JRG REINSURANCE COMPANY LTD.

FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

JRG REINSURANCE COMPANY LTD.

Financial Statements

Years Ended December 31, 2020 and 2019

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

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

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Report of Independent Auditors

The Board of Directors
JRG Reinsurance Company Ltd.

We have audited the accompanying financial statements of JRG Reinsurance Company Ltd., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income and comprehensive income, statements of changes in shareholder's equity and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JRG Reinsurance Company Ltd. at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred and paid claims development prior to the most recent year and the average annual percentage payouts of incurred claims on pages 21 through 25 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young Ltd.

April 7, 2021

JRG Reinsurance Company Ltd.

Balance Sheets

	December 31, 2020	December 31, 2019
	(in thousands)	
Assets		
Invested assets:		
Fixed maturity securities:		
Available-for-sale, at fair value (amortized cost: 2020 − $713,268; 2019 − $664,492)	$ 751,512	$ 680,330
Equity securities, at fair value (cost: 2020: $3,052; 2019 - $2,399)	1,375	1,248
Bank loan participations (2020: at fair value; 2019: held-for-investment, at amortized cost, net of allowance)	99,752	182,661
Short-term investments	107,728	63,871
Total invested assets	960,367	928,110
Cash and cash equivalents	24,150	32,793
Accrued investment income	4,945	5,106
Premiums receivable, net	156,431	136,560
Premiums receivable from affiliates	23,176	22,470
Reinsurance recoverable on unpaid losses	7,903	5,222
Prepaid Reinsurance	10,226	6,444
Deferred policy acquisition costs	40,161	40,827
Due from JRG Holdings	19,391	18,822
Other assets	3,063	459
Total assets	$ 1,249,813	$ 1,196,813

See accompanying notes.

JRG Reinsurance Company Ltd.

Balance Sheets (continued)

	December 31, 2020	December 31, 2019
	(in thousands, except share amounts)	
Liabilities and shareholder's equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 562,353	$ 616,385
Unearned premiums	166,562	156,968
Payables to reinsurers	8,879	5,415
Payables to affiliate insurance companies	7,038	34,410
Payables to insurance companies	1,740	2,136
Accrued expenses and accounts payable	1,200	1,706
Other liabilities	5,179	318
Total liabilities	752,951	817,338
Commitments and contingent liabilities	-	-
Shareholder's equity:		
Common Shares – 2020 and 2019: $1.00 par value; 120,000 shares authorized, issued and outstanding	120	120
Additional paid-in capital	349,880	259,880
Retained earnings	108,618	103,637
Accumulated other comprehensive income	38,244	15,838
Total shareholder's equity	496,862	379,475
Total liabilities and shareholder's equity	$ 1,249,813	$ 1,196,813

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Income and Comprehensive Income

	Year Ended December 31, 2020	2019
	(in thousands)	
Revenues:		
Assumed written premiums	$ 196,666	$ 217,428
Ceded written premiums	(11,623)	(9,073)
Net written premiums	185,043	208,355
Change in net unearned premiums	(5,812)	(11,196)
Net earned premiums	179,231	197,159
Net investment income	26,902	34,866
Net realized and unrealized investment losses	(7,705)	(4,548)
Total revenues	198,428	227,477
Expenses:		
Losses and loss adjustment expenses	152,841	180,426
Other underwriting and operating expenses	35,092	43,563
Total expenses	187,933	223,989
Net income	$ 10,495	$ 3,488
Other comprehensive income:		
Net unrealized gains	22,406	31,260
Total comprehensive income	$ 32,902	$ 34,748

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Changes in Shareholder's Equity

(in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balances at December 31, 2018	$ 120	$ 259,880	$ 108,149	$ (15,422)	$ 352,727
Net income	–	–	3,488	–	3,488
Other comprehensive income	–	–	–	31,260	31,260
Dividends	–	–	(8,000)	–	(8,000)
Balances at December 31, 2019	$ 120	$ 259,880	$ 103,637	$ 15,838	$ 379,475
Cumulative effect of fair value option election (see Note 2)	–	–	(5,514)	–	(5,514)
Additional capital contribution	–	90,000	–	–	90,000
Net income	–	–	10,495	–	10,495
Other comprehensive income	–	–	–	22,406	22,406
Balances at December 31, 2020	$ 120	$ 349,880	$ 108,618	$ 38,244	$ 496,862

See accompanying notes.

JRG Reinsurance Company Ltd.

Statements of Cash Flows

	Year Ended December 31, 2020	2019
	(in thousands)	
Operating activities		
Net income	$ 10,495	$ 3,488
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized investment losses	7,705	4,548
Depreciation and amortization	1,068	936
Change in operating assets and liabilities:		
Reserve for losses and loss adjustment expenses	(54,033)	(75,978)
Unearned premiums	9,595	17,640
Premiums receivable (1)	(20,328)	(21,375)
Deferred acquisition costs	666	(393)
Reinsurance balances	(2,998)	(1,762)
Payable to insurance companies (1)	56,086	149,776
Other (1)	(1,267)	(600)
Net cash provided by operating activities	6,989	76,280
Investing activities		
Fixed maturity securities, available-for-sale:		
Purchases	(264,619)	(281,698)
Sales	97,059	60,368
Maturities and calls	36,423	226,102
Bank loan participations:		
Purchases	(52,952)	(82,026)
Sales	98,696	28,751
Maturities	21,853	31,095
Equity securities:		
Purchases	(652)	(488)
Securities receivable or payable, net	2,388	(50)
Short-term investments, net	(43,630)	(54,557)
Other	(198)	–
Net cash used in investing activities	(105,632)	(72,503)
Financing activities		
Dividends paid	–	(8,000)
Additional capital contribution	90,000	–
Net cash provided by (used in) financing activities	90,000	(8,000)
Change in cash and cash equivalents	(8,643)	(4,223)
Cash and cash equivalents at beginning of year	32,793	37,016
Cash and cash equivalents at end of year	$ 24,150	$ 32,793
Supplemental information		
Income taxes paid, net of refunds	$ –	$ –
Interest paid	$ –	$ –

(1) For the year ended December 31, 2020 and 2019, the Company settled premiums receivable (2020: -$248,000; 2019: $12.7 million) and payable to insurance companies (2020: $83.9 million; 2019: $162.3 million) through transfer of investments (2020: $83.7 million; 2019: $148.6 million) and accrued investment income (2020: $353,000 and 2019: $993,000).

(2) At December 31, 2020 and 2019, the Company held restricted cash and cash equivalents in collateral accounts amounting to $9,971 and $16,727, respectively.

See accompanying notes.

JRG Reinsurance Company Ltd.

Notes to Financial Statements
December 2020 and 2019

1. Organization

JRG Reinsurance Company Ltd. (“JRG Re” or the “Company”) is a wholly owned subsidiary of James River Group Holdings, Ltd. (“JRG Holdings”), a holding company registered in Bermuda. JRG Re was formed in 2007 and began operations in 2008. JRG Re primarily provides non-catastrophe casualty reinsurance to U.S. third parties and through December 31, 2017 to JRG Holdings’ U.S.-based insurance subsidiaries, and commencing during 2018 to Carolina Re Ltd (“Carolina Re”), a Bermuda-based affiliate.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), which vary in some respects from statutory accounting practices (“SAP”) which are prescribed or permitted by the insurance regulator in Bermuda, the Bermuda Monetary Authority (“BMA”).

To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

Estimates and Assumptions

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

Fixed Maturity and Equity Securities

Fixed maturity securities classified as “available-for-sale” are carried at fair value, and unrealized gains and losses on such securities are reported as a separate component of accumulated other comprehensive income. The Company does not have any securities classified as “held-to-maturity” or “trading”.

Fair value generally represents quoted market value prices for securities traded in the public marketplace or prices analytically determined using bid or closing prices for securities not traded in the public marketplace.

Premiums and discounts on mortgage-backed securities and asset-backed securities are amortized or accrued using the constant yield method which considers anticipated prepayments at the date of purchase. To the extent that the estimated lives of such securities change as a result of changes in estimated prepayment rates, the adjustments are included in net investment income using the retrospective method.

Realized investment gains or losses are determined on a specific identification basis. Interest income is recognized as earned, and dividend income is recognized on the ex-dividend date.

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

2. Summary of Significant Accounting Policies (continued)

The Company considers the extent to which fair value is below amortized cost in determining whether a credit-related loss exists. The Company also considers the credit quality rating of the security, with a special emphasis on securities downgraded below investment grade. A comparison is made between the present value of expected future cash flows for a security and its amortized cost. If the present value of future expected cash flows is less than amortized cost, a credit loss is presumed to exist and an allowance for credit losses is established. Management may conclude that a qualitative analysis is sufficient to support its conclusion that the present value of the expected cash flows equals or exceeds a security's amortized cost.

Effective January 1, 2018, with the adoption of ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net realized and unrealized gains or losses. Prior to the adoption of ASU 2016-01, changes in the fair value of equity securities were recognized as a component of accumulated other comprehensive income.

Bank Loan Participations

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

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

Interest income is accrued on the unpaid principal balance. Discounts and premiums are amortized to income using the interest method. Prior to the election of the fair value option on January 1, 2020, bank loan participations were generally stated at their outstanding unpaid principal balances net of unamortized premiums or discounts and net of any allowance for credit losses. The allowance for credit losses was maintained at a level considered adequate to absorb estimated probable credit losses.

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, 2020 or 2019.

Generally, bank loan participations are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Short-term Investments

Short-term investments are carried at amortized cost, which approximates fair value. Short-term investments have maturities greater than three months but less than one year at the date of purchase.

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

The Company considers highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents.

Assumed Reinsurance Premiums

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

Reinsurance premium estimates are reviewed by management periodically. Any adjustment to these estimates is recorded in the period in which it becomes known.

Reinsurance premiums assumed are earned over the terms of the underlying policies or reinsurance contracts. Contracts and policies written on a "losses occurring" basis cover claims that may occur during the term of the contract or policy, which is typically 12 months. Accordingly, the premium is earned evenly over the term. Contracts which are written on a "risks attaching" basis cover claims which attach to the underlying insurance policies written during the terms of such contracts. Premiums earned on such contracts usually extend beyond the original term of the reinsurance contract, typically resulting in recognition of premiums earned over a 24-month period in proportion to the level of underlying exposure. Contracts are accounted for on an individual basis, with no aggregation by counterparty.

Premiums Receivable, Net

Premiums receivable is carried at face value net of any allowance for credit losses. The allowance for credit losses represents the current estimate of expected credit losses based on the Company's assessment of the collectability of receivables that are past due, historical collection percentages, and consideration of current economic conditions and expectations of future conditions that could affect ultimate collections. The allowance for credit losses was $0 at December 31, 2020 and 2019. Bad debt expense was $0 for the years ended December 31, 2020 and 2019, and no receivables were written off against the allowance for credit losses in 2020 or 2019. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Deferred Policy Acquisition Costs

Costs which are incrementally or directly related to the successful acquisition of new or renewal insurance business are deferred. These deferred costs are primarily commissions to agents, ceding commissions paid on reinsurance assumed and premium taxes, net of ceding commissions related to reinsurance ceded. Amortization of such policy acquisition costs is charged to expense in proportion to premium earned over the estimated policy life. To the extent that unearned premiums on existing policies are not adequate to cover projected related costs and expenses, deferred policy acquisition costs are charged to earnings. The Company considers anticipated investment income in determining whether a premium deficiency exists.

2. Summary of Significant Accounting Policies (continued)

Reinsurance and Adjustable Features of Reinsurance Contracts

Premiums and losses are ceded to other insurance companies or assumed from other insurance companies under various excess of loss and quota-share reinsurance contracts. The Company enters into ceded reinsurance contracts to limit its exposure to large losses and to provide additional capacity for growth.

Premiums, commissions, and losses and loss adjustment expenses on reinsured business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance recoverables and prepaid reinsurance premiums are reported as assets. Other amounts payable to insurance companies and reinsurers or receivable from insurance companies and reinsurers are netted where the right of offset exists. The Company receives ceding commissions in connection with certain ceded reinsurance. The ceding commissions are recorded as a reduction of other underwriting and operating expenses.

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

Property and Equipment, Net

Property and equipment, which is included in "other assets" in the accompanying balance sheets, is reported at cost less accumulated depreciation and is depreciated principally on a straight-line basis over the estimated useful lives of the depreciable assets, generally three to ten years.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents the estimated ultimate cost of all reported and unreported losses and loss adjustment expenses incurred and unpaid at the balance sheet date. The Company does not discount this reserve. The process of estimating the reserve for losses and loss adjustment expenses requires a high degree of judgment and is subject to a number of variables. The reserve for losses and loss adjustment expenses is estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency.

The Company utilizes various actuarially-accepted reserving methodologies in determining the continuum of expected outcomes for its reserves. These methodologies utilize various inputs, including management's initial expected loss ratio (the ratio of losses and loss adjustment expenses incurred to net earned premiums), expected reporting patterns and payment patterns for losses and loss adjustment expenses (based on insurance industry data and the Company's own experience), and the Company's actual paid and reported losses and loss adjustment expenses. An internal actuary reviews these results and (after applying appropriate professional judgment and other actuarial techniques that are considered necessary) presents recommendations to the Company's management. Management uses this information and its judgment to make decisions on the final recorded reserve for losses and loss adjustment expenses. Management believes that the use of judgment is necessary to arrive at a best estimate for the reserve for losses and loss adjustment expenses given the long-tailed nature of the business generally written by the Company and the limited operating experience of the Company.

Although management believes that the reserve for losses and loss adjustment expenses is reasonable, it is possible that the Company's actual incurred losses and loss adjustment expenses will not develop in a manner consistent with the assumptions inherent in the determination of these reserves. Specifically, the Company's actual ultimate loss ratio could differ from management's initial expected loss ratio and/or the Company's actual reporting patterns for losses could differ from the expected reporting patterns. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimates included in the Company's financial statements. These

2. Summary of Significant Accounting Policies (continued)

estimates are reviewed continually by management and are adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Adopted Accounting Standards

On January 1, 2020, the Company adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, using the modified retrospective approach, by which a cumulative-effect adjustment was made to retained earnings as of the date of adoption. This update requires financial assets measured at amortized cost, such as bank loan participations held for investment, to be presented at the net amount expected to be collected by means of an allowance for credit losses that is reflected in net income. Credit losses relating to available-for-sale debt securities are recorded through an allowance for credit losses, with the amount of the allowance limited to the amount by which fair value is below amortized cost.

In connection with the adoption of this ASU, the Company elected the fair value option in accounting for bank loan participations effective January 1, 2020. The targeted transition relief offered by ASU 2019-05, Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief was applied to elect the fair value option to account for bank loan participations already held at the January 1, 2020 date of adoption. Under the fair value option, bank loan participations are measured at fair value, and changes in unrealized gains and losses in bank loan participations are reported in our income statement as net realized and unrealized gains (losses) on investments. At adoption on January 1, 2020, the Company reduced the carrying value of its bank loan portfolio to fair value through a $5.5 million cumulative effect adjustment to reduce retained earnings.

Upon adoption of this ASU, the Company established an allowance for credit losses on reinsurance balances through a $4,000 cumulative effect adjustment which was booked to profit and loss due to immateriality. Because we purchase reinsurance from financially strong reinsurers or we have collateral securing the recoverables, the effect of adoption was not material to our financial position.

3. Investments

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
December 31, 2020				
Fixed maturity securities:				
State and municipal	$ 101,851	$ 5,379	$ (25)	$ 107,205
Residential mortgage-backed	145,415	3,977	(10)	149,382
Corporate	295,152	24,078	(110)	319,120
Commercial mortgage and asset-backed	116,967	4,499	(340)	121,126
U.S. Treasury securities and obligations guaranteed by the U.S. government	53,883	796	-	54,679
Total fixed maturity securities, available for sale	$ 713,268	$ 38,729	$ (485)	$ 751,512
December 31, 2019				
Fixed maturity securities:				
State and municipal	$ 56,020	$ 1,681	$ (91)	$ 57,610
Residential mortgage-backed	145,711	1,736	(531)	146,916
Corporate	286,698	11,391	(160)	297,929
Commercial mortgage and asset-backed	117,250	1,793	(376)	118,667
U.S. Treasury securities and obligations guaranteed by the U.S. government	58,813	403	(8)	59,208
Total fixed maturity securities, available for sale	$ 664,492	$ 17,004	$ (1,166)	$ 680,330

3. Investments (continued)

The amortized cost and fair value of available-for-sale investments in fixed maturity securities at December 31, 2020 are summarized, by contractual maturity, as follows:

	Amortized Cost	Fair Value
	(in thousands)	
One year or less	$ 55,417	$ 56,016
After one year through five years	202,457	214,203
After five years through ten years	94,746	102,437
After ten years	98,266	108,348
Residential mortgage-backed	145,415	149,382
Commercial mortgage and asset-backed	116,967	121,126
Total	$ 713,268	$ 751,512

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

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

3. Investments (continued)

	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, 2020						
Fixed maturity securities:						
State and municipal	$ 4,289	$ (25)	$ -	$ -	$ 4,289	$ (25)
Residential mortgage-backed	2,210	(10)	-	-	2,210	(10)
Corporate	11,920	(110)	-	-	11,920	(110)
Commercial mortgage and asset-backed	10,438	(251)	12,112	(89)	22,550	(340)
Total	$ 28,857	$ (396)	$ 12,112	$ (89)	$ 40,969	$ (485)
December 31, 2019						
Fixed maturity securities:						
State and municipal	$ 4,657	$ (91)	$ 500	$ -	$ 5,157	$ (91)
Residential mortgage-backed	3,920	(8)	34,318	(523)	38,238	(531)
Corporate	12,669	(142)	7,235	(18)	19,904	(160)
Commercial mortgage and asset-backed	19,199	(146)	32,867	(230)	52,066	(376)
U.S. Treasury securities and obligations guaranteed by the U.S. government	6,491	(5)	3,127	(3)	9,618	(8)
Total	$ 46,936	$ (392)	$ 78,047	$ (774)	$ 124,983	$ (1,166)

The Company held securities of 28 issuers that were in an unrealized loss position at December 31, 2020 with a total fair value of $41.0 million and gross unrealized losses of $485,000. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment.

At December 31, 2020, 100% of the Company's fixed maturity security portfolio was rated "BBB-" or better ("investment grade") by Standard & Poor's or received an equivalent rating from another nationally recognized rating agency.

3. Investments (continued)

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

The Company considers the extent to which fair value is below amortized cost in determining whether a credit-related loss exists. The Company also considers the credit quality rating of the security, with a special emphasis on securities downgraded below investment grade. A comparison is made between the present value of expected future cash flows for a security and its amortized cost. If the present value of future expected cash flows is less than amortized cost, a credit loss is presumed to exist and an allowance for credit losses is established. Management may conclude that a qualitative analysis is sufficient to support its conclusion that the present value of expected cash flows equals or exceeds a security's amortized cost. As a result of this review, management concluded that there were no credit-related impairments of fixed maturities at December 31, 2020. Management does not intend to sell the securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs.

Management concluded that none of the securities in its fixed maturity portfolio with an unrealized loss at December 31, 2019 experienced an other-than-temporary impairment. Management does not intend to sell available-for-sale securities in an unrealized loss position, and it is not “more likely than not” that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs.

In connection with the adoption of ASU 2016-13, the Company elected the fair value option in accounting for bank loan participations effective January 1, 2020. The targeted transition relief offered by ASU 2019-05, Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief was applied to elect the fair value option to account for bank loan participations already held at the January 1, 2020 date of adoption. Under the fair value option, bank loan participations are measured at fair value, and changes in unrealized gains and losses in bank loan participations are reported in our income statement as net realized and unrealized gains (losses) on investments. At adoption on January 1, 2020, the Company applied the amendments on a modified retrospective basis, reducing the carrying value of its bank loan portfolio to fair value through a $5.5 million cumulative effect adjustment to reduce retained earnings.

Applying the fair value option to the bank loan portfolio increases volatility in the Company's financial statements, but management believes it is less subjective and less burdensome to implement and maintain than ASU 2016-13, which would have otherwise been required. At December 31, 2020, the Company's bank loan portfolio had an aggregate fair value of $99.8 million. Investment income on bank loan participations included in net investment income was $8.3 million during the year ended December 31, 2020. Net realized and unrealized gains (losses) on investments includes gains of $840,000 related to changes in unrealized gains and losses on bank loan participations for the year ended December 31, 2020. Management concluded that $5.1 million of unrealized losses were due to credit-related impairments for the year ended December 31, 2020. Losses due to credit-related impairments were determined based upon consultations and advice from the Company's specialized investment manager and consideration of any adverse situations that could affect the borrower's ability to repay, the estimated value of underlying collateral, and other relevant factors.

Prior to the election of the fair value option on January 1, 2020, bank loan participations were classified as held-for-investment and carried at amortized cost net of any allowance for credit losses. Under the prior accounting method, management concluded that seven loans from six issuers in the Company's bank loan portfolio were impaired at December 31, 2019. At December 31, 2019, the impaired loans had a carrying value of $4.2 million, unpaid principal of $8.7 million, and an allowance for credit losses of $4.4 million, $3.1 million of which related to two loans from one

3. Investments (continued)

issuer that was experiencing liquidity concerns resulting from revenue declines and poor growth prospects in its most profitable segment.

Bank loan participations generally have a credit rating that is below investment grade (i.e. below "BBB-" for Standard & Poor's) at the date of purchase. These bank loans are primarily senior, secured floating-rate debt rated "BB", "B", or "CCC" by Standard & Poor's or an equivalent rating from another nationally recognized rating agency. These bank loans include assignments of, and participations in, performing and non-performing senior corporate debt generally acquired through primary bank syndications and in secondary markets. Bank loans consist of, but are not limited to, term loans, the funded and unfunded portions of revolving credit loans, and other similar loans and investments. Management believed that it was probable at the time that these loans were acquired that the Company would be able to collect all contractually required payments receivable.

Interest income on bank loan participations is accrued on the unpaid principal balance, and discounts and premiums on bank loan participations are amortized to income using the interest method. Generally, the accrual interest on a bank loan participation is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest. A bank loan participation may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Generally, bank loan participations are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest received on nonaccrual loans generally is reported as investment income. There were no bank loans on nonaccrual status at December 31, 2020 or 2019.

The average recorded investment in impaired bank loans was $2.1 million during the year ended December 31, 2019 and investment income of $177,000 was recognized during the time that the loans were impaired. The Company recorded realized losses of $5.5 million during the year ended December 31, 2019.

At December 31, 2019, unamortized discounts on bank loan participations were $6.2 million, and unamortized premiums on bank loan participations were $4,000.

3. Investments (continued)

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

	Year Ended December 31, 2020	2019
	(in thousands)	
Fixed maturity securities	$ 18,491	$ 21,480
Bank loan participations	8,311	13,439
Cash, cash equivalents, short-term investments, and other	2,074	2,408
Gross investment income	28,876	37,327
Investment expense	(1,974)	(2,461)
Net investment income	$ 26,902	$ 34,866

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

	Year Ended December 31, 2020	2019
	(in thousands)	
Fixed maturity securities:		
Gross realized gains	$ 3,496	$ 3,610
Gross realized losses	(236)	(872)
	3,260	2,738
Equity securities:		
Gross realized gains	–	–
Gross realized losses	–	(1,107)
Changes in fair value	(526)	–
	(526)	(1,107)
Bank loan participations:		
Gross realized gains	356	533
Gross realized losses	(11,642)	(6,718)
Changes in fair value	840	–
	(10,446)	(6,185)
Short-term investments and other:		
Gross realized gains	7	7
Gross realized losses	–	(1)
	7	6
Total	$ (7,705)	$ (4,548)

3. Investments (continued)

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, 2020	2019
	(in thousands)	
Change in gross unrealized gains:		
Fixed maturity securities	$ 22,406	$ 31,260
	$ 22,406	$ 31,260

At December 31, 2020 and 2019, the Company held an investment in a collateralized loan obligation ("CLO") where one of the underlying loans was issued by a bank holding company (the "bank holding company") that is affiliated with JRG Holdings - the Non-Executive Chairman of JRG Holdings was previously the Lead Independent Director of the bank holding company and an investor in the bank holding company and one of JRG Holdings' directors is a former investor in the bank holding company and is currently a lender to the bank holding company. The investment, with a carrying value of $520,000 at December 31, 2020 ($3.2 million at December 31, 2019), is classified as an available-for-sale fixed maturity.

The Company maintains fixed maturity securities, short-term investments, cash and cash equivalents and accrued investment income amounting to $463.4 million at December 31, 2020 ($464.5 million at December 31, 2019) in trust accounts or on deposit as collateral for outstanding letters of credit issued as security to third-party reinsureds on reinsurance assumed. The Company also maintains fixed maturity securities, bank loan participations, short-term investments, cash and cash equivalents and accrued investment income amounting to $221.4 million at December 31, 2019 ($333.7 million at December 31, 2019) in trust accounts as security to the Company's U.S. insurance affiliates on reinsurance assumed under intercompany quota-share reinsurance contracts.

At December 31, 2020 and 2019, the Company held no investments in securitizations of alternative-A mortgages or sub-prime mortgages.

4. Deferred Policy Acquisition Costs

An analysis of deferred policy acquisition costs is as follows:

	Year Ended December 31, 2020	2019
	(in thousands)	
Balance at beginning of period	$ 40,827	$ 40,434
Policy acquisition costs deferred:		
Commissions, brokerage and federal excise taxes	30,344	39,353
	30,344	39,353
Amortization of policy acquisition costs	(31,010)	(38,960)
Net change	(666)	393
Balance at end of period	$ 40,161	$ 40,827

5. Reserve for Losses and Loss Adjustment Expenses

In establishing the reserve for losses and loss adjustment expenses, the "internal actuaries" (the Company's internal actuaries and/or affiliated actuaries) estimate an initial expected ultimate loss ratio for each of the product lines by accident year (or for the Third Party Reinsurance, on a contract by contract basis). Input from the underwriting and

5. Reserve for Losses and Loss Adjustment Expenses (continued)

claims departments, including premium pricing assumptions and historical experience, are considered in estimating the initial expected loss ratios. The internal actuaries generally utilize five actuarial methods in their estimation process for the reserve for losses and loss adjustment expenses. These five methods utilize, to varying degrees, the initial expected loss ratio, detailed statistical analysis of past claims reporting and payment patterns, claims frequency and severity, paid loss experience, industry loss experience, and changes in market conditions, policy forms, exclusions, and exposures.

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

Different reserving methods are appropriate in different situations, and internal actuaries use their judgment and experience to determine the weighting of the methods to use for each accident year and each line of business and, for the Third Party Reinsurance, on a contract by contract basis. For example, the current accident year has very little incurred and paid loss development data on which to base reserve projections. As a result, the Company relies heavily on the initial expected loss ratio in estimating reserves for the current accident year. The Company generally sets the initial expected loss ratio for the current accident year consistent with the internal actuaries' pricing assumptions. The management believes that this is a reasonable and appropriate reserving assumption for the current accident year since the Company's pricing assumptions are actuarially driven and since the Company expects to make an acceptable return on the new business written. If actual loss emergence is better than the initial expected loss ratio assumptions, the Company will experience favorable development and if it is worse than the initial expected loss ratio assumptions, the Company will experience adverse development. Conversely, sufficient incurred and paid loss development is available for the oldest accident years, so more weight is given to this development data and less weight is given to the initial expected loss ratio.

For the Affiliated Stop Loss Reinsurance between Carolina Re and JRG Re, a simulation model is used to determine the initial expected loss and loss adjustment expense ratio at the inception of the contract.

5. Reserve for Losses and Loss Adjustment Expenses (continued)

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses, net of reinsurance, to the gross amounts reported in the balance sheets. Reinsurance recoverables on unpaid losses and loss adjustment expenses are presented net of a $11,000 allowance for credit losses on reinsurance balances at December 31, 2020.

	Year Ended December 31, 2020	2019
	(in thousands)	
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period	$ 611,163	$ 687,628
Add: Incurred losses and loss adjustment expenses net of reinsurance:		
Current year	99,589	109,722
Prior years	53,252	70,704
Total incurred losses and loss and adjustment expenses	152,841	180,426
Deduct: Loss and loss adjustment expense payments net of reinsurance:		
Current year	5,589	12,651
Prior years	203,965	244,240
Total loss and loss adjustment expense payments	209,554	256,891
Reserve for losses and loss adjustment expenses net of reinsurance recoverables at end of period	544,450	611,163
Add: Reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	7,903	5,222
Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period	$ 562,353	$ 616,385

The foregoing reconciliation shows that $53.2 million of unfavorable development was experienced in 2020 on the reserve for losses and loss adjustment expenses held at December 31, 2019. This unfavorable reserve development included $33.6 million of adverse development on assumed business from affiliated U.S. insurance companies, which primarily related to the 2017 contract year with one insured and $37.8 million of adverse development on assumed business from third parties, primarily due to several treaties from 2015 to 2018 underwriting years that had higher than expected reported losses in 2020. These were partially offset by favorable development on Affiliated Stop Loss Reinsurance of $18.1 million due to lower estimated losses in 2020.

The foregoing reconciliation shows that $70.7 million of unfavorable development was experienced in 2019 on the reserve for losses and loss adjustment expenses held at December 31, 2018. This unfavorable reserve development included $57.4 million of adverse development on assumed business from affiliated U.S. insurance companies, which primarily related to the 2016 and 2017 contract years with one insured and $23.1 million of adverse development on assumed business from third parties, primarily due to several treaties from 2014, 2015 and 2016 underwriting years that had higher than expected reported losses in 2019. These were partially offset by favorable development on Affiliated Stop Loss Reinsurance of $9.8 million due to lower estimated losses in 2019.

The following tables present incurred and paid losses and loss adjustment expenses, net of reinsurance as of December 31, 2020 for: (1) Affiliated Excess and Surplus Lines, (2) Affiliated Specialty Admitted Lines, (3) Affiliated Stop Loss Reinsurance and (4) Third Party Reinsurance. The information provided herein about incurred and paid accident year claims development for the years ended December 31, 2019 and prior is presented as unaudited supplementary information.

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Affiliated Excess and Surplus Lines

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

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 73,862	$ 80,108	$ 76,730	$ 72,235	$ 72,449	$ 72,250	$ 72,770	$ 72,869	$ 72,008	$ 71,433
2012		63,790	64,639	65,508	65,261	66,191	68,032	69,348	70,700	72,831
2013			61,622	61,305	57,390	52,691	54,553	55,390	54,742	54,674
2014				86,384	75,873	68,818	65,830	68,369	70,957	72,633
2015					98,359	89,393	88,620	88,031	89,835	95,540
2016						128,092	148,053	162,094	177,402	183,561
2017							220,773	214,630	258,870	285,626
2018								51,485	48,330	44,842
2019									3,625	3,248
2020										-
Total										$ 884,388

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

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 19,001	$ 36,305	$ 49,655	$ 55,978	$ 62,254	$ 65,010	$ 67,547	$ 68,428	$ 69,756	$ 69,899
2012		4,437	22,600	34,261	43,525	51,453	56,743	61,068	65,044	68,477
2013			910	8,640	21,519	28,790	39,273	44,003	47,033	49,391
2014				4,963	15,272	25,469	38,790	51,031	59,178	62,879
2015					5,099	17,708	35,260	54,332	68,519	78,688
2016						9,047	44,332	83,890	124,724	149,276
2017							20,674	73,932	145,178	199,584
2018								1,730	7,490	15,394
2019									5	6
2020										-
Total										$ 693,594
All outstanding losses and loss adjustment expenses prior to 2011, net of reinsurance										$ 3,735
Total outstanding losses and loss adjustment expenses, net of reinsurance										$ 194,529

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Affiliated Specialty Admitted Lines

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

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 25,464	$ 27,993	$ 27,136	$ 26,436	$ 25,983	$ 25,406	$ 24,839	$ 24,821	$ 24,812	$ 23,865
2012		21,735	21,780	21,197	19,999	19,023	19,015	19,036	19,029	18,683
2013			8,482	9,238	8,584	7,775	7,351	7,366	7,337	7,076
2014				13,448	13,422	12,216	11,509	10,675	10,552	10,429
2015					19,163	21,314	19,936	18,930	17,847	17,086
2016						22,688	24,880	23,739	21,608	20,401
2017							31,522	31,936	31,132	30,448
2018								11,305	13,366	13,103
2019									-	-
2020										-
Total										$ 141,091

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

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 6,614	$ 15,451	$ 19,511	$ 22,450	$ 23,198	$ 23,272	$ 23,310	$ 23,507	$ 23,524	$ 23,542
2012		5,926	13,306	16,440	17,661	18,049	18,111	18,139	18,171	18,264
2013			2,580	5,547	6,418	6,752	6,812	6,866	6,889	6,894
2014				3,099	7,796	9,336	9,788	9,973	10,047	10,057
2015					5,422	11,837	14,277	15,470	15,795	16,156
2016						3,920	10,007	13,657	15,806	16,839
2017							5,052	13,136	18,575	21,488
2018								1,745	4,519	6,233
2019									-	-
2020										-
Total										$ 119,473
All outstanding losses and loss adjustment expenses prior to 2011, net of reinsurance										$ 920
Total outstanding losses and loss adjustment expenses, net of reinsurance										$ 22,538

Affiliated Stop Loss Reinsurance

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

Accident Year	2018	2019	2020
2018	$ 18,224	$ 8,391	$ 5,113
2019		20,075	5,241
2020			19,215
Total			$ 29,569

Cumulative paid losses and loss adjustment expenses, net of reinsurance	-
Total outstanding losses and loss adjustment expenses, net of reinsurance	$ 29,569

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Third Party Reinsurance

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

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 114,908	$ 103,123	$ 97,366	$ 97,812	$ 98,993	$ 99,282	$ 101,276	$ 103,196	$ 105,333	$ 106,226
2012		148,251	132,388	131,281	135,594	136,813	139,978	143,305	146,045	147,413
2013			133,230	130,361	131,352	134,446	137,801	143,124	146,760	149,682
2014				118,881	115,927	114,636	116,981	121,200	126,160	130,822
2015					119,157	108,870	108,699	109,117	114,517	120,185
2016						112,759	105,533	103,544	108,222	114,979
2017							134,628	128,472	129,800	138,831
2018								121,529	119,098	125,715
2019									86,022	85,549
2020										80,374
Total										$ 1,199,776

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

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	$ 48,688	$ 61,922	$ 68,616	$ 78,164	$ 87,267	$ 90,287	$ 94,627	$ 97,716	$ 99,511	$ 101,209
2012		73,124	81,859	97,215	113,943	121,026	128,567	133,606	137,430	139,719
2013			59,756	75,094	93,902	108,396	119,256	127,733	136,644	139,250
2014				41,421	58,601	76,302	89,899	101,366	110,374	117,971
2015					40,021	53,986	68,002	80,208	90,661	100,548
2016						36,268	50,905	65,409	78,145	90,356
2017							47,739	72,891	90,117	106,942
2018								30,903	50,274	69,123
2019									12,646	25,453
2020										5,589
Total										$ 896,159
All outstanding losses and loss adjustment expenses prior to 2011, net of reinsurance										$ 4,198
Total outstanding losses and loss adjustment expenses, net of reinsurance										$ 307,814

The reconciliation of the net incurred and paid claims development tables to the reserve for losses and loss adjustment expenses in the balance sheet at December 31, 2020 is as follows (in thousands):

Affiliated Excess and Surplus Lines	$ 194,529
Affiliated Specialty Admitted Lines	22,538
Affiliated Stop Loss Reinsurance	29,569
Third Party Reinsurance	307,814
Net reserve for losses and loss adjustment expenses	554,450
Reinsurance recoverables on unpaid losses	7,903
Gross reserve for losses and loss adjustment expenses	$ 562,353

5. Reserve for Losses and Loss Adjustment Expenses (continued)

The following is unaudited supplementary information about average annual percentage payouts of incurred claims by age, net of reinsurance, for the Affiliated Excess and Surplus Lines, Affiliated Specialty Admitted Lines, Affiliated Stop Loss Reinsurance and Third Party Reinsurance as of December 31, 2020:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Affiliated Excess and Surplus Lines	12.3%	19.3%	17.3%	16.1%	12.3%	5.5%	5.4%	4.0%	2.2%	1.8%
Affiliated Specialty Admitted	24.0%	29.0%	15.3%	13.6%	7.9%	3.7%	1.8%	0.5%	1.2%	1.3%
Affiliated Stop Loss Reinsurance	0.0%	0.0%	0.0%	0.0%	19.7%	18.5%	15.5%	7.6%	6.3%	4.8%
Third Party Reinsurance	22.1%	15.9%	11.6%	8.5%	6.6%	5.2%	4.1%	3.5%	3.4%	2.9%

The Third Party Reinsurance typically assumes written premium under quota share arrangements. The Company typically does not have direct access to claim frequency information underlying its assumed quota share arrangements given the nature of that business. In addition, multiple claims are often aggregated by the ceding company before being reported to the Company. Affiliated Stop Loss Reinsurance and Third Party Reinsurance claim frequency information is not used in the determination of loss reserves or for other internal purposes. Based on these considerations, the Company does not believe providing claims frequency information is practicable as it relates to the Third Party Reinsurance and Affiliated Stop Loss Reinsurance.

The table below provides information on IBNR liabilities and claims frequency for the Affiliated Excess and Surplus Lines and the Affiliated Specialty Admitted Lines; and information on IBNR liabilities for the Affiliated Stop Loss Reinsurance and Third Party Reinsurance. The Company measures claim counts by claim event, except for individual risk workers compensation claims, which are measured by individual claimant. The claim counts include all claims reported, even if the Company does not establish a liability for the claim (i.e. reserve for loss and loss adjustment expenses).

Affiliated Excess and Surplus Lines

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR	Cumulative # of Reported Claims
		($ in thousands)	
2011	$ 71,433	$ 1,342	$ 1,467
2012	72,831	920	1,829
2013	54,674	2,208	2,526
2014	72,633	4,497	9,951
2015	95,540	3,602	44,341
2016	183,561	11,654	92,085
2017	285,626	21,086	137,104
2018	44,842	20,088	28,077
2019	3,248	3,236	412
2020	-	-	9

5. Reserve for Losses and Loss Adjustment Expenses (continued)

Affiliated Specialty Admitted

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR	Cumulative # of Reported Claims
		($ in thousands)	
2011	$ 23,865	$ 284	$ 1,195
2012	18,683	408	1,323
2013	7,076	177	562
2014	10,429	331	1,708
2015	17,086	596	2,338
2016	20,401	2,364	3,650
2017	30,448	5,750	7,858
2018	13,103	5,193	3,634
2019	-	-	-
2020	-	-	-

Affiliated Stop Loss Reinsurance

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR
		($ in thousands)
2018	$ 5,113	$ 5,113
2019	5,241	5,241
2020	19,215	19,215

Third Party Reinsurance

Accident Year	Incurred Losses and Loss Adj Expenses	IBNR
		($ in thousands)
2011	$ 106,226	$ 819
2012	147,413	1,566
2013	149,682	2,427
2014	130,822	3,200
2015	120,185	5,147
2016	114,979	9,091
2017	138,831	17,173
2018	125,715	31,058
2019	85,549	49,717
2020	80,374	61,595

5. Reserve for Losses and Loss Adjustment Expenses (continued)

The Company has not provided insurance coverage that could reasonably be expected to produce material levels of asbestos claims activity. In addition, management does not believe that the Company is exposed to any environmental liability claims other than those which it has specifically underwritten and priced as an environmental exposure.

6. Reinsurance

The Company remains liable to policyholders if its reinsurers are unable to meet their contractual obligations under applicable reinsurance agreements. To minimize exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk. The Company's ceded reinsurance contracts generally require reinsurers with financial strength ratings below specified levels to fund their share of the Company's ceded outstanding losses and loss adjustment expense reserves, typically through the use of irrevocable and unconditional letters of credit or trust accounts.

At December 31, 2020, the Company had reinsurance recoverables on unpaid losses of $7.9 million. All material reinsurance recoverable amounts are from companies with A.M. Best Company ratings of "A-" (Excellent) or better, or are collateralized by a trust agreement.

At December 31, 2020, reinsurance recoverables on unpaid losses from the Company's two largest reinsurers were $4.8 million and $1.4 million, representing 78.3% of the total balance. At December 31, 2020, the Company had prepaid reinsurance premiums of $10.2 million, which were all ceded to one reinsurer.

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

	Year Ended December 31,	
	2020	**2019**
	(in thousands)	
Earned premiums:		
Assumed	$ 187,072	$ 199,788
Ceded	(7,841)	(2,629)
Net	$ 179,231	$ 197,159
Losses and loss adjustment expenses:		
Assumed	$ 156,717	$ 182,524
Ceded	(3,876)	(2,099)
Net	$ 152,841	$ 180,426

7. Related Party Transactions

The Company entered into quota share reinsurance agreements with its affiliated U.S. insurance companies: James River Insurance Company, James River Casualty Company, Falls Lake National Insurance Company, Stonewood Insurance Company, Falls Lake General Insurance Company, and Falls Lake Fire and Casualty Company, under which 70% of the premiums written by the affiliated U.S. insurance companies are ceded to JRG Re. Effective January 1, 2018, all intercompany reinsurance agreements between the Company and its affiliated U.S. insurance companies were discontinued and the Company entered into a stop loss reinsurance agreement with Carolina Re, a Bermuda-domiciled, wholly owned subsidiary of James River Group, Inc. and a Class 3A reinsurer. Carolina Re assumes 70% of the written premium of the affiliated U.S. insurance companies since 2018. Total written premium ceded to JRG Re under the intercompany reinsurance agreements was $47.5 million and $56.7 million for the years ended December 31, 2020 and 2019, respectively. Amounts related to the intercompany reinsurance agreements are as follows:

	Year Ended December 31,	
	2020	**2019**
	(in thousands)	
Income Statement		
Assumed premiums written	$ 47,499	$ 56,655
Assumed premiums earned	45,098	53,279
Assumed losses and loss adjustment expenses	34,690	71,317
Assumed other underwriting expenses	294	1,099
Net income (loss) effect of quota share reinsurance with affiliates	10,113	(19,137)
Balance Sheet		
Assumed premiums receivable [1]	23,176	22,470
Assumed deferred policy acquisition costs	10	347
Assumed reserves for losses and loss adjustment expenses	246,635	327,487
Assumed unearned premiums	18,522	16,120
Assumed payables to affiliate insurance companies	7,038	34,410

[1] In 2018, the Company provided funds withheld of $9.7 million as collateral under the quota share reinsurance agreement with Falls Lake Fire and Casualty. At December 31, 2020 and 2019, the accrued interest on funds withheld were $0.5 million and $0.3 million, respectively. The interest income from the funds withheld was $0.2 million and $0.2 million for the years ended December 31, 2020 and 2019, respectively.

The Company paid dividends to JRG Holdings of $8.0 million in December 2019.

JRG Holdings contributed $90.0 million as additional capital to the Company during the year ended December 31, 2020.

The Company had $19.4 million and $18.8 million receivable from JRG Holdings in the ordinary course of business as at December 31, 2020 and 2019, respectively.

8. Income Taxes

Under current Bermuda law, JRG Re is not required to pay any Bermuda taxes on its income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

FASB ASC Topic 740, *Income Taxes*, defines how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements and requires entities to recognize a tax benefit from an uncertain tax position

8. Income Taxes (continued)

only if it is "more likely than not" that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. The Company has evaluated its tax positions taken to determine whether the tax positions are more likely than not to be sustained by the applicable tax authority. Based on this analysis, there were no tax positions deemed to meet a "more likely than not" threshold. Therefore, no tax expense, including any interest and penalties, was recorded for the periods covered by this report.

The U.S. imposes a 1% excise tax on reinsurance premiums paid to non-U.S. reinsurers with respect to risks located in the U.S. The rates of tax are established based on the nature of the risk, unless reduced by an applicable U.S. tax treaty. For the years ended December 31, 2020 and 2019, the Company paid $468,000 and $586,000, respectively, of federal excise taxes on its intercompany reinsurance transactions.

The Company also paid excise taxes of $1.2 million and $1.5 million for the years ended December 31, 2020 and 2019, respectively, on written premiums assumed from third-party insurers with respect to risks located in the U.S. These excise taxes are reflected as "other underwriting and operating expenses" in the Company's income statements.

9. Other Underwriting and Operating Expenses

Other underwriting and operating expenses consist of the following:

	Year Ended December 31,	
	2020	**2019**
	(in thousands)	
Amortization of policy acquisition costs	$ 31,010	$ 38,960
General and administration expenses	4,082	4,603
Total	$ 35,092	$ 43,563

10. Employee Benefits

JRG Holdings offers a savings plan (the "Savings Plan") which qualifies under Section 401(k) of the U.S. Internal Revenue Code. Participants may contribute certain percentages of their pre-tax salary to the Savings Plan subject to statutory limitations. The Company matches employee contributions at various rates up to a maximum contribution of 6.0% of the participant's earnings subject to certain statutory limits. For the years ended December 31, 2020 and 2019, the expense associated with the Savings Plan totaled $92,000 and $92,000, respectively.

11. Commitments and Contingent Liabilities

The Company is a party to various lawsuits arising in the ordinary course of its operations. The Company believes that the ultimate resolution of these matters will not materially impact its financial position, cash flows, or results of operations.

The Company leases certain office space under an operating lease that expires at June 15, 2021 and is subject to renewal option at market rates prevailing at the time of renewal. Rental expense for such lease was $322,000 and $316,000 for the years ended December 31, 2020 and 2019, respectively.

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

11. Commitments and Contingent Liabilities (continued)

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

At December 31, 2020 and 2019, lease liabilities and right-of-use assets associated with the Company's operating leases were $96,000 and $299,000, and $103,000 and $303,000, respectively. The right-of-use assets and lease liabilities are included in other assets and other liabilities on the Company's balance sheet. The discount rate and remaining lease term for operating leases was 3.8% and 0.5 years, respectively, as of December 31, 2020.

As of December 31, 2020, future minimum payment under non-cancelable operating lease is $162,000 due in 2021.

The Company and JRG Holdings participate on a $315.0 million senior revolving credit facility (as amended and restated, the "2013 Facility") comprised of a $102.5 million secured revolving facility utilized by the Company to issue letters of credit for the benefit of third party reinsureds, and a $212.5 million unsecured revolving credit facility for the benefit of JRG Holdings to meet its working capital needs. The credit facility has been amended from time to time since its inception in 2013. On November 8, 2019, JRG Holdings entered into a Second Amended and Restated Credit Agreement for the credit facility which, among other things, extended the maturity date of the credit facility until November 8, 2024, increased the amount available under the unsecured revolving credit facility to $212.5 million, lowered the applicable interest rate and letter of credit fees, and modified certain negative covenants to be less restrictive. At December 31, 2020 and 2019, a $185.8 million and $133.3 million, respectively, drawn and outstanding balance on the revolver was carried as debt at JRG Holdings. The credit facility contains certain financial and other covenants with which JRG Holdings and the Company are in compliance at December 31, 2020.

A subsidiary of the bank holding company is one of the lenders for the credit facility, with a $36.0 million commitment allocation on the total credit facility.

On August 2, 2017, the Company and JRG Holdings ("Borrowers") entered into a credit agreement ("2017 Facility"). The credit agreement provides the Borrowers with a revolving line of credit of up to $100.0 million, which may be used for loans and letters of credit made or issued, at Borrowers' option, on a secured or unsecured basis. The loans and letters of credit made or issued under the revolving line of credit may be used to finance the Borrowers' general corporate purposes. At December 31, 2020 and 2019, a $61.5 million and $10.0 million, respectively, unsecured loan was carried as debt at JRG Holdings. The credit agreement contains certain financial and other covenants with which JRG Holdings and the Company are in compliance at December 31, 2020.

The Company has entered into three letter of credit facilities with banks as security to third-party reinsureds on reinsurance assumed by the Company. The Company has established custodial accounts to secure these letters of credit. Under a $75.0 million facility, $7.3 million of letters of credit were issued through December 31, 2020 which were secured by deposits of $14.6 million. Under the 2013 Facility, a $102.5 million secured facility described above, $92.0 million of letters of credit were issued through December 31, 2020 which were secured by deposits of $115.7 million. Under the 2017 Facility described above, $17.5 million of letters of credit were issued through December 31, 2020 which were secured by deposits of $28.4 million. The Company also has established trust accounts to secure its obligations to selected reinsureds. The total amount deposited in the trust accounts for the benefit of third-party reinsureds was $304.6 million at December 31, 2020. Another $221.4 million was also in trust accounts at December 31, 2020 securing the Company's obligations under quota share reinsurance agreements with its affiliated U.S. insurance companies.

12. Other Comprehensive Income

The following table summarizes the components of other comprehensive income:

	Year Ended December 31, 2020	2019
	(in thousands)	
Unrealized gains arising during the period	$ 25,666	$ 34,268
Reclassification adjustment for net investment gains realized in net income	3,260	3,008
Net unrealized gains	$ 22,406	$ 31,260

In addition to the $3.3 million and $3.0 million of realized investment gains on available-for-sale securities for the years ended December 31, 2020 and 2019, respectively, the Company recognized $10.4 million and $6.2 million of net realized and unrealized losses in the respective years on its investments in bank loan participations and $526,000 and $1.1 million of net realized and unrealized losses, respectively, on equity securities.

13. Broker and Ceding Company Concentrations

The Company conducts business with four brokers that generated $55.8 million, $34.9 million, $22.4 million and $9.8 million of assumed written premiums for the Company for the year ended December 31, 2020, representing 37.4%, 23.4%, 15.0% and 6.6%, respectively, of the assumed written premiums from unaffiliated cedents. No other broker generated 10.0% or more of the assumed written premiums for the Company for the year ended December 31, 2020. The Company assumes business from three unaffiliated ceding companies that generated $85.1 million, $23.1 million and $19.1 million of assumed written premiums for the year ended December 31, 2020, representing 57.0%, 15.5% and 12.8%, respectively, of the assumed written premiums from unaffiliated cedents.

14. Fair Value Measurements

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

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

The fair values of fixed maturity securities, equity securities, and bank loan participations have been determined using fair value prices provided by the Company's investment accounting services provider or investment managers, who utilize internationally recognized independent pricing services. The prices provided by the independent pricing services are generally based on observable market data in active markets (e.g. broker quotes and prices observed for comparable securities). Values for U.S. Treasury and publicly-traded equity securities are generally based on Level 1 inputs which use the market approach valuation technique. The values for all other fixed maturity securities (including state and municipal securities and obligations of U.S. government corporations and agencies) and bank loan participations generally incorporate significant Level 2 inputs, and in some cases, Level 3 inputs, using the market approach and income approach valuation techniques. There have been no changes in the Company's use of valuation techniques since December 31, 2018.

The Company reviews fair value prices provided by its outside investment accounting service provider or investment managers for reasonableness by comparing the fair values provided by the managers to those provided by its investment custodian. The Company also reviews and monitors changes in unrealized gains and losses. The

14. Fair Value Measurements (continued)

Company has not historically adjusted security prices. The Company obtains an understanding of the methods, models and inputs used by the investment managers and independent pricing services, and controls are in place to validate that prices provided represent fair values. The Company's control process includes, but is not limited to, initial and ongoing evaluation of the methodologies used, a review of specific securities and an assessment for proper classification within the fair value hierarchy, and obtaining and reviewing internal control reports for our investment manager that obtains fair values from independent pricing services.

Assets measured at fair value on a recurring basis as of December 31, 2020 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	$ –	$ 107,205	$ –	$ 107,205
Residential mortgage-backed	–	149,382	–	149,382
Corporate	–	319,120	–	319,120
Commercial mortgage and asset-backed	–	121,126	–	121,126
U.S. Treasury securities and obligations guaranteed by the U.S. government	54,679	–	–	54,679
Total available-for-sale securities	$ 54,679	$ 696,833	$ –	$ 751,512
Equity securities - common	$ –	$ 948	$ 427	$ 1,375
Bank loan participations	$ –	$ 99,560	$ 192	$ 99,752
Short-term investments	$ –	$ 107,728	$ –	$ 107,728

14. Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis as of December 31, 2019 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	$ –	$ 57,610	$ –	$ 57,610
Residential mortgage-backed	–	146,916	–	146,916
Corporate	–	297,929	–	297,929
Commercial mortgage and asset-backed	–	118,667	–	118,667
U.S. Treasury securities and obligations guaranteed by the U.S. government	59,208	–	–	59,208
Total available-for-sale securities	$ 59,208	$ 621,122	$ –	$ 680,330
Equity securities - common	$ 1,221	$ –	$ 27	$ 1,248
Short-term investments	$ –	$ 63,871	$ –	$ 63,871

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

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Beginning balance	$ 27	$ 4,361
Transfers in to Level 3	223	1,776
Transfers out of Level 3	(479)	(6,004)
Purchases	892	–
Sales	–	–
Maturities and calls	(11)	–
Amortization of discount	1	–
Total gains or losses (realized/unrealized):		
Included in earnings	(34)	(106)
Included in other comprehensive income	–	–
Ending balance	$ 619	$ 27

14. Fair Value Measurements (continued)

The Company held one equity security at December 31, 2019 for which the fair value was determined using significant unobservable inputs (Level 3). A market approach using prices in trades of comparable securities was utilized to determine a fair value for the equity security of $27,000 at December 31, 2019. During 2019, one equity security was transferred from Level 1 to Level 3 as the security was no longer actively traded. The Company was subsequently able to obtain a quoted price from a pricing vendor for the equity security and it was transferred from Level 3 to Level 2.

During 2020, the Company was able to obtain a quoted price from a vendor for two bank loan participations and one equity security and transferred them to Level 2. At December 31, 2020, the Company held one bank loan participation and two equity securities for which the fair value was determined using significant unobservable inputs (Level 3). A market approach using prices in trades of comparable securities was utilized to determine a fair value of $619,000.

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

There were no transfers between Level 1 and Level 2 during 2020 or 2019. The Company recognizes transfers between levels at the beginning of the reporting period.

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

	Fair Value Measurements Using			
	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, 2019				
Bank loan participations held-for-investment	$ –	$ –	$ 4,179	$ 4,179

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

14. Fair Value Measurements (continued)

securities using methods based on market transactions for comparable securities, and various relationships between securities, as generally recognized by institutional dealers. For investments in which the investment manager determines that only one external pricing source is appropriate or if only one external price is available, the relevant investment is generally recorded at fair value based on such price.

Investments for which external sources are not available or are determined by the investment manager not to be representative of fair value are recorded at fair value as determined by the Company, with input from its investment managers and valuation specialists as considered necessary. In determining the fair value of such investments, the Company considers one or more of the following factors: type of security held, convertibility or exchangeability of the security, redeemability of the security (including the timing of redemptions), application of industry accepted valuation models, recent trading activity, liquidity, estimates of liquidation value, purchase cost, and prices received for securities with similar terms of the same issuer or similar issuers. There were no investments for which external sources were unavailable to determine fair value as of December 31, 2020 and 2019.

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

	December 31,			
	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Assets				
Fixed maturity securities, available-for sale	$ 751,512	$ 751,512	$ 680,330	$ 680,330
Equity securities - common	1,375	1,375	1,248	1,248
Bank loan participations (2019: held-for-investment)	99,752	99,752	182,661	177,147
Cash and cash equivalents	24,150	24,150	32,793	32,793
Short-term investments	107,728	107,728	63,871	63,871

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

15. Statutory Matters

Under the Bermuda Insurance Act 1978 and related regulations, an insurer must maintain minimum statutory capital and surplus at the greater of a minimum solvency margin (“MSM”) and the Enhanced Capital Requirement (“ECR”), which is the higher of the MSM and capital calculated by the Bermuda Solvency Capital Requirement (“BSCR”) model or an approved internal model. The Company’s minimum statutory solvency margin required at December 31, 2020 was approximately $102.0 million (2019: $91.7 million). Actual statutory capital and surplus at December 31, 2020 was $496.7 million (2019: $379.4 million). The Company had statutory net income of $10.5 million for 2020 and $3.5 million for 2019. The ECR for the year ended December 31, 2019 was $307.6 million. The BSCR model for the year ended December 31, 2020 will not be filed with the Bermuda Monetary Authority until April 30, 2021. The Company believes that the minimum statutory capital and surplus requirements will be met.

An insurer must also maintain a minimum liquidity ratio in which the value of its relevant assets is not less than 75.0% of the amount of its relevant liabilities for general business. Relevant assets include cash and cash equivalents, fixed maturities, quoted alternative investments, accrued interest income, premiums receivable, losses recoverable from reinsurers, and funds withheld. The relevant liabilities include total insurance provisions and other liabilities less

15. Statutory Matters (continued)

deferred income taxes and letters of credit, guarantees and other instruments. As of December 31, 2020 and 2019, the minimum liquidity ratio requirements were met.

The difference between GAAP shareholder's equity and statutory capital and surplus at December 31, 2020 of $203,000 (2019: $76,000) represents non-admitted assets which are eliminated for statutory reporting purposes.

The encumbered assets for securing policyholder obligations are summarized below:

	December 31, 2020	December 31, 2019
	(in thousands)	
Cash and cash equivalents	$ 9,971	$ 16,727
Fixed maturity securities	671,854	777,607
Funds held	65,861	65,394
Accrued investment income	2,946	3,845
Total	$ 750,632	$ 863,573

16. Dividend Restrictions

The Bermuda Insurance Act of 1978 prohibits an insurer from declaring or paying a dividend if it is in breach of its minimum solvency margin, its enhanced capital requirement, or its minimum liquidity ratio, or if the declaration or payment of such dividend would cause such a breach. An insurer can declare or pay dividends without prior regulatory approval up to 25% of the total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet). At December 31, 2020, the maximum amount of dividends that can be paid without prior regulatory approval was approximately $124.2 million. However, this dividend amount is subject to annual enhanced solvency requirement calculations.

17. Subsequent Events

Subsequent events were evaluated through April 8, 2021, the date that the financial statements were available to be issued. There were no subsequent events that impacted the financial statements.