not constitute notice):

[•]

Exhibit 10.8

AMENDED AND RESTATED FRANKLIN HOLDINGS (BERMUDA), LTD.

EQUITY INCENTIVE PLAN

Article I
Purpose

Franklin Holdings (Bermuda), Ltd. has established this equity incentive plan to foster and promote its long-term financial success and materially increase shareholder value by (a) motivating superior performance, (b) encouraging and providing for the acquisition of an ownership interest in the Company by Employees and Eligible Directors, and (c) enabling the Company Group to attract and retain the services of an outstanding management team upon whose judgment, interest and special effort the successful conduct of its and their operations is largely dependent. Capitalized terms have the meaning given in Article XIII below.

Article II
Eligibility and Participation

Participants in the Plan shall be those Employees and Eligible Directors selected by the Board to participate in the Plan, as provided herein.

Article III
Powers of the Board

Section 3.1 Power to Grant and Establish Terms of Awards. The Board shall have the discretionary authority, subject to the terms of the Plan, to determine the Employees and Eligible Directors to whom Awards shall be granted (which may include members of the Board), and the terms and conditions of any and all Awards.

Section 3.2 Administration. The Board shall be responsible for the administration of the Plan; provided that, for purposes of the Plan and any Award Agreement, any Employee shall recuse him or herself from any decisions or determinations to be made or actions to be taken by the Board under the terms of the Plan or any Award Agreement. The Board may prescribe, amend and rescind rules and regulations relating to the administration of the Plan, provide for conditions and assurances it deems necessary or advisable to protect the interests of the Company and make all other determinations necessary or advisable for the administration and interpretation of the Plan. Any authority exercised by the Board under the Plan shall be exercised by the Board in its sole discretion. Determinations, interpretations, or other actions made or taken by the Board under the Plan or under Awards granted under the Plan shall be final, binding, and conclusive for all purposes and upon all persons.

Section 3.3 Delegation by the Board. All of the powers, duties, and responsibilities of the Board specified in this Plan may be exercised and performed by the Board or any duly constituted committee thereof to the extent authorized by the Board to exercise and perform such powers, duties and responsibilities, and any determination, interpretation, or other action taken by such committee shall have the same effect hereunder as if made or taken by the Board.

Section 3.4 Participants Based Outside the United States. The Board, in order to conform with provisions of local laws and regulations in foreign countries in which the Company Group operates, shall have sole discretion to (i) modify the terms and conditions of Awards granted to Participants employed outside the United States, (ii) establish sub- plans with modified grant or exercise procedures and such other modifications as may be necessary or advisable under the circumstances presented by local laws and regulations, and (iii) take any action which it deems advisable to obtain, comply with or otherwise reflect any necessary governmental regulatory procedures, exemptions or approvals with respect to the Plan or any sub-plan established hereunder.

Article IV
Shares Subject to the Plan

Section 4.1 Number. The number of Shares that may be issued under the Plan or be subject to Awards may not exceed 80,630 Shares. The Shares to be delivered under the Plan may consist, in whole or in part, of Shares held in treasury or authorized but unissued Shares that are not reserved for any other purpose.

Section 4.2 Canceled, Terminated or Forfeited Awards. If any Award of Shares or portion thereof is for any reason forfeited, canceled or otherwise terminated or is repurchased by the Company as provided in the Investor Shareholders Agreement, the Shares subject to such Award or portion thereof shall again be available for grant under the Plan.

Section 4.3 Adjustment in Capitalization. The number, class, and kind of Shares available for issuance under the Plan and the number, purchase price, or other terms of any outstanding Award shall be adjusted by the Board, in such manner as the Board may deem to be equitable and appropriate to reflect any Share dividend, stock split or share combination or any recapitalization, merger, consolidation, exchange of shares, liquidation or dissolution of the Company, or other similar transaction affecting the Shares. To the extent deemed equitable and appropriate by the Board, in its good faith judgment, and subject to any required action by shareholders, in any merger, consolidation, reorganization, liquidation, dissolution or other similar transaction, any Award granted under the Plan shall pertain to the securities or other property to which a holder of the number of Shares covered by the Award would have been entitled to receive in connection with such event. In addition, the Board may, if deemed equitable and appropriate, make provision for cash payment to a Participant or a person who has an outstanding Option or other Award. Unless the Board shall otherwise determine, following any such adjustment, the number of shares subject to any Option or other Award shall always be a whole number.

Article V
Terms of Restricted Stock

Section 5.1 Grant of Restricted Stock. The Board may grant or offer for sale Restricted Stock to Participants at such time or times and on such terms as it shall determine. Each Share granted to or purchased by a Participant shall be evidenced by a Restricted Stock Agreement that shall specify the number of shares of Restricted Stock that are being granted or sold to a Participant, the vesting schedule of such Restricted Stock, the rights and responsibilities of a Participant with respect to such Restricted Stock, and such other terms as the Board shall determine. Once granted, Restricted Stock shall be governed by the applicable Restricted Stock Agreement with respect thereto, except as otherwise provided therein.

Section 5.2 Purchase Price and Payment. The purchase price for any Restricted Stock to be offered and sold pursuant to Section 5.1 above shall be the Fair Market Value on the Grant Date or such other price as the Board shall determine. The purchase price with respect to any Restricted Stock offered and sold pursuant to Section 5.1 above shall be paid in cash or other readily available funds simultaneously with the closing of the purchase of such Restricted Stock or in such other manner as the Board shall determine. Restricted Stock granted under this Plan shall not require a purchase price.

Section 5.3 Vesting of Restricted Stock. Restricted Stock issued pursuant to Section 5.1 shall vest in accordance with the vesting schedule, or upon the attainment of such performance criteria, as shall be specified by the Board on or before the Grant Date and as specified in the Restricted Stock Agreement.

Section 5.4 Restricted Stock Agreements, Etc. Unless otherwise determined by the Board, no Restricted Stock shall be issued to a Participant pursuant to an Award granted hereunder unless (i) the Participant shall enter into a Restricted Stock Agreement that shall include, among other things, provisions providing that the Restricted Stock shall be subject to the terms and provisions of the Investor Shareholders Agreement and such other terms and provisions as are determined by the Board; (ii) the Participant shall be a party to the Investor Shareholders Agreement; (iii) the Participant shall have delivered a duly executed undated instrument of transfer or assignment in blank, having attached thereto or to such Share certificate all requisite stock or other applicable or documentary tax stamps, all in form and substance satisfactory to the Company, relating to the Shares covered by such grant; and (iv) the Board shall require that the certificates evidencing such Shares be held by the Secretary of the Company or another custodian selected by the Company until the Shares have vested.

Section 5.5 Other Rights and Obligations. The Participant shall be entitled to the rights and subject to the obligations created under this Plan, the Restricted Stock Agreement and the Investor Shareholders Agreement, each to the extent set forth herein or therein.

Section 5.6 Board Discretion. Notwithstanding anything else contained in this Plan to the contrary, the Board may accelerate the vesting of any Restricted Stock, all Restricted Stock or any class or series of Restricted Stock for any reason on such terms and subject to such conditions, as the Board shall determine, at any time and from time to time.

Article VI
Terms of Options

Section 6.1 Grant of Options. The Board may grant Options to Participants at such time or times as it shall determine. Options granted pursuant to the Plan will not be "incentive stock options" as defined in the Code unless otherwise determined by the Board. Each Option granted to a Participant shall be evidenced by an Option Agreement that shall specify the number of Shares that may be purchased pursuant to such Option, the exercise price at which a Share may be purchased pursuant to such Option, the duration of such Option (not to exceed the tenth anniversary of the Grant Date), and such other terms as the Board shall determine.

Section 6.2 Exercise Price. The exercise price per Share to be purchased upon exercise of an Option shall not be less than the Fair Market Value on the Grant Date.

Section 6.3 Vesting and Exercise of Options. Options shall become vested or exercisable in accordance with the vesting schedule or upon the attainment of such performance criteria as shall be specified by the Board on or before the Grant Date. The Board may accelerate the vesting or exercisability of any Option, all Options, or any class of Options at any time and from time to time.

Section 6.4 Payment. The Board shall establish procedures governing the exercise of Options, which procedures shall generally require that prior written notice of exercise be given and that the exercise price (together with any required withholding taxes or other similar taxes, charges, or fees) be paid in full in (i) U.S. dollars in cash or other readily available funds or, to the extent permitted by the Board, cash equivalents satisfactory to the Company, (ii) with the consent of the Board, the tender of Shares which such Participant has owned for at least six months and one day (or for such longer or shorter period as the Board may determine necessary to comply with applicable accounting standards and to avoid liability award accounting), (iii) with the consent of the Board, through the surrender of Shares issuable to the Participant upon the exercise of the Option, (iv) following a Public Offering, through an established broker-assisted exercise program, or (v) any other method approved by the Board, in its sole discretion.

In connection with any Option exercise, the Company may require the Participant to furnish or execute such other documents as it shall reasonably deem necessary to (a) evidence such exercise; (b) determine whether registration is then required under the U.S. federal securities laws or similar non-U.S. laws (including, but not limited to, Bermuda securities laws); or (c) comply with or satisfy the requirements of the U.S. federal securities laws, applicable state or non-U.S. securities laws or any other law (including but not limited to Bermuda securities laws). As a condition to the exercise of any Option before a Public Offering, a Participant shall enter into a Subscription Agreement and, if not already a party thereto, the Investor Shareholders Agreement.

Article VII
Stock Appreciation Rights

Section 7.1 Grant of Stock Appreciation Rights. The Board may grant Stock Appreciation Rights to Participants at such time or times as it shall determine. Each Stock Appreciation Right granted to a Participant shall be evidenced by a SAR Agreement that shall specify the number of Stock Appreciation Rights, the settlement price of such Stock Appreciation Rights, the vesting of such Stock Appreciation Rights, and such other terms as the Board shall determine.

Section 7.2 Vesting and Exercise of Stock Appreciation Rights. Stock Appreciation Rights shall vest in accordance with the vesting schedule or upon the attainment of such performance criteria as shall be specified by the Board on or before the Grant Date. The Board may accelerate the vesting or exercisability of any Stock Appreciation Rights, all Stock Appreciation Rights or any class of Stock Appreciation Rights at any time and from time to time.

Section 7.3 Settlement. Subject to Article XI below, upon exercise of a Stock Appreciation Right, the Participant shall be entitled to receive payment of Shares or, at the discretion of the Board, cash having a Fair Market Value equal to such cash amount, determined by multiplying,

(a) any increase in the Fair Market Value of one Share on the exercise date over the price fixed by the Board on the Grant Date, which may not be less than the Fair Market Value of a Share on the Grant Date, by

(b) the number of Shares with respect to which the Stock Appreciation Right is exercised;

provided that, on the Grant Date, the Board may establish, in its sole discretion, a maximum amount per share that will be payable upon exercise of a Stock Appreciation Right.

In connection with the exercise and settlement of any Stock Appreciation Rights, the Company may require the Participant to furnish or execute such other documents as it shall reasonably deem necessary to (a) evidence such exercise; (b) determine whether registration is then required under the U.S. federal securities laws or similar non- U.S. laws (including, but not limited to, Bermuda securities laws); or (c) comply with or satisfy the requirements of the U.S. federal securities laws, applicable state or non-U.S. securities laws or any other law (including, but not limited to Bermuda securities laws). As a condition to the settlement of any Stock Appreciation Right before a Public Offering, a Participant shall enter into a Subscription Agreement and, if not already a party thereto, the Investor Shareholders Agreement.

Article VIII
Deferred Stock Units

Section 8.1 Grant of Deferred Stock Units. The Board may grant Deferred Stock Units to Participants at such time or times as it shall determine. Each Deferred Stock Unit granted to a Participant shall be evidenced by a Deferred Stock Unit Agreement that shall specify the number of Deferred Stock Units, the vesting of such Deferred Stock Units and such other terms as the Board shall determine.

Section 8.2 Vesting of Deferred Stock Units. Deferred Stock Units shall vest in accordance with the vesting schedule or upon the attainment of such performance criteria as shall be specified by the Board on or before the Grant Date. The Board may accelerate the vesting or exercisability of any Deferred Stock Units, all Deferred Stock Units, or any class of Deferred Stock Units at any time and from time to time.

Section 8.3 Settlement. Subject to this Article VIII and Article XI below, upon the date specified in the Award Agreement evidencing the Deferred Stock Units for each such Deferred Stock Unit the Participant shall receive, in the Board's discretion, (i) a cash payment equal to the Fair Market Value of one Share as of such payment date, (ii) one Share, or (iii) any combination of cash and Shares. In connection with the settlement of any Deferred Stock Units, the Company may require the Participant to furnish or execute such other documents as it shall reasonably deem necessary to (a) evidence such settlement; (b) determine whether registration is then required under the U.S. federal securities laws or similar non-U.S. laws (including, but not limited to Bermuda securities laws); or (c) comply with or satisfy the requirements of the U.S. federal securities laws, applicable state or non-U.S. securities laws, or any other law (including but not limited to, Bermuda securities laws). As a condition to the settlement of any Stock Appreciation Right before a Public Offering, a Participant shall enter into a Subscription Agreement and, if not already a party thereto, the Investor Shareholders Agreement.

Article IX
Dividends, etc.

Section 9.1 Dividends. The Participant shall be entitled to receive all dividends or other distributions at the same time (and within the same calendar year) such dividends or distributions are paid with respect to those vested Shares, and, if provided in the Award Agreement, unvested Shares, of which the Participant is the record owner on the record date for such dividend or other distribution; provided that any property (other than cash) distributed with respect to a Share (the "Associated Share") acquired hereunder, including without limitation a distribution of Shares by reason of a stock dividend, stock split or otherwise, or a distribution of other securities with respect to an Associated Share, shall be subject to the restrictions of this Plan in the same manner and for so long as the Associated Share remains subject to such restrictions, and shall be promptly forfeited if and when the Associated Share is so forfeited.

Section 9.2 Dividend Equivalents. Dividend Equivalents may be granted in tandem with other Awards, in addition to other Awards, or freestanding and unrelated to other Awards. The grant date of any Dividend Equivalents under the Plan will be the date on which the Dividend Equivalent is awarded by the Board, or such other date as the Board shall determine in its sole discretion. Dividend Equivalents shall be evidenced in writing, whether as part of the Award Agreement governing the terms of the Award, if any, to which such Dividend Equivalent relates, or pursuant to a separate Award Agreement with respect to freestanding Dividend Equivalents, in each case, containing such provisions not inconsistent with the Plan as the Board shall determine, including customary representations, warranties and covenants with respect to securities law matters.

Article X
Termination of Service

Section 10.1 Death or Disability. Unless otherwise determined by the Board at the time of grant and provided for in a Participant's Award Agreement, upon any Participant's death or Disability, all unvested Awards will vest or be forfeited as provided in the Award Agreement and all vested Options and Stock Appreciation Rights shall remain outstanding until the twelve-month anniversary of the date of death or Disability or the Award's normal expiration date, whichever is earlier, after which any unexercised Options and Stock Appreciation Rights shall immediately terminate.

Section 10.2 Termination for Cause. Unless otherwise determined by the Board at or after the grant date and set forth in the Award Agreement covering such Award, if a Participant's employment or service is terminated by the Company for Cause, all Options and Stock Appreciation Rights, whether vested or unvested, and all other Awards that are unvested, unsettled, or unexercisable shall be immediately forfeited and canceled effective as of the date of the Participant's Termination of Service.

Section 10.3 Termination for Any Other Reason. Unless otherwise determined by the Board and set forth in the Award Agreement, if a Participant's employment with the Company Group is terminated for any reason other than death, Disability, or Cause, all unvested Awards shall vest or be forfeited as provided in the Award Agreement and all vested Options and Stock Appreciation Rights shall remain outstanding until the 90th day after the Participant's Termination of Service or the Award's normal expiration date, whichever is earlier, after which any unexercised Options and Stock Appreciation Rights shall immediately terminate.

Article XI
Change in Control

Section 11.1 Accelerated Vesting and Payment. Except as otherwise provided in this Article XI and unless otherwise provided in the Award Agreement, upon a Change in Control, (a) each unvested Award shall vest in full in connection with such Change in Control and (b) the holder of any vested Award (including any Award that vests in connection with such Change in Control) shall be entitled to receive, in complete satisfaction of such Award, a payment in an amount or with a value equal to the number of Shares covered by such vested Award times the excess, if any, of the Change in Control Price over any applicable exercise price or reference price for such Award.

Section 11.2 Alternative Award. No cancellation, acceleration or other payment shall occur with respect to any Award or class or type of Award if the Board reasonably determines in good faith, prior to the occurrence of a Change in Control, that such Award shall be honored or assumed, or new rights substituted therefor following the Change in Control (such honored, assumed or substituted award, an "Alternative Award"), provided that any Alternative Award must:

(a) give the Participant who held such Award rights and entitlements substantially equivalent to or better than the rights and terms applicable under such Award, including, but not limited to, an identical or better exercise and vesting schedule, and identical or better timing and methods of payment; and

(b) be exempt from or comply with Section 409A of the Code and not cause the Award or any Alternative Award to become immediately taxable or subject to any additional tax or interest pursuant to Section 409A of the Code.

Article XII
Amendment, Modification, and Termination of the Plan

The Board may terminate or suspend the Plan at any time, and may amend or modify the Plan from time to time. Unless otherwise provided in an Award Agreement, no amendment, modification, termination, or suspension of the Plan shall in any manner adversely affect any Award theretofore granted under the Plan without the consent of the Participant holding such Award or the consent of a majority of Participants holding similar Awards (such majority to be determined based on the number of Shares covered by such Awards). Shareholder approval of any such amendment, modification, termination, or suspension shall be obtained to the extent mandated by applicable law, or if otherwise deemed appropriate by the Board.

Article XIII
Definitions

Section 13.1 Definitions. Whenever used herein, the following terms shall have the respective meanings set forth below:

"Affiliate" means, with respect to any Person, (i) any Person directly or indirectly Controlling, Controlled by, or under common Control with such Person; (ii) any Person directly or indirectly owning or Controlling ten percent or more of any class of outstanding voting securities of such Person; or (iii) any officer, director, general partner, or trustee of any such Person described in clause (i) or (ii).

"Award" means a grant of Restricted Stock, Options, Stock Appreciation Rights, Deferred Stock Units, Dividend Equivalents, other share awards, or an offer and sale of the same, in each case pursuant to the terms of the Plan.

"Award Agreement" means a Restricted Stock Agreement, Option Agreement, SAR Agreement, Deferred Stock Unit Agreement, or other agreement pursuant to which an Award is granted.

"Board" means the Board of Directors of the Company, excluding any member of the Board who is an Employee.

"Bye-Laws" means the Amended and Restated Bye-Laws of Franklin Holdings (Bermuda), Ltd., which may be amended from time to time.

"Cause" means (i) any act of fraud or embezzlement in respect of the Company Group's respective funds, properties or assets; (ii) conviction of the Participant of a felony under the laws of Bermuda or of the United States or any state thereof; (iii) willful misconduct or gross negligence by the participant in connection with the performance of his or her duties to the Company Group; (iv) intentional dishonesty by the Participant in the performance of his or her duties to the Company Group; (v) engagement by the Participant in the use of illegal substances or alcohol, which use has impaired the Participant's ability, as determined by the Board of Directors of the Company, on an ongoing basis, to perform his or her duties to the Company Group; or (vi) breach by the Participant of any terms and conditions set forth in any Award Agreement, Subscription Agreement, the Investor Shareholders Agreement or any employment agreement or any non-competition, non-solicitation and/or non-disclosure agreement executed by the Participant, provided that if a Participant is a party to an employment agreement with the Company that defines the term "Cause" then, with respect to any Award made to such Participant, "Cause" shall have the meaning set forth in such agreement.

"Change in Control" means the first to occur of the following events after the Grant Date:

(a) The acquisition, directly or indirectly, by any person, entity or "group" (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended) (other than the Company, any Subsidiary, any D. E. Shaw Investor or any affiliate thereof, an employee benefit plan maintained by the Company Group, or a Person that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) of 50 percent or more of the total combined voting power of the Company Group's then outstanding voting securities;

(b) the merger, consolidation, recapitalization, stock purchase or other similar transaction involving the Company, as a result of which persons who were shareholders of the Company Group immediately prior to such transaction and the Investors do not, immediately thereafter, own, directly or indirectly, more than 50 percent of the combined voting power entitled to vote generally in the election of directors of the Company (or any merged, consolidated, or surviving company);

(c) the liquidation or dissolution of the Company other than a liquidation or dissolution of the Company into a Subsidiary or for the purposes of effecting a corporate restructuring or reorganization as a result of which persons who were shareholders of the Company Group immediately prior to such liquidation or dissolution and the Investors continue to own immediately thereafter, directly or indirectly, more than 50 percent of the combined voting power entitled to vote generally in the election of directors of the entity that owns, directly or indirectly, substantially all of the assets of the Company Group following such transaction; or

(d) the sale, transfer or other disposition of all or substantially all of the assets of the Company Group to one or more persons or entities that are not, immediately prior to such sale, transfer or other disposition of all or substantially all of the assets, affiliates of the Company, or any employee benefit plan of the Company Group (other than by way of a transaction that would not be deemed a Change in Control pursuant to clauses (a) or (b) above);

in each case, provided that, with respect to any Award subject to Section 409A of the Code, such event constitutes a "change in control" within the meaning of Section 409A of the Code.

"Change in Control Price" means the price per share of Common Stock offered in conjunction with any transaction resulting in a Change in Control. If any part of the offered price is payable other than in cash, the Change in Control Price shall be determined in good faith by the Board as constituted immediately prior to the Change in Control.

"Common Stock" means the class B common stock, par value $0.01 per share, of the Company.

"Code" means the United States Internal Revenue Code of 1986, as amended, and any successor thereto.

"Company" means Franklin Holdings (Bermuda), Ltd., an exempted Company registered under the laws of Bermuda, and any successor thereto.

"Company Group" means the Company and its Subsidiaries.

"Control" (including the terms "Controlling," "Controlled by," and "under common Control with") means the power to direct the affairs of a Person by reason of ownership of voting securities, by contract, or otherwise.

"D. E. Shaw Investor" means any of the following: D. E. Shaw CF-SP Franklin, L.L.C., D. E. Shaw CH-SP Franklin, L.L.C., D. E. Shaw Oculus Portfolios, L.L.C., any of their respective Affiliates, and any Shaw-Related Person, in each case, that holds an equity interest, directly or indirectly, in Franklin Holdings (Bermuda), Ltd..

"Deferred Stock Unit" means a unit credited to a Participant's account in the books of the Company under Article VIII above that represents the right to receive Shares or cash equal to the Fair Market Value of one Share on settlement of the account.

"Deferred Stock Unit Agreement" means an agreement between the Company and a Participant embodying the terms of any Deferred Stock Units awarded under the Plan and in the form approved by the Board from time to time.

"Disability" means, unless another definition is incorporated into the applicable Award Agreement, Disability as specified under the Company's long-term disability insurance policy and any other Termination of Service under such circumstances that the Board determines to qualify as a Disability for purposes of this Plan to the extent such disability constitutes a disability within the meaning of Section 409A of the Code, provided that if a Participant is a party to an employment agreement with the Company that defines the term "Disability" then, with respect to any Award made to such Participant, "Disability" shall have the meaning set forth in such agreement; provided, further, that, with respect to any award that is subject to Section 409A of the Code, and notwithstanding anything to the contrary contained herein, Disability shall mean disability within the meaning of Section 409A of the Code.

"Dividend Equivalent" means the right, granted under Article VI above, to receive payments in cash or in Shares, based on dividends with respect to Shares.

"Effective Date" has the meaning given in Section 14.9 below.

"Eligible Director" means a member of the Board other than an Employee.

"Employee" means any executive, officer or other employee of the Company Group.

"Fair Market Value" means, as of any date of determination prior to a Public Offering, the per share fair market value on such date of a share of Common Stock as determined in good faith by the Board. In making a determination of Fair Market Value, the Board shall give due consideration to such factors as it deems appropriate, including the earnings and other financial and operating information of the Company in recent periods, the potential value of the Company as a whole, the future prospects of the Company and the industries in which it competes, the history and management of the Company, the general condition of the securities markets, the fair market value of securities of companies engaged in businesses similar to those of the Company, and any recent valuation of the Common Stock or other securities of the Company or Parent that may have been performed by an independent valuation firm (although nothing herein shall obligate the Board to obtain any such independent valuation). The determination of Fair Market Value shall not take into account any restrictions on transfer of the Common Stock or take into account any control premium or minority discount. Following a Public Offering, "Fair Market Value" shall mean a price that is based on the opening, closing, actual, high, low, or average selling prices of a share of Common Stock reported on an established stock exchange (or exchanges) on the applicable date, the preceding trading day, the next succeeding trading day, or an average of trading days, as determined by the Board in its discretion. Unless the Board determines otherwise, if the Shares are traded over the counter at the time a determination of its Fair Market Value is required to be made hereunder, its Fair Market Value shall be deemed to be equal to the average between the reported high and low or closing bid and asked prices of a Share on the most recent date on which Shares were publicly traded.

"Grant Date" means, with respect to any Award, the date as of which such Award is granted pursuant to the Plan.

"Investor" means the Investors, as defined in the Investor Shareholders Agreement, but excluding any Additional Investors, and any of their affiliates.

"Investor Shareholders Agreement" means the shareholders agreement, entered into on December 11, 2007, by and among the Investors, the Management Investors, and the Company (as amended or amended and restated from time to time).

"Management Investors" means the Management Investors, as defined in the Investor Shareholders Agreement.

"Option" means the right granted pursuant to Article VI above to purchase one Share.

"Option Agreement" means an agreement between the Company and a Participant embodying the terms of any Options awarded under the Plan and in the form approved by the Board from time to time.

"Participant" means any Employee or Eligible Director who is granted an Award.

"Person" means any individual, corporation, limited liability company, limited or general partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivisions thereof, or any Group comprised of two or more of the foregoing.

"Plan" means this Amended and Restated Franklin Holdings (Bermuda), Ltd. Equity Incentive Plan, as may be amended from time to time.

"Public Offering" means an offering of Common Stock pursuant to a registration statement filed in accordance with the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder.

"Restricted Stock" means restricted shares of Common Stock awarded pursuant to Article V above.

"Restricted Stock Agreement" means an agreement between the Company and a Participant embodying the terms of any Restricted Stock awarded under the Plan and in the form approved by the Board from time to time.

"SAR Agreement" means an agreement between the Company and a Participant embodying the terms of any Stock Appreciation Right awarded under the Plan and in the form approved by the Board from time to time.

"Section 409A of the Code" shall mean Section 409A of the Code and the regulations promulgated thereunder.

"Separation from Service" means a Participant's separation from service within the meaning of Section 409A of the Code.

"Shares" means shares of Common Stock available under the Plan.

"Shaw-Related Person" means any of D. E. Shaw & Co., L.L.C., D. E. Shaw & Co., L.P., David E. Shaw, any entity directly or indirectly Affiliated with any of the foregoing, any investment vehicle managed by any of the foregoing, and any entity to which any of the foregoing provides investment management services.

"Specified Employee" means any employee designated as a "specified employee" under the Company's specified employee policy then in effect or, if no such policy is then in effect, specified employee shall have the meaning set forth in Section 409A of the Code.

"Stock Appreciation Right" means the right to receive a payment from the Company in cash and/or Shares equal to the product of (i) the excess, if any, of the Fair Market Value of one Share on the exercise date over a specified price fixed by the Board on the grant date (which specified price shall be not less than the Fair Market Value of one Share on the grant date), multiplied by (ii) a stated number of Shares.

"Subscription Agreement" means a stock subscription agreement between the Company and a Participant embodying the terms of any acquisition of Shares pursuant to the Plan (other than the purchase of Restricted Stock) and in the form approved by the Board from time to time for such purpose.

"Subsidiary" means each Person in which the Company owns or controls, directly or indirectly, capital stock or other equity interests representing more than 50 percent of the outstanding capital stock or other equity interests.

"Termination of Service" means with respect to an Eligible Director, the date upon which such Eligible Director ceases to be a member of the Board and, with respect to an Employee, the date the Participant ceases to be an Employee; provided, however, that for purposes of any Award that is subject to Section 409A of the Code, Termination of Service means the date of the Employee's separation from service as defined in Section 409A of the Code.

"Transfer" means, directly or indirectly, to sell, transfer, assign, pledge, encumber, hypothecate, or similarly dispose of, either voluntarily or involuntarily, or to enter into any contract, option, or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation, or similar disposition of, any Shares owned by a Participant or any interest (including a beneficial interest) in any Shares owned by a Participant.

Section 13.2 Gender and Number. Except when otherwise indicated by the context, words in the masculine gender used in the Plan shall include the feminine gender, the singular shall include the plural, and the plural shall include the singular.

Article XIV
Miscellaneous Provisions

Section 14.1 Nontransferability of Awards. Subject in all cases to the Investor Shareholders Agreement, except as otherwise provided herein, or as the Board may permit on such terms as it shall determine or, following vesting, as provided in the Investor Shareholders Agreement, the Participant shall not Transfer any Shares to any person other than the Company or by will or by the laws of descent and distribution and provided that the deceased Participant's beneficiary or the representative of his or her estate acknowledges and agrees in writing, in a form reasonably acceptable to the Company, to be bound by the provisions of the Plan, the Award Agreement, any Subscription Agreement and the Investor Shareholders Agreement as if such beneficiary or estate were the Participant. All rights with respect to Awards granted to a Participant under the Plan shall be exercisable during the Participant's life-time by such Participant only (or, in the event of the Participant's Disability, such Participant's guardian or legal representative). Following a Participant's death, all rights with respect to Awards that were outstanding at the time of such Participant's death and have not terminated shall be exercised by his designated beneficiary or by his estate in the absence of a designated beneficiary.

Section 14.2 Beneficiary Designation. Pursuant to such rules and procedures as the Board may from time to time establish and to the extent permitted by applicable law, a Participant may name a beneficiary or beneficiaries (who may be named contingently or successively) by whom any right under the Plan is to be exercised in case of such Participant's death. Each designation will revoke all prior designations by the same Participant, shall be in a form reasonably prescribed by the Board, and will be effective only when filed by Participant in writing with the Board during his lifetime.

Section 14.3 Tax Withholding. The Company or the Subsidiary employing a Participant shall have the power to withhold, or to require such Participant to remit to the Company or such Subsidiary, an amount (in cash, from other compensation payable to the Participant, or in Shares granted under the Plan) sufficient to satisfy all U.S. federal, state, local, and any non-U.S. withholding tax or other governmental tax, charge or fee requirements in respect of any Award granted under the Plan; provided, however, that in the event that the Company withholds Shares issued or issuable to the Participant to satisfy the withholding taxes, the Company shall withhold a number of whole Shares having a Fair Market Value, determined as of the date of exercise, not in excess of the minimum tax required to be withheld by law (or such lower amount as may be necessary to avoid liability award accounting). Notwithstanding the foregoing, if Participant tenders previously-owned Shares to the Company to satisfy any applicable withholding taxes, such Shares must have been held by the Participant for at least six months prior to their tender (or for such longer or shorter period as the Board may determine necessary to comply with applicable accounting standards and to avoid liability award accounting) or have been purchased on the open market. The Participant shall be responsible for all withholding taxes and other tax consequences of any Award granted under this Plan.

Section 14.4 No Guarantee of Employment or Participation. Nothing in the Plan or in any agreement granted hereunder shall interfere with or limit in any way the right of the Company Group to terminate any Participant's employment or retention at any time, or confer upon any Participant any right to continue in the employ or retention of the Company Group. No Employee shall have a right to be selected as a Participant or, having been so selected, to receive any Awards.

Section 14.5 No Limitation on Compensation; No Impact on Benefits. Nothing in the Plan shall be construed to limit the right of the Company Group to establish other plans or to pay compensation to its Employees or Eligible Directors, in cash or property, in a manner that is not expressly authorized under the Plan. Except as may otherwise be specifically and unequivocally stated under any employee benefit plan, policy or program, no amount payable in respect of any Award shall be treated as compensation for purposes of calculating a Participant's rights under any such plan, policy, or program. The selection of an Employee as a Participant shall neither entitle such Employee to, nor disqualify such Employee from, participation in any other award or incentive plan.

Section 14.6 No Rights Damages. Nothing in the Plan or in any Award Agreement shall impose upon the Company Group or the Board any liability in connection with the provision, loss or payment of benefits or rights under this Plan, the exercise of discretion under the Plan or the failure or refusal of any person to exercise discretion under the Plan, in each case, in accordance with the terms and provisions of the Plan and any applicable Award Agreement.

Section 14.7 Requirements of Law. The granting of Awards and the issuance of Shares pursuant to the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. No Awards shall be granted under the Plan, and no Shares shall be issued under the Plan, if such grant or issuance would result in a violation of applicable law, including U.S. federal securities laws and any applicable state or non-U.S. securities laws.

Section 14.8 Unfunded Plan; Plan Not Subject to ERISA. The plan is an unfunded plan and Participants shall have the status of unsecured creditors of the Company. The Plan is not intended to be subject to the Employee Retirement Income and Security Act of 1974, as amended.

Section 14.9 Freedom of Action. Nothing in the Plan or any Award Agreement shall be construed as limiting or preventing the Company or any member of the Company Group from taking any action that it deems appropriate or in its best interest (as determined in its sole and absolute discretion) and no Participant (or person claiming by or through a Participant) shall have any right relating to the diminishment in the value of any Award as a result of any such action. The foregoing shall not constitute a waiver by a Participant, in Participant's capacity as a shareholder of the Company, of any breach of fiduciary duty, or a waiver by Participant of the terms and provisions of the Plan or any Award Agreement.

Section 14.10 Term of Plan. The Plan shall be effective as of December 11, 2007 (the "Effective Date") and shall continue in effect, unless sooner terminated pursuant to Article XII above, until the tenth anniversary of such date. The provisions of the Plan shall continue thereafter to govern all outstanding Awards.

Section 14.11 Governing Law. The Plan and each Award Agreement shall be governed by the laws of the State of New York, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under this Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of New York, in each case located in the Borough of Manhattan in New York City, to resolve any and all issues that may arise out of or relate to this Plan or any related Award Agreement. The Company and each recipient of an Award under this Plan acknowledges and agrees that any controversy which may arise out of or relate to this Plan or any related Award Agreement is likely to involve complicated and difficult issues, and therefore the Company and each such recipient irrevocably and unconditionally waives any right such person may have to a trial by jury in respect of any litigation directly or indirectly arising out of or relating to this Plan or any related Award Agreement.

Section 14.12 409A Compliance. The Plan is intended to be administered in a manner consistent with the requirements, where applicable, of Section 409A of the Code and, notwithstanding anything to the contrary contained in the Plan, the Board may amend the Plan, any Award and any Award Agreement to the extent it deems necessary or appropriate to comply with Section 409A of the Code. Where reasonably possible and practicable, the Plan shall be administered and interpreted in a manner to avoid the imposition on Participants of immediate tax recognition and additional taxes pursuant to Section 409A of the Code. Notwithstanding the foregoing, none of the Company or the Board shall have any liability to any person in the event Section 409A of the Code applies to any payments hereunder in a manner that results in adverse tax consequences for the Participant or any of his beneficiaries or transferees. Notwithstanding anything else contained in this Plan or any Award Agreement or Subscription Agreement to the contrary, if Participant is a Specified Employee any payment required to be made to Participant hereunder upon or following his Termination of Service shall be delayed until after the six month anniversary of Participant's Separation from Service to the extent necessary to comply with, and avoid imposition on Participant of any tax penalty imposed under, Section 409A of the Code. Should payments be delayed in accordance with the preceding sentence, the accumulated payment that would have been made but for the period of the delay shall be paid in a single lump sum during the ten day period following the six month anniversary of the Separation from Service.

Exhibit 10.9

Stock Option Agreement

This Stock Option Agreement (the "Agreement"), dated as of ________ (the "Grant Date"), between Franklin Holdings (Bermuda), Ltd. (the "Company") and the Participant whose name appears on the signature page hereof ("Participant"). Capitalized terms used in this Agreement and not defined herein shall have the meaning ascribed to such terms in the Amended and Restated Franklin Holdings (Bermuda), Ltd. Equity Incentive Plan, as may be amended from time to time (the "Plan").

The Company and the Participant hereby agree as follows:

Section 1. Grant of Options.

(a) Confirmation of Grant. The Company hereby evidences and confirms, effective as of the date hereof, its grant to the Participant of options to purchase the number of shares of the Company's Class B Common Stock (the "Common Stock") specified on the signature page hereof (the "Options"). The Options are not intended to be incentive stock options under the Code. This Agreement is entered into pursuant to, and the terms of the Options are subject to, the terms of the Plan. If there is any inconsistency between this Agreement and the terms of the Plan, the terms of the Plan shall govern.

(b) Option Price. Each share covered by an Option shall have the respective Option Price specified on the signature page hereof, which is not less than the Fair Market Value per share of the Common Stock on the Grant Date, as determined in good faith by the Board.

Section 2. Vesting and Exercisability.

(a) Vesting. Except as otherwise provided in Section 7, the Options shall vest on ____________, subject to the continuous employment of the Participant with the Company Group through the applicable vesting date.

(b) Discretionary Acceleration. The Board, in its sole discretion, may accelerate the vesting or exercisability of all or a portion of the Options, at any time and from time to time.

(c) Exercise. Once vested in accordance with the provisions of this Agreement, the Options may be exercised at any time and from time to time prior to the date such Options terminate pursuant to Section 3. Options may only be exercised with respect to whole shares and must be exercised in accordance with Section 4.

Section 3. Termination of Options.

(a) Normal Termination Date. Unless earlier terminated pursuant to Section 3(b) or Section 7, the Options shall terminate on the seventh anniversary of the Grant Date (the "Normal Termination Date"), if not exercised prior to such date.

(b) Early Termination. If the Participant's employment with the Company terminates for any reason, any Options held by the Participant that have not vested before the effective date of such termination of employment shall terminate immediately upon such termination of employment and, if the Participant's employment is terminated for Cause, all Options (whether or not then vested or exercisable) shall automatically terminate immediately upon such termination. All vested Options held by the Participant following the effective date of a termination of employment shall remain exercisable until the first to occur of (i) the ninety-day anniversary (or the six month anniversary if the Participant's employment is terminated by reason of death or Disability) of the effective date of the Participant's termination of employment (determined without regard to any deemed or express statutory or contractual notice period), (ii) the Normal Termination Date, or (iii) the cancellation of the Options pursuant to Section 7, and if not exercised within such period the Options shall automatically terminate upon the expiration of such period.

Section 4. Manner of Exercise.

(a) General. Subject to such reasonable administrative regulations as the Board may adopt from time to time, the Participant may exercise vested Options by giving at least 15 business days' prior written notice to the Chief Financial Officer of the Company specifying the proposed date on which the Participant desires to exercise a vested Option (the "Exercise Date"), the number of whole shares with respect to which the Options are being exercised (the "Exercise Shares") and the aggregate Option Price for such Exercise Shares (the "Exercise Price"); provided that following a Public Offering, notice may be given within such lesser period as the Board may permit. On or before any Exercise Date that occurs prior to a Public Offering, the Company and the Participant shall enter into a Subscription Agreement in substantially the form attached to this Agreement as Annex A, and, if not already a party thereto, the Investor Shareholders Agreement, which contain certain repurchase rights on termination of employment, tag and drag along rights, and transfer and other restrictions on the Exercise Shares. Unless otherwise determined by the Board, and subject to such other terms, representations, and warranties as may be provided for in, and the execution and delivery by the Participant of, the Subscription Agreement and/or the Investor Shareholder Agreement (i) on or before the Exercise Date the Participant shall deliver to the Company (A) full payment for the Exercise Shares (1) in U.S.

dollars in cash or other readily available funds or, to the extent permitted by the Board, cash equivalents satisfactory to the Company, in an amount equal to the Exercise Price, (2) with the consent of the Board, the delivery of Shares the Participant has owned for at least six months and one day (or for such longer or shorter period as the Board may determine necessary to comply with applicable accounting standards and to avoid liability award accounting) with a Fair Market Value on the date of delivery equal to the Exercise Price, (3) with the consent of the Board, through the surrender of Exercise Shares then issuable upon the exercise of the Option with a Fair Market Value on the date of exercise equal to the Exercise Price or (4) any other method permitted by the Board in its sole discretion plus (B) any required withholding taxes or other similar taxes, charges or fees and (ii) the Company shall register the issuance of the Exercise Shares on its records. The Company may require the Participant, as a condition to exercise, to furnish or execute such other documents as the Company shall reasonably deem necessary (i) to evidence such exercise, (ii) to determine whether registration is then required under the Securities Act or other applicable law, or (iii) to comply with or satisfy the requirements of the Securities Act, Bermuda securities law, or any other applicable state or non-U.S. securities or other laws.

(b) Restrictions on Exercise. Notwithstanding any other provision of this Agreement, the Options may not be exercised in whole or in part, and no certificates representing Exercise Shares shall be delivered, (i) (A) unless all requisite approvals and consents of any governmental authority of any kind shall have been secured, (B) unless the purchase of the Exercise Shares shall be exempt from registration under applicable U.S. federal and state securities laws, Bermuda securities law or the laws of any other jurisdiction, or the Exercise Shares shall have been registered under such laws, and (C) unless all applicable U.S. federal, state and local and non-U.S. tax withholding requirements shall have been satisfied, or (ii) if such exercise would result in a violation of the terms or provisions of or a default or an event of default under, any guarantee, financing or security agreement entered into by any member of the Company Group from time to time. The Company shall use its commercially reasonable efforts to obtain any consents or approvals referred to in clause (i) (A) of the preceding sentence, but shall otherwise have no obligations to take any steps to prevent or remove any impediment to exercise described in such sentence.

Section 5. Participant's Representations. The Participant hereby represents, warrants, covenants, and agrees as follows:

(a) Investment Intention. The Options have been, and any Exercise Shares will be, acquired by the Participant solely for the Participant's own account for investment and not with a view to or for sale in connection with any distribution thereof. The Participant will not, directly or indirectly, offer, transfer, sell, pledge, hypothecate or otherwise dispose of all or any of the Options or any of the Exercise Shares (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of all or any of the Options or any of the Exercise Shares), except in compliance with the Securities Act and the rules and regulations of the Securities and Exchange Commission thereunder, and in compliance with applicable state and foreign securities or "blue sky" laws.

(b) Covenants under Subscription Agreement and Investor Shareholders Agreement. The Participant understands, acknowledges and agrees that none of the Exercise Shares may be transferred, sold, pledged, hypothecated or otherwise disposed of (other than by will or laws of descent) unless the provisions of any related Subscription Agreement and the Investor Shareholders Agreement shall have been complied with or have expired. The Participant further understands, acknowledges and agrees that the Exercise Shares are subject to the right of the Company prior to a Public Offering to repurchase the Exercise Shares upon termination of the Participant's employment with the Company Group for any reason (whether before or after exercise of the Options) under the Subscription Agreement and to certain obligations to transfer shares and other obligations under the Investor Shareholders Agreement.

(c) Securities Law Matters. The Participant acknowledges that (i) the Exercise Shares have not been registered under the Securities Act or qualified under any state or foreign securities or "blue sky" laws, (ii) it is not anticipated that there will be any public market for the Exercise Shares, (iii) the Exercise Shares must be held indefinitely and the Participant must continue to bear the economic risk of the investment in the Exercise Shares unless the Exercise Shares are subsequently registered under the Securities Act and such state laws or an exemption from registration is available, (iv) Rule 144 promulgated under the Securities Act ("Rule 144") is not presently available with respect to the sales of the Exercise Shares and the Company has made no covenant to make Rule 144 available, (v) when and if the Exercise Shares may be disposed of without registration in reliance upon Rule 144, such disposition can be made only in accordance with the terms and conditions of such Rule, (vi) the Company does not plan to file reports with the Commission or make public information concerning the Company available unless required to do so by law, (vii) if the exemption afforded by Rule 144 is not available, sales of the Exercise Shares may be difficult to effect because of the absence of public information concerning the Company, (viii) a restrictive legend in the form heretofore set forth shall be placed on the certificates representing the Exercise Shares, and (ix) a notation shall be made in the appropriate records of the Company indicating that the Exercise Shares are subject to restrictions on transfer set forth in the Subscription Agreement and the Investor Shareholders Agreement and, if the Company should in the future engage the services of a stock transfer agent, appropriate stop-transfer restrictions will be issued to such transfer agent with respect to the Exercise Shares.

(d) No Transfers. The Options may be exercised only by the Participant or by the Participant's estate. The Options are not assignable or transferable, in whole or in part, and they may not, directly or indirectly, be offered, transferred, sold, pledged, assigned, alienated, hypothecated or otherwise disposed of or encumbered (including without limitation by gift, operation of law or otherwise) other than (i) by will or by the laws of descent and distribution to the estate of the Participant upon the Participant's death or (ii) a transfer or assignment without value, with the prior express written consent of the Board, exercised in its sole discretion, but only to the same extent the Exercise Shares may be transferred or assumed pursuant to the Investor Shareholders Agreement, provided that in each case the deceased Participant's beneficiary, the representative of the Participant's estate or any other person to whom the Participant is permitted to transfer or assign the Options shall acknowledge and agree in writing, in a form reasonably acceptable to the Company, to be bound by the provisions of this Agreement and the Plan as if such beneficiary, estate or person were the Participant (including, but not limited to, the provisions of Sections 2 and 3 hereof regarding vesting, forfeiture and exercisability during and following Participant's employment and the provisions of the Subscription Agreement regarding the repurchase of Exercise Shares upon Participant's termination of employment).

(e) Ability to Bear Risk. The Participant will not exercise all or any of the Options unless (i) the financial situation of the Participant is such that the Participant can afford to bear the economic risk of holding the Exercise Shares for an indefinite period and (ii) the Participant can afford to suffer the complete loss of the Participant's investment in the Exercise Shares.

(f) Employment Status. Participant is an Employee of the Company Group.

(g) No Other Awards. The grant of Options hereunder represents the sole Award granted to the Participant under the Plan as of the date hereof.

(h) Legends. Any certificate representing the Exercise Shares shall bear an appropriate legend, which will include, without limitation, the following language in the case of any such certificates issued prior to a Public Offering:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND ARE "RESTRICTED SECURITIES" AS DEFINED IN RULE 144 PROMULGATED UNDER THE ACT. THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TRANSFER, REPURCHASE, AND OTHER

PROVISIONS OF A SUBSCRIPTION AGREEMENT, AN INVESTOR SHAREHOLDERS AGREEMENT, AND THE FRANKLIN HOLDINGS (BERMUDA), LTD. EQUITY INCENTIVE PLAN (THE "PLAN") (COPIES OF WHICH ARE ON FILE WITH THE SECRETARY OF THE COMPANY). NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION, OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SUCH SUBSCRIPTION AGREEMENT, INVESTOR SHAREHOLDERS AGREEMENT, AND PLAN AND (A) PURSUANT TO A REGISTRATION STATEMENT EFFECTIVE UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (B) IN COMPLIANCE WITH RULE 144 OR OTHER APPLICABLE NON-U.S. LAWS, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION THEREUNDER. THE HOLDER OF THIS CERTIFICATE, BY ACCEPTANCE OF THIS CERTIFICATE, AGREES TO BE BOUND BY ALL OF THE PROVISIONS OF SUCH SUBSCRIPTION AGREEMENT, INVESTOR SHAREHOLDERS AGREEMENT AND PLAN."

Section 6. Representations, Warranties and Agreements of the Company. The Company represents and warrants to Participant that (i) the Company has been duly organized and is an existing corporation in good standing under the laws of the State of Bermuda, (ii) this Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, and (iii) the Exercise Shares, when issued, delivered and paid for upon exercise of the Options in accordance with the terms hereof, will be duly and validly issued, fully paid and nonassessable.

Section 7. Change in Control. Upon a Change in Control all then outstanding Options shall vest and be exercisable immediately prior to the Change in Control. In the event of a Change in Control, each outstanding Option (regardless of whether such Options are at such time otherwise exercisable) may, in the Board's sole discretion, be canceled in exchange for payment of an amount equal to the excess, if any, of the Change in Control Price over the Exercise Price.

Section 8. Miscellaneous.

(a) Administration. The Plan and this Agreement shall be administered by the Board, as provided in the Plan. All actions to be taken and decisions and determinations to be made by the Company under this Agreement shall be effected only with the approval of the Board or its designee. Any determination made by the Board under this Agreement, shall be final, binding, and conclusive for all purposes and upon all persons. For purposes of the Plan and this Agreement, any Participant shall recuse him or herself from any decisions or determinations to be made or actions to be taken by the Company and, if he or she is a member of the Board, the Board under the terms of the Plan or this Agreement. By accepting this Option, Participant and each person claiming under or through Participant shall be conclusively deemed to have indicated their acceptance and ratification of, and consent to, any action taken under the Plan by the Company or the Board.

(b) Binding Effect; Benefits; Assignability. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors, heirs, executors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors, heirs, executors or assigns any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by the Company or Participant without the prior written consent of the other party.

(c) Amendment. Except as otherwise provided in the Plan, this Agreement may be amended, modified or supplemented only by a written instrument executed by Participant and the Company.

(d) Entire Agreement. This Agreement, the Plan, the Investor Shareholders Agreement, and any employment agreement which Participant has entered into with the Company constitute the entire agreement between Participant and the Company with respect to the subject matter hereof, and supersede all undertakings and agreements, whether oral or in writing, previously entered into by the parties with respect thereto.

(e) Tax Withholding. Whenever any cash or other payment is to be made hereunder or with respect to the grant, vesting, or exercise of the Options, the Company Group shall have the power to withhold, or to require such Participant to remit to the Company Group, an amount (in cash, from other compensation payable to Participant, or in Shares) sufficient to satisfy all U.S. federal, state, local and any non-U.S. withholding tax or other governmental tax, charge or fee that arises in connection with the grant, vesting, or exercise of the Options; provided, however, that in the event that the Company withholds Shares issuable to the Participant upon the exercise of the Option (or any portion thereof)) to satisfy the withholding taxes, the Company shall withhold a number of whole Shares having a Fair Market Value, determined as of the date of exercise, not in excess of the minimum of tax required to be withheld by law (or such lower amount as may be necessary to avoid liability award accounting). Notwithstanding the foregoing, if Participant tenders previously-owned Shares to the Company to satisfy any applicable withholding taxes, such Shares must have been held by the Participant for at least six months prior to their tender (or for such longer or shorter period as the Board may determine necessary to comply with applicable accounting standards and to avoid liability award accounting) or have been purchased on the open market. The Participant shall be responsible for all withholding taxes and other tax consequences of this Option.

(f) No Right to Continued Employment. Nothing in the Plan or this Agreement shall interfere with or limit in any way the right of the Company Group to terminate Participant's employment at any time, or confer upon Participant any right to continue in the employ of the Company Group.

(g) No Rights as Stockholder; No Voting Rights. The Participant shall have no rights as a stockholder of the Company with respect to any shares covered by the Options until the exercise of the Options and delivery of the shares. No adjustment shall be made for dividends or other rights for which the record date is prior to the delivery of the shares. Any shares delivered in respect of the Options shall be subject to the Subscription Agreement and the Investor Shareholder Agreement and the Participant shall have no voting rights with respect to such shares until such time as specified in the Subscription Agreement and the Investor Shareholder Agreement.

(h) Exclusion from Pension Computations. By acceptance of the grant of this Option, Participant hereby agrees that any income or gain realized upon the receipt or exercise hereof, or upon the disposition of the Shares received upon its exercise, is special incentive compensation and shall not be taken into account, to the extent permissible under applicable law, as "wages", "salary" or "compensation" in determining the amount of any payment under any pension, retirement, incentive, profit sharing, bonus or deferred compensation plan of any member of the Company Group.

(i) Notices, etc. Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally, electronically or by mail, postage prepaid or overnight courier, addressed as follows: if to the Company, at its office at Clarendon House, 2 Church Street, Hamilton HM 11 Bermuda or at such other address as the Company by notice to the Participant may designate in writing from time to time; and if to the Participant, at the address on record with the Company. Notices shall be effective upon delivery. Participant hereby consents to the delivery of information regarding the Plan, the Options, the Exercise Shares and the Company (i) via the Company's website or (ii) via electronic delivery to the Participant's business email address or, following a termination of the Participant's employment, to such other email address as the Participant shall designate in writing from time to time. Participant agrees to keep the Company updated with the Participant's address and email address.

(j) Section and Other Headings, etc. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(k) Exculpation. This Option and all documents, agreements, understandings and arrangements relating hereto have been executed by a person in his or her capacity as an officer of the Company, and not individually, and neither the directors, officers or shareholders of the Company Group shall be bound or have any personal liability hereunder. Each party hereto shall look solely to the assets of the Company for satisfaction of any liability of the Company in respect of the Option and all documents, agreements, understandings and arrangements relating hereto and will not seek recourse or commence any action against any of the directors, officers, or shareholders of the Company Group, or any of their personal assets for the performance or payment of any obligation hereunder or thereunder. The foregoing shall also apply to any future documents, agreements, understandings, arrangements and transactions between the parties hereto.

(l) Counterparts. This Agreement may be executed in any number of counterparts, including by facsimile, each of which shall be an original, but all of which together shall constitute one and the same instrument.

(m) Applicable Law. This Agreement shall be governed by the laws of the State of New York, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. Participant is deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of New York, in each case located in the Borough of Manhattan in New York City, to resolve any and all issues that may arise out of or relate to this Agreement. The Company and Participant acknowledge and agree that any controversy which may arise out of or relate to this Agreement is likely to involve complicated and difficult issues, and therefore the Company and each such recipient irrevocably and unconditionally waives any right such person may have to a trial by jury in respect of any litigation directly or indirectly arising out of or relating to this Agreement.

—Signature page follows—

IN WITNESS WHEREOF, the Company and Participant have executed this Agreement as of the date first above written.

FRANKLIN HOLDINGS (BERMUDA), LTD.

By: ______________________________

Name:
Title:

PARTICIPANT

By: ______________________________

Name:

Options: _________
Option Price: $_____

Exhibit 21.1

SUBSIDIARIES OF JAMES RIVER GROUP HOLDINGS, LTD.

Subsidiary	Jurisdiction of Incorporation or Formation
Falls Lake General Insurance Company	Ohio
Falls Lake Insurance Management Company, Inc.	Delaware
Falls Lake National Insurance Company	Ohio
Franklin Holdings II (Bermuda) Capital Trust I	Delaware
James River Capital Trust I	Delaware
James River Capital Trust II	Delaware
James River Capital Trust III	Delaware
James River Capital Trust IV	Delaware
James River Casualty Company	Virginia
James River Group, Inc.	Delaware
James River Insurance Company	Ohio
James River Management Company, Inc.	Delaware
James River Richmond Real Estate, LLC	Virginia
JRG Reinsurance Company, Ltd.	Bermuda
Potomac Risk Services, Inc.	Virginia
Stonewood Insurance Company	North Carolina

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the captions “Experts”, “Summary Financial Data” and “Selected Consolidated Financial and Other Data” and to the use of our report dated November 5, 2014, in the Registration Statement (Form S-1) and related Prospectus of James River Group Holdings, Ltd. for the registration of its common shares.

/s/ Ernst & Young LLP
Richmond, Virginia
November 5, 2014