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

# FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2019**

**or**

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _______ to _______**

**Commission File Number: 001-36777**

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

| | |
|---|---|
| **Bermuda** | **98-0585280** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**Wellesley House, 2nd Floor, 90 Pitts Bay Road, Pembroke HM08, Bermuda**
**(Address of principal executive offices)**
**(Zip Code)**

**(441) 278-4580**
**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer x    Accelerated filer o    Non-accelerated filer o    Smaller reporting company o    Emerging Growth Company o

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

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

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

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

Number of shares of the registrant's common shares outstanding at May 1, 2019: 30,163,234

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

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

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

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

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

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

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

## PART 1. FINANCIAL INFORMATION

### Item 1. Financial Statements

**JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES**

**Condensed Consolidated Balance Sheets**

| | (Unaudited) March 31, 2019 | December 31, 2018 |
|---|---|---|
| | *(in thousands)* | |
| **Assets** | | |
| Invested assets: | | |
| Fixed maturity securities, available-for-sale, at fair value (amortized cost: 2019 – $1,244,427; 2018 – $1,199,409) | $ 1,250,926 | $ 1,184,202 |
| Equity securities, at fair value (cost: 2019 – $79,623; 2018 – $77,152) | 84,405 | 78,385 |
| Bank loan participations held-for-investment, at amortized cost, net of allowance | 263,318 | 260,972 |
| Short-term investments | 92,134 | 81,966 |
| Other invested assets | 74,465 | 72,321 |
| Total invested assets | 1,765,248 | 1,677,846 |
| | | |
| Cash and cash equivalents | 132,552 | 172,457 |
| Accrued investment income | 11,836 | 11,110 |
| Premiums receivable and agents’ balances, net | 351,724 | 307,899 |
| Reinsurance recoverable on unpaid losses | 508,655 | 467,371 |
| Reinsurance recoverable on paid losses | 34,372 | 18,344 |
| Prepaid reinsurance premiums | 127,734 | 112,498 |
| Deferred policy acquisition costs | 56,318 | 54,450 |
| Intangible assets, net | 37,388 | 37,537 |
| Goodwill | 181,831 | 181,831 |
| Other assets | 91,593 | 95,433 |
| Total assets | $ 3,299,251 | $ 3,136,776 |

*See accompanying notes.*

**JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES**

**Condensed Consolidated Balance Sheets (continued)**

| | (Unaudited) March 31, 2019 | December 31, 2018 |
|---|---|---|
| | *(in thousands, except share amounts)* | |
| **Liabilities and Shareholders' Equity** | | |
| Liabilities: | | |
| Reserve for losses and loss adjustment expenses | $ 1,730,307 | $ 1,661,459 |
| Unearned premiums | 420,601 | 386,473 |
| Payables to reinsurers | 91,469 | 61,662 |
| Senior debt | 98,300 | 118,300 |
| Junior subordinated debt | 104,055 | 104,055 |
| Accrued expenses | 48,903 | 51,792 |
| Other liabilities | 51,319 | 43,794 |
| Total liabilities | 2,544,954 | 2,427,535 |
| Commitments and contingent liabilities | | |
| Shareholders' equity: | | |
| Common Shares – 2019 and 2018: $0.0002 par value; 200,000,000 shares authorized; 30,162,045 and 29,988,460 shares issued and outstanding, respectively | 6 | 6 |
| Preferred Shares – 2019 and 2018: $0.00125 par value; 20,000,000 shares authorized; no shares issued and outstanding | — | — |
| Additional paid-in capital | 648,242 | 645,310 |
| Retained earnings | 101,617 | 79,753 |
| Accumulated other comprehensive income (loss) | 4,432 | (15,828) |
| Total shareholders' equity | 754,297 | 709,241 |
| Total liabilities and shareholders' equity | $ 3,299,251 | $ 3,136,776 |

*See accompanying notes.*

**JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES**

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| | *(in thousands, except share amounts)* | |
| **Revenues** | | |
| Gross written premiums | $ 327,334 | $ 298,116 |
| Ceded written premiums | (119,593) | (87,138) |
| Net written premiums | 207,741 | 210,978 |
| Change in net unearned premiums | (17,589) | (10,036) |
| Net earned premiums | 190,152 | 200,942 |
| Net investment income | 19,431 | 13,256 |
| Net realized and unrealized gains (losses) on investments | 1,625 | (810) |
| Other income | 2,919 | 4,956 |
| Total revenues | 214,127 | 218,344 |
| **Expenses** | | |
| Losses and loss adjustment expenses | 139,927 | 143,772 |
| Other operating expenses | 45,752 | 54,783 |
| Other expenses | — | 4 |
| Interest expense | 2,808 | 2,522 |
| Amortization of intangible assets | 149 | 149 |
| Total expenses | 188,636 | 201,230 |
| Income before taxes | 25,491 | 17,114 |
| Income tax expense | 2,763 | 1,481 |
| **Net income** | 22,728 | 15,633 |
| Other comprehensive income (loss): | | |
| Net unrealized gains (losses), net of taxes of $1,446 in 2019 and $(544) in 2018 | 20,260 | (18,547) |
| **Total comprehensive income (loss)** | $ 42,988 | $ (2,914) |
| Per share data: | | |
| Basic earnings per share | $ 0.76 | $ 0.53 |
| Diluted earnings per share | $ 0.75 | $ 0.52 |
| Dividend declared per share | $ 0.30 | $ 0.30 |
| Weighted-average common shares outstanding: | | |
| Basic | 30,059,398 | 29,764,320 |
| Diluted | 30,472,304 | 30,193,303 |

*See accompanying notes.*

**JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES**

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

| | Number of Common Shares Outstanding | Common Shares (Par) | Preferred Shares | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|
| | *(in thousands, except share amounts)* | | | | | | |
| **Balances at December 31, 2017** | 29,696,682 | $ 6 | $ — | $ 636,149 | $ 48,198 | $ 10,346 | $ 694,699 |
| Net income | — | — | — | — | 15,633 | — | 15,633 |
| Other comprehensive loss | — | — | — | — | — | (18,547) | (18,547) |
| Dividends | — | — | — | — | (9,049) | — | (9,049) |
| Exercise of stock options | 127,196 | — | — | 2,355 | — | — | 2,355 |
| Vesting of RSUs | 42,827 | — | — | (776) | — | — | (776) |
| Compensation expense under share incentive plans | — | — | — | 1,455 | — | — | 1,455 |
| Cumulative effect of adoption of ASU No. 2016-01, net of taxes | — | — | — | — | 4,682 | (4,682) | — |
| Cumulative effect of adoption of ASU No. 2018-02 | — | — | — | — | (711) | 711 | — |
| **Balances at March 31, 2018** | 29,866,705 | $ 6 | $ — | $ 639,183 | $ 58,753 | $ (12,172) | $ 685,770 |
| **Balances at December 31, 2018** | 29,988,460 | $ 6 | $ — | $ 645,310 | $ 79,753 | $ (15,828) | $ 709,241 |
| Net income | — | — | — | — | 22,728 | — | 22,728 |
| Other comprehensive income | — | — | — | — | — | 20,260 | 20,260 |
| Dividends | — | — | — | — | (9,144) | — | (9,144) |
| Exercise of stock options | 98,975 | — | — | 2,632 | — | — | 2,632 |
| Vesting of RSUs | 74,610 | — | — | (1,374) | — | — | (1,374) |
| Compensation expense under share incentive plans | — | — | — | 1,674 | — | — | 1,674 |
| Adoption of ASU No. 2016-02, derecognition of build-to-suit lease, (see Note 1) | — | — | — | — | 8,280 | — | 8,280 |
| **Balances at March 31, 2019** | 30,162,045 | $ 6 | $ — | $ 648,242 | $ 101,617 | $ 4,432 | $ 754,297 |

*See accompanying notes.*

JAMES RIVER GROUP HOLDINGS, LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (in thousands) | |
| **Operating activities** | | |
| Net cash provided by operating activities | $ 35,450 | $ 48,461 |
| **Investing activities** | | |
| Securities available-for-sale: | | |
| Purchases – fixed maturity securities | (130,362) | (118,652) |
| Sales – fixed maturity securities | 45,466 | 26,392 |
| Maturities and calls – fixed maturity securities | 39,215 | 45,245 |
| Purchases – equity securities | (2,753) | (5,949) |
| Sales – equity securities | 263 | 766 |
| Bank loan participations: | | |
| Purchases | (21,746) | (66,059) |
| Sales | 6,602 | 35,708 |
| Maturities | 11,355 | 11,427 |
| Other invested assets: | | |
| Purchases | — | (4,992) |
| Return of capital | 260 | — |
| Short-term investments, net | (10,168) | 10,569 |
| Securities receivable or payable, net | 14,643 | 12,576 |
| Purchases of property and equipment | (144) | (275) |
| Net cash used in investing activities | (47,369) | (53,244) |
| **Financing activities** | | |
| Senior debt repayment | (20,000) | — |
| Dividends paid | (9,244) | (9,074) |
| Issuance of common shares under equity incentive plans | 2,632 | 2,862 |
| Common share repurchases | (1,374) | (1,283) |
| Other financing activities | — | (171) |
| Net cash used in financing activities | (27,986) | (7,666) |
| Change in cash and cash equivalents | (39,905) | (12,449) |
| Cash and cash equivalents at beginning of period | 172,457 | 163,495 |
| Cash and cash equivalents at end of period | $ 132,552 | $ 151,046 |
| **Supplemental information** | | |
| Interest paid | $ 3,339 | $ 2,509 |

*See accompanying notes.*

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

## 1. Accounting Policies

### Organization

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

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

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

### Basis of Presentation

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

Intercompany transactions and balances have been eliminated.

### Estimates and Assumptions

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

### Variable Interest Entities

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

The Company holds interests in VIEs through certain equity method investments included in “other invested assets” in the accompanying condensed consolidated balance sheets. The Company has determined that it should not consolidate any of the VIEs as it is not the primary beneficiary in any of the relationships. Although the investments resulted in the Company holding variable interests in the entities, they did not empower the Company to direct the activities that most significantly impact the economic performance of the entities. The Company’s investments related to these VIEs totaled $30.5 million and $29.8 million as of March 31, 2019 and December 31, 2018, respectively, representing the Company’s maximum exposure to loss.

**Income Tax Expense**

Our effective tax rate fluctuates from period to period based on the relative mix of income reported by country and the respective tax rates imposed by each tax jurisdiction. For the three months ended March 31, 2019 and 2018, our U.S. federal income tax expense was 10.8% and 8.7% of income before taxes, respectively. For U.S.-sourced income, the Company’s U.S. federal income tax expense differs from the amounts computed by applying the federal statutory income tax rate to income before taxes due primarily to interest income on tax-advantaged state and municipal securities, dividends received income, and excess tax benefits on share based compensation.

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

**Adopted Accounting Standards**

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

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

At March 31, 2019, right-of-use assets and lease liabilities were $16.4 million and $17.3 million, respectively. Operating lease costs were $1.2 million in the three months ended March 31, 2019 compared to $1.0 million in the prior year period. The weighted-average discount rate and weighted average remaining lease term for operating leases was 4.3% and 6.0 years, respectively, as of March 31, 2019.

The table below summarizes maturities of the Company’s operating lease liabilities as of March 31, 2019, which reconciles to total lease liabilities included in other liabilities on the Company’s condensed consolidated balance sheet.

| Years ending December 31, | | *(in thousands)* |
| --- | --- | --- |
| 2019 | $ | 2,863 |
| 2020 | | 3,622 |
| 2021 | | 3,432 |
| 2022 | | 2,639 |
| 2023 | | 2,376 |
| Thereafter | | 4,706 |
| Total lease payments | | 19,638 |
| Less imputed interest | | (2,330) |
| Total operating lease liabilities | $ | 17,308 |

**Prospective Accounting Standards**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Current GAAP delays the recognition of credit losses until it is probable a loss has been incurred. The update will require financial assets measured at amortized cost, such as bank loan participations held for investment, to be presented at the net amount expected to be collected by means of an allowance for credit losses that runs through net income. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses, with the amount of the allowance limited to the amount by which fair value is below amortized cost. This ASU is effective for annual and interim reporting periods beginning after December 15, 2019. Upon adoption, this ASU will be applied using the modified-retrospective approach, by which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period presented. The Company has not yet completed the analysis of how adopting this ASU will affect the Company's financial statements.

## 2. Investments

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

| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| **March 31, 2019** | | | | |
| Fixed maturity securities: | | | | |
| State and municipal | $ 136,472 | $ 5,185 | $ (315) | $ 141,342 |
| Residential mortgage-backed | 225,702 | 1,257 | (3,415) | 223,544 |
| Corporate | 548,772 | 6,482 | (2,760) | 552,494 |
| Commercial mortgage and asset-backed | 204,612 | 1,233 | (1,328) | 204,517 |
| U.S. Treasury securities and obligations guaranteed by the U.S. government | 126,844 | 600 | (449) | 126,995 |
| Redeemable preferred stock | 2,025 | 9 | — | 2,034 |
| Total fixed maturity securities, available-for-sale | $ 1,244,427 | $ 14,766 | $ (8,267) | $ 1,250,926 |
| **December 31, 2018** | | | | |
| Fixed maturity securities: | | | | |
| State and municipal | $ 147,160 | $ 3,422 | $ (1,287) | $ 149,295 |
| Residential mortgage-backed | 208,869 | 577 | (5,337) | 204,109 |
| Corporate | 534,024 | 1,516 | (10,772) | 524,768 |
| Commercial mortgage and asset-backed | 199,528 | 310 | (2,813) | 197,025 |
| U.S. Treasury securities and obligations guaranteed by the U.S. government | 107,803 | 235 | (845) | 107,193 |
| Redeemable preferred stock | 2,025 | — | (213) | 1,812 |
| Total fixed maturity securities, available-for-sale | $ 1,199,409 | $ 6,060 | $ (21,267) | $ 1,184,202 |

The amortized cost and fair value of available-for-sale investments in fixed maturity securities at March 31, 2019 are summarized, by contractual maturity, as follows:

| | Cost or Amortized Cost | Fair Value |
|---|---|---|
| | *(in thousands)* | |
| One year or less | $ 39,494 | $ 39,447 |
| After one year through five years | 438,067 | 440,339 |
| After five years through ten years | 229,483 | 231,221 |
| After ten years | 105,044 | 109,824 |
| Residential mortgage-backed | 225,702 | 223,544 |
| Commercial mortgage and asset-backed | 204,612 | 204,517 |
| Redeemable preferred stock | 2,025 | 2,034 |
| Total | $ 1,244,427 | $ 1,250,926 |

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 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)* | | | | | |
| **March 31, 2019** | | | | | | |
| Fixed maturity securities: | | | | | | |
| State and municipal | $ — | $ — | $ 29,279 | $ (315) | $ 29,279 | $ (315) |
| Residential mortgage-backed | 6,153 | (3) | 131,841 | (3,412) | 137,994 | (3,415) |
| Corporate | 8,471 | (41) | 199,649 | (2,719) | 208,120 | (2,760) |
| Commercial mortgage and asset-backed | 61,747 | (568) | 65,718 | (760) | 127,465 | (1,328) |
| U.S. Treasury securities and obligations guaranteed by the U.S. government | 6,692 | (4) | 45,323 | (445) | 52,015 | (449) |
| Total fixed maturity securities, available-for-sale | $ 83,063 | $ (616) | $ 471,810 | $ (7,651) | $ 554,873 | $ (8,267) |
| **December 31, 2018** | | | | | | |
| Fixed maturity securities: | | | | | | |
| State and municipal | $ 19,733 | $ (284) | $ 47,018 | $ (1,003) | $ 66,751 | $ (1,287) |
| Residential mortgage-backed | 49,180 | (743) | 105,778 | (4,594) | 154,958 | (5,337) |
| Corporate | 243,384 | (5,089) | 155,902 | (5,683) | 399,286 | (10,772) |
| Commercial mortgage and asset-backed | 106,423 | (1,229) | 51,805 | (1,584) | 158,228 | (2,813) |
| U.S. Treasury securities and obligations guaranteed by the U.S. government | 17,618 | (51) | 54,201 | (794) | 71,819 | (845) |
| Redeemable preferred stock | 1,812 | (213) | — | — | 1,812 | (213) |
| Total fixed maturity securities, available-for-sale | $ 438,150 | $ (7,609) | $ 414,704 | $ (13,658) | $ 852,854 | $ (21,267) |

The Company held securities of 163 issuers that were in an unrealized loss position at March 31, 2019 with a total fair value of $554.9 million and gross unrealized losses of $8.3 million. None of the fixed maturity securities with unrealized losses has ever missed, or been delinquent on, a scheduled principal or interest payment.

At March 31, 2019, 99.5% of the Company's fixed maturity security portfolio was rated "BBB-" or better ("investment grade") by Standard & Poor's or received an equivalent rating from another nationally recognized rating agency. Fixed maturity securities with ratings below investment grade by Standard & Poor's or another nationally recognized rating agency at March 31, 2019 had an aggregate fair value of $6.8 million and an aggregate net unrealized gain of $23,000.

Management concluded that three fixed maturity securities from one issuer that we intend to sell at a loss in the second quarter were impaired as of March 31, 2019. The Company recorded impairment losses on these securities of $271,000 in the three months ended March 31, 2019. Management concluded that none of the fixed maturity securities with an unrealized loss at December 31, 2018 experienced an other-than-temporary impairment. For fixed maturity securities available-for-sale that are not other-than-temporarily impaired at March 31, 2019, management does not intend to sell the securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs.

Management concluded that two of the loans in the Company's bank loan portfolio were impaired at March 31, 2019. At March 31, 2019, the impaired loans had a carrying value of $4.4 million, unpaid principal of $5.9 million, and an allowance for credit losses of $1.5 million. Management concluded that none of the loans in the Company's bank loan portfolio were impaired at December 31, 2018. The aggregate allowance for credit losses on impaired loans was $300,000 at March 31, 2018 and $3.2 million at December 31, 2017.

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

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

Generally, the accrual of interest on a bank loan participation is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest. A bank loan participation may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Generally, bank loan participations are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest received on nonaccrual loans generally is reported as investment income. There were no bank loans on nonaccrual status at March 31, 2019 or December 31, 2018.

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

The average recorded investment in impaired bank loans was $2.2 million and $3.4 million during the three months ended March 31, 2019 and 2018, respectively. Investment income of $0 and $20,000, respectively, was recognized during the time within those periods that the loans were impaired. The Company recorded net realized investment losses of $1.5 million and net realized investment gains of $3,000 in the three months ended March 31, 2019 and 2018, respectively, for changes in the fair value of impaired bank loans.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (in thousands) | |
| Fixed maturity securities: | | |
| Gross realized gains | $ 177 | $ 22 |
| Gross realized losses | (405) | (223) |
| | (228) | (201) |
| Bank loan participations: | | |
| Gross realized gains | 13 | 1,220 |
| Gross realized losses | (1,692) | (100) |
| | (1,679) | 1,120 |
| Equity securities: | | |
| Gross realized gains | — | — |
| Gross realized losses | (18) | (15) |
| Changes in fair values of equity securities | 3,549 | (1,710) |
| | 3,531 | (1,725) |
| Short-term investments and other: | | |
| Gross realized gains | 1 | — |
| Gross realized losses | — | (4) |
| | 1 | (4) |
| Total | $ 1,625 | $ (810) |

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

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

| | Carrying Value | | Investment Income Three Months Ended March 31, | |
|---|---|---|---|---|
| | March 31, 2019 | December 31, 2018 | 2019 | 2018 |
| | (in thousands) | | | |
| Renewable energy LLCs *(a)* | $ 30,462 | $ 29,795 | $ 921 | $ 1,211 |
| Renewable energy notes receivable *(b)* | 8,750 | 8,750 | 328 | 297 |
| Limited partnerships *(c)* | 30,753 | 29,276 | 2,069 | 226 |
| Bank holding companies *(d)* | 4,500 | 4,500 | 86 | 86 |
| Total other invested assets | $ 74,465 | $ 72,321 | $ 3,404 | $ 1,820 |

(a) The Company’s Corporate and Other segment owns equity interests ranging from 2.6% to 32.2% in various LLCs whose principal objective is capital appreciation and income generation from owning and operating renewable energy production facilities (wind and solar). The LLCs are managed by an entity for which two of our directors serve as officers, and the Company’s Non-Executive Chairman has invested in certain of these LLCs. The equity method is used to account for the Company’s LLC investments. Income for the LLCs primarily reflects adjustments to the carrying values of investments in renewable energy projects to their determined fair values. The fair value adjustments are included in revenues for the LLCs. Expenses for the LLCs are not significant and are comprised of administrative and interest expenses. The Company received cash distributions from these investments totaling $253,000 and $1.2 million in the three months ended March 31, 2019 and 2018, respectively.

(b) The Company's Corporate and Other segment has invested in notes receivable for renewable energy projects. At March 31, 2019, the Company holds an $8.8 million note issued by an entity for which two of our directors serve as officers. Interest on the note, which matures in 2021, is fixed at 15.0%. Interest income on the note was $328,000 and $297,000 for the three months ended March 31, 2019 and 2018, respectively.

(c) The Company owns investments in limited partnerships that invest in concentrated portfolios including publicly-traded small cap equities, loans of middle market private equity sponsored companies, equity tranches of collateralized loan obligations (“CLOs”), and tranches of distressed home loans. Income from the partnerships is recognized under the equity method of accounting. The Company’s Corporate and Other segment held an investment in a limited partnership with a carrying value of $3.6 million at March 31, 2019. The Company recognized investment income of $481,000 and investment losses of $125,000 on the investment for the three months ended March 31, 2019 and 2018, respectively. The Company’s Excess and Surplus Lines segment holds investments in limited partnerships of $27.2 million at March 31, 2019. Investment income of $1.6 million and $351,000 was recognized on the investments for the three months ended March 31, 2019 and 2018, respectively. At March 31, 2019, the Company’s Excess and Surplus Lines segment has outstanding commitments to invest another $625,000 in these limited partnerships.

(d) The Company's Corporate and Other segment holds $4.5 million of subordinated notes issued by a bank holding company for which the Company’s Non-Executive Chairman was previously the Lead Independent Director and an investor and for which one of the Company’s directors was an investor and is currently a lender (the "Bank Holding Company"). Interest on the notes, which mature on August 12, 2023, is fixed at 7.6% per annum. Interest income on the notes was $86,000 in both the three months ended March 31, 2019 and 2018, respectively.

At March 31, 2019 and December 31, 2018, the Company held an investment in a CLO where one of the underlying loans was issued by the Bank Holding Company. The investment, with a carrying value of $3.8 million at March 31, 2019, is classified as an available-for-sale fixed maturity.

## 3. Goodwill and Intangible Assets

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

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

| | | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|---|
| | 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 | 8,964 | — | 8,964 | — |
| Identifiable intangibles not subject to amortization | | 31,164 | — | 31,164 | — |
| Broker relationships | 24.6 | 11,611 | 5,387 | 11,611 | 5,238 |
| Identifiable intangible assets subject to amortization | | 11,611 | 5,387 | 11,611 | 5,238 |
| | | $ 42,775 | $ 5,387 | $ 42,775 | $ 5,238 |

## 4. Earnings Per Share

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | *(in thousands, except share and per share amounts)* | |
| Net income to shareholders | $ 22,728 | $ 15,633 |
| | | |
| Weighted average common shares outstanding: | | |
| Basic | 30,059,398 | 29,764,320 |
| Common share equivalents | 412,906 | 428,983 |
| Diluted | 30,472,304 | 30,193,303 |
| | | |
| Earnings per share: | | |
| Basic | $ 0.76 | $ 0.53 |
| Common share equivalents | (0.01) | (0.01) |
| Diluted | $ 0.75 | $ 0.52 |

Common share equivalents relate to our outstanding equity awards (stock options and restricted share units ("RSUs")). For the three months ended March 31, 2019 and 2018, common share equivalents of 171,509 and 192,817 shares, respectively, were excluded from the calculations of diluted earnings per share 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 condensed consolidated balance sheets:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | *(in thousands)* | |
| Reserve for losses and loss adjustment expenses net of reinsurance recoverables at beginning of period | $ 1,194,088 | $ 989,825 |
| Add: Incurred losses and loss adjustment expenses net of reinsurance: | | |
| Current year | 138,959 | 146,382 |
| Prior years | 968 | (2,610) |
| Total incurred losses and loss and adjustment expenses | 139,927 | 143,772 |
| Deduct: Loss and loss adjustment expense payments net of reinsurance: | | |
| Current year | 4,679 | 12,177 |
| Prior years | 107,684 | 83,117 |
| Total loss and loss adjustment expense payments | 112,363 | 95,294 |
| Reserve for losses and loss adjustment expenses net of reinsurance recoverables at end of period | 1,221,652 | 1,038,303 |
| Add: Reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period | 508,655 | 331,245 |
| Reserve for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of period | $ 1,730,307 | $ 1,369,548 |

The Company experienced $1.0 million of adverse reserve development in the three months ended March 31, 2019 on the reserve for losses and loss adjustment expenses held at December 31, 2018. This reserve development included $10,000 of favorable development in the Excess and Surplus Lines segment. The Specialty Admitted Insurance segment experienced $2.0 million of favorable development due to favorable development in the workers' compensation business for prior accident years. The Company also experienced $3.0 million of adverse development in the Casualty Reinsurance segment primarily related to losses from risk profiles and treaty structures that the Company no longer writes.

The Company experienced $2.6 million of favorable reserve development in the three months ended March 31, 2018 on the reserve for losses and loss adjustment expenses held at December 31, 2017. This reserve development included $1.1 million of favorable development in the Excess and Surplus Lines segment, primarily from the 2016 and 2017 accident years. The Specialty Admitted Insurance segment experienced $1.3 million of favorable development, primarily due to favorable development in the workers' compensation business for the 2014 through 2016 accident years. The Company also experienced $176,000 of favorable development in the Casualty Reinsurance segment.

## 6. Other Comprehensive Income (Loss)

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| | *(in thousands)* | |
| Unrealized gains (losses) arising during the period, before U.S. income taxes | $ 21,478 | $ (19,292) |
| U.S. income taxes | (1,447) | 544 |
| Unrealized gains (losses) arising during the period, net of U.S. income taxes | 20,031 | (18,748) |
| Less reclassification adjustment: | | |
| Net realized investment losses | (228) | (201) |
| U.S. income taxes | (1) | — |
| Reclassification adjustment for investment (gains) losses realized in net income | (229) | (201) |
| Other comprehensive income (loss) | $ 20,260 | $ (18,547) |

In addition to the $228,000 and $201,000 of net realized investment losses on available-for-sale fixed maturity securities for the three months ended March 31, 2019 and 2018, respectively, the Company also recognized $1.7 million of net realized investment losses and $1.1 million of net realized investment gains in the respective periods on its investments in bank loan participations, and $3.5 million of net realized gains and $1.7 million of net realized losses in the respective periods for the change in fair values of equity securities.

## 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 Re, has entered into three letter of credit facilities with banks as security to third-party reinsureds on reinsurance assumed by JRG Re. JRG Re has established custodial accounts to secure these letters of credit. Under a $75.0 million facility, $49.4 million of letters of credit were issued through March 31, 2019 which were secured by deposits of $61.8 million. Under a $102.5 million facility, $68.0 million of letters of credit were issued through March 31, 2019 which were secured by deposits of $93.5 million. Under a $100.0 million facility, $5.3 million of letters of credit were issued through March 31, 2019 which were secured by deposits of $10.5 million. JRG Re has also established trust accounts to secure its obligations to selected reinsureds. The total amount deposited in the trust accounts for the benefit of third-party reinsureds was $290.1 million at March 31, 2019.

The Company is a party to a set of insurance contracts with an insured group of companies under which the Company pays losses and loss adjustment expenses on the contract. The Company has indemnity agreements with this group of insured parties (non-insurance entities) and is contractually entitled to receive reimbursement for a significant portion of the losses and loss adjustment expenses paid on behalf of the insured parties and other expenses incurred by the Company. The insured parties are required to collateralize all amounts currently due to the Company and to provide additional collateral sufficient to cover the amounts that may be recoverable under the indemnity agreement, including, among other things, case loss and loss adjustment expense reserves, IBNR loss and loss adjustment expense reserves, extra contractual obligations and excess of policy limits liabilities. The collateral is currently provided through a collateral trust arrangement established in favor of the Company by a captive insurance company affiliate of the insured group. At March 31, 2019, the cash equivalent collateral held in the collateral trust arrangement was approximately $1,156.0 million, which exceeds the amount of claims receivable and unpaid reported losses and loss adjustment expenses outstanding. The Company has ongoing exposure to estimated losses and expenses on these contracts growing at a faster pace than growth in our collateral balances. In addition, we have credit exposure if our estimates of future losses and loss adjustment expenses and other amounts recoverable, which are the basis for establishing collateral balances, are lower than actual amounts paid or payable. The amount of our credit exposure in any of these instances could be material. To mitigate these risks, we closely and frequently monitor our exposure compared to our collateral held, and we request additional collateral when our analysis indicates that we have uncollateralized exposure.

## 8. Segment Information

The Company has four reportable segments: the Excess and Surplus Lines segment, the Specialty Admitted Insurance segment, the Casualty Reinsurance segment, and the Corporate and Other segment. Segment profit (loss) is measured by underwriting profit (loss), which is generally defined as net earned premiums less loss and loss adjustment expenses and other operating expenses of the operating segments. Gross fee income of the Excess and Surplus Lines segment is included in that segment's underwriting profit. Gross fee income of $2.7 million and $4.8 million was included in underwriting profit for the three months ended March 31, 2019 and 2018, respectively. Segment results are reported prior to the effects of intercompany reinsurance agreements among the Company's insurance subsidiaries.

The following table summarizes the Company's segment results:

| | Excess and Surplus Lines | Specialty Admitted Insurance | Casualty Reinsurance | Corporate and Other | Total |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| **Three Months Ended March 31, 2019** | | | | | |
| Gross written premiums | $ 186,549 | $ 102,953 | $ 37,832 | $ — | $ 327,334 |
| Net earned premiums | 141,672 | 12,360 | 36,120 | — | 190,152 |
| Underwriting profit of insurance segments | 13,102 | 1,623 | 327 | — | 15,052 |
| Net investment income | 5,544 | 897 | 11,172 | 1,818 | 19,431 |
| Interest expense | — | — | — | 2,808 | 2,808 |
| Segment revenues | 152,437 | 13,736 | 46,010 | 1,944 | 214,127 |
| Segment goodwill | 181,831 | — | — | — | 181,831 |
| Segment assets | 1,013,069 | 706,451 | 1,517,142 | 62,589 | 3,299,251 |
| **Three Months Ended March 31, 2018** | | | | | |
| Gross written premiums | $ 167,486 | $ 87,401 | $ 43,229 | $ — | $ 298,116 |
| Net earned premiums | 129,971 | 13,340 | 57,631 | — | 200,942 |
| Underwriting profit of insurance segments | 11,299 | 1,623 | 1,744 | — | 14,666 |
| Net investment income | 3,042 | 711 | 8,017 | 1,486 | 13,256 |
| Interest expense | — | — | — | 2,522 | 2,522 |
| Segment revenues | 137,327 | 13,955 | 65,526 | 1,536 | 218,344 |
| Segment goodwill | 181,831 | — | — | — | 181,831 |
| Segment assets | 909,963 | 495,096 | 1,368,872 | 88,079 | 2,862,010 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (in thousands) | |
| Underwriting profit of the insurance segments: | | |
| Excess and Surplus Lines | $ 13,102 | $ 11,299 |
| Specialty Admitted Insurance | 1,623 | 1,623 |
| Casualty Reinsurance | 327 | 1,744 |
| Total underwriting profit of insurance segments | 15,052 | 14,666 |
| Other operating expenses of the Corporate and Other segment | (7,906) | (7,431) |
| Underwriting profit | 7,146 | 7,235 |
| Net investment income | 19,431 | 13,256 |
| Net realized and unrealized gains (losses) on investments | 1,625 | (810) |
| Amortization of intangible assets | (149) | (149) |
| Other income and expenses | 246 | 104 |
| Interest expense | (2,808) | (2,522) |
| Income before taxes | $ 25,491 | $ 17,114 |

## 9. Other Operating Expenses and Other Expenses

Other operating expenses consist of the following:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (in thousands) | |
| Amortization of policy acquisition costs | $ 18,621 | $ 30,198 |
| Other underwriting expenses of the operating segments | 19,225 | 17,154 |
| Other operating expenses of the Corporate and Other segment | 7,906 | 7,431 |
| Total | $ 45,752 | $ 54,783 |

## 10. Fair Value Measurements

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

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

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

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

Assets measured at fair value on a recurring basis as of March 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) | | | |
| Fixed maturity securities, available-for-sale: | | | | |
| State and municipal | $ — | $ 141,342 | $ — | $ 141,342 |
| Residential mortgage-backed | — | 223,544 | — | 223,544 |
| Corporate | — | 552,494 | — | 552,494 |
| Commercial mortgage and asset-backed | — | 204,517 | — | 204,517 |
| U.S. Treasury securities and obligations guaranteed by the U.S. government | 126,472 | 523 | — | 126,995 |
| Redeemable preferred stock | — | 2,034 | — | 2,034 |
| Total fixed maturity securities, available-for-sale | $ 126,472 | $ 1,124,454 | $ — | $ 1,250,926 |
| Equity securities: | | | | |
| Preferred stock | — | 65,148 | — | 65,148 |
| Common stock | 18,323 | 757 | 177 | 19,257 |
| Total equity securities | $ 18,323 | $ 65,905 | $ 177 | $ 84,405 |
| Short-term investments | $ — | $ 92,134 | $ — | $ 92,134 |

Assets measured at fair value on a recurring basis as of December 31, 2018 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) | | | |
| Fixed maturity securities, available-for-sale: | | | | |
| State and municipal | $ — | $ 149,295 | $ — | $ 149,295 |
| Residential mortgage-backed | — | 204,109 | — | 204,109 |
| Corporate | — | 524,768 | — | 524,768 |
| Commercial mortgage and asset-backed | — | 192,797 | 4,228 | 197,025 |
| U.S. Treasury securities and obligations guaranteed by the U.S. government | 106,651 | 542 | — | 107,193 |
| Redeemable preferred stock | — | 1,812 | — | 1,812 |
| Total fixed maturity securities, available-for-sale | $ 106,651 | $ 1,073,323 | $ 4,228 | $ 1,184,202 |
| Equity securities: | | | | |
| Preferred stock | — | 60,740 | — | 60,740 |
| Common stock | 16,674 | 757 | 214 | 17,645 |
| Total equity securities | $ 16,674 | $ 61,497 | $ 214 | $ 78,385 |
| Short-term investments | $ 1,250 | $ 80,716 | $ — | $ 81,966 |

The Company held one available-for-sale fixed maturity security at December 31, 2018 for which the fair value was determined using significant unobservable inputs (Level 3). A market approach using prices in trades of comparable securities was utilized to determine a fair value of $4.2 million for the security at December 31, 2018. A principal payment of $456,000 was received on the available-for-sale fixed maturity security in the three months ended March 31, 2019. The Company was able to obtain a quoted price from a pricing vendor for the available-for-sale fixed maturity security at March 31, 2019 and it was transferred to Level 2.

At March 31, 2019 and December 31, 2018, the Company held one equity security for which the fair value was determined using significant unobservable inputs (Level 3). A market approach using prices in trades of comparable securities was utilized to determine a fair value for the security of $177,000 at March 31, 2019 and $214,000 at December 31, 2018. There were no purchases or sales involving Level 3 securities for the three months ended March 31, 2019 or 2018. There were no transfers involving Level 3 securities for the three months ended March 31, 2018.

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

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2019 or 2018. 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 three months ended March 31, 2019 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 March 31, 2019.

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

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)* | | | |
| **March 31, 2019** | | | | |
| Bank loan participations held-for-investment | $ — | $ — | $ 4,394 | $ 4,394 |
| **December 31, 2018** | | | | |
| Bank loan participations held-for-investment | $ — | $ — | $ — | $ — |

Bank loan participations held-for-investment that were determined to be impaired were written down to their fair value of $4.4 million at March 31, 2019. Management concluded that none of the bank loan participations held-for-investment were impaired as of December 31, 2018.

In the determination of the fair value for bank loan participations and certain high yield bonds, the Company's investment manager endeavors to obtain data from multiple external pricing sources. External pricing sources may include brokers, dealers and price data vendors that provide a composite price based on prices from multiple dealers. Such external pricing sources typically provide valuations for normal institutional size trading units of such securities using methods based on market transactions for comparable securities, and various relationships between securities, as generally recognized by institutional dealers. For investments in which the investment manager determines that only one external pricing source is appropriate or if only one external price is available, the relevant investment is generally recorded at fair value based on such price.

Investments for which external sources are not available or are determined by the investment manager not to be representative of fair value are recorded at fair value as determined by the Company, with input from its investment managers and valuation specialists as considered necessary. In determining the fair value of such investments, the Company considers one or more of the following factors: type of security held, convertibility or exchangeability of the security, redeemability of the security (including the timing of redemptions), application of industry accepted valuation models, recent trading activity, liquidity, estimates of liquidation value, purchase cost, and prices received for securities with similar terms of the same issuer or similar issuers. At March 31, 2019 and December 31, 2018, there were no investments for which external sources were unavailable to determine fair value.

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

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | *(in thousands)* | | | |
| **Assets** | | | | |
| Fixed maturity securities, available-for-sale | $ 1,250,926 | $ 1,250,926 | $ 1,184,202 | $ 1,184,202 |
| Equity securities | 84,405 | 84,405 | 78,385 | 78,385 |
| Bank loan participations held-for-investment | 263,318 | 257,298 | 260,972 | 250,697 |
| Cash and cash equivalents | 132,552 | 132,552 | 172,457 | 172,457 |
| Short-term investments | 92,134 | 92,134 | 81,966 | 81,966 |
| Other invested assets – notes receivable | 13,250 | 18,701 | 13,250 | 18,687 |
| **Liabilities** | | | | |
| Senior debt | 98,300 | 100,038 | 118,300 | 118,317 |
| Junior subordinated debt | 104,055 | 120,815 | 104,055 | 117,057 |

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

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

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

## 11. Capital Stock and Equity Awards

The Company issued 173,585 common shares in the three months ended March 31, 2019 with 98,975 of the new shares related to stock option exercises and 74,610 of the new shares related to vesting of RSUs. The total common shares outstanding increased from 29,988,460 at December 31, 2018 to 30,162,045 at March 31, 2019.

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

| Date of Declaration | Dividend per Common Share | Payable to Shareholders of Record on | Payment Date | Total Amount |
|---|---|---|---|---|
| **2019** | | | | |
| February 20, 2019 | $ 0.30 | March 11, 2019 | March 29, 2019 | $ 9.1 million |
| **2018** | | | | |
| February 22, 2018 | $ 0.30 | March 12, 2018 | March 30, 2018 | $ 9.0 million |

Included in the total dividends for the three months ended March 31, 2019 and 2018 are $107,000 and $99,000 of dividend equivalents on unvested RSUs, respectively. The balance of dividends payable on unvested RSUs was $457,000 at March 31, 2019 and $557,000 at December 31, 2018.

***Equity Incentive Plans***

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

Employees are eligible to receive non-qualified stock options, incentive stock options, share appreciation rights, performance shares, restricted shares, RSUs, and other awards under the 2014 LTIP. The maximum number of shares available for issuance under the 2014 LTIP is 4,171,150, and at March 31, 2019, 1,575,796 shares are available for grant.

Non-employee directors of the Company are eligible to receive non-qualified stock options, share appreciation rights, performance shares, restricted shares, RSUs, and other awards under the 2014 Director Plan. The maximum number of shares available for issuance under the 2014 Director Plan is 50,000, and at March 31, 2019, 8,594 shares are available for grant.

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

***Options***

The following table summarizes option activity:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Shares | | Weighted-Average Exercise Price | Shares | | Weighted-Average Exercise Price |
| Outstanding: | | | | | | |
| Beginning of period | 1,115,324 | $ | 29.02 | 1,479,236 | $ | 27.81 |
| Granted | — | $ | — | — | $ | — |
| Exercised | (125,349) | $ | 29.47 | (142,129) | $ | 20.14 |
| Forfeited | (3,759) | $ | 36.37 | — | $ | — |
| End of period | 986,216 | $ | 28.94 | 1,337,107 | $ | 28.63 |
| Exercisable, end of period | 926,166 | $ | 28.07 | 983,508 | $ | 26.06 |

All of the outstanding options vest over two to four years and have a contractual life of seven years from the original date of grant. All of the outstanding options have an exercise price equal to the fair value of the underlying shares at the date of grant. The weighted-average remaining contractual life of the options outstanding and options exercisable at March 31, 2019 was 3.4 years and 3.3 years, respectively.

***RSUs***

The following table summarizes RSU activity:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Shares | | Weighted-Average Grant Date Fair Value | Shares | | Weighted-Average Grant Date Fair Value |
| Unvested, beginning of period | 300,142 | $ | 39.22 | 178,882 | $ | 37.93 |
| Granted | 167,295 | $ | 42.07 | 214,907 | $ | 39.81 |
| Vested | (109,545) | $ | 39.93 | (62,714) | $ | 40.90 |
| Forfeited | (1,398) | $ | 40.26 | — | $ | — |
| Unvested, end of period | 356,494 | $ | 40.33 | 331,075 | $ | 38.59 |

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

***Compensation Expense***

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | *(in thousands)* | |
| Share based compensation expense | $ 1,674 | $ 1,455 |
| U.S. tax benefit on share based compensation expense | 200 | 173 |

As of March 31, 2019, the Company had $13.7 million of unrecognized share based compensation expense expected to be charged to earnings over a weighted-average period of 2.2 years.

**12. Subsequent Events**

On April 30, 2019, the Board of Directors declared a cash dividend of $0.30 per common share. The dividend is payable on June 28, 2019 to shareholders of record on June 10, 2019.

On April 30, 2019, the Board of Directors granted awards under the 2014 LTIP to the Company’s employees. RSUs for 11,261 shares were awarded with a fair value on the date of grant of $42.22 per share. The RSUs vest over three years.

At the 2019 Annual General Meeting of Shareholders of the Company (the “Annual Meeting”) held on April 30, 2019, the Company's shareholders approved an amendment to the James River Group Holdings, Ltd. 2014 Non-Employee Director Incentive Plan (the “Non-Employee Director Plan”). The Board of Directors of the Company had previously approved the amendment. The amendment increases the number of the Company's common shares authorized for issuance under the Non-Employee Director Plan by 100,000 shares. No other modifications were made to the Non-Employee Director Plan.

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

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

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

### Our Business

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

Our underwriting profit for the three months ended March 31, 2019 was $7.1 million. In the prior year, for the same period, we had an underwriting profit of $7.2 million.

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

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

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

### Critical Accounting Policies and Estimates

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

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

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**RESULTS OF OPERATIONS**

The following table summarizes our results:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % Change |
|---|---|---|---|
| | ($ in thousands) | | |
| Gross written premiums | $ 327,334 | $ 298,116 | *9.8 %* |
| Net retention (1) | 63.5% | 70.8% | |
| Net written premiums | $ 207,741 | $ 210,978 | *(1.5)%* |
| Net earned premiums | $ 190,152 | $ 200,942 | *(5.4)%* |
| Losses and loss adjustment expenses | (139,927) | (143,772) | *(2.7)%* |
| Other operating expenses | (43,079) | (49,935) | *(13.7)%* |
| Underwriting profit (2), (3) | 7,146 | 7,235 | *(1.2)%* |
| Net investment income | 19,431 | 13,256 | *46.6 %* |
| Net realized and unrealized gains (losses) on investments | 1,625 | (810) | – |
| Other income and expense | 246 | 104 | *136.5 %* |
| Interest expense | (2,808) | (2,522) | *11.3 %* |
| Amortization of intangible assets | (149) | (149) | – |
| Income before taxes | 25,491 | 17,114 | *48.9 %* |
| Income tax expense | 2,763 | 1,481 | *86.6 %* |
| Net income | $ 22,728 | $ 15,633 | *45.4 %* |
| Adjusted net operating income (4) | $ 21,713 | $ 16,569 | *31.0 %* |
| Ratios: | | | |
| Loss ratio | 73.6% | 71.5% | |
| Expense ratio | 22.6% | 24.9% | |
| Combined ratio | 96.2% | 96.4% | |

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

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

*(3) Included in underwriting results for the three months ended March 31, 2019 and 2018 is gross fee income of $6.4 million and $8.2 million, respectively.*

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

The Company had an underwriting profit of $7.1 million for the three months ended March 31, 2019. This compares to an underwriting profit of $7.2 million for the same period in the prior year.

The results for the three months ended March 31, 2019 and 2018 include certain non-operating items that are significant to the Company. These items (on a pre-tax basis) include:

- Net realized and unrealized investment gains (losses) of $1.6 million and $(810,000) for the three months ended March 31, 2019 and 2018, respectively. See "— Investing Results" for more information on these realized and unrealized investment gains (losses).
- Interest expense of $318,000 for the three months ended March 31, 2018 relating to finance expenses in connection with a minority interest in a real estate partnership pursuant to which we were previously deemed an owner for accounting purposes. Effective with the Company's adoption of ASU 2016-02, *Leases (Topic 842)* on January 1, 2019, the Company is no longer deemed the owner for accounting purposes and there is no comparable expense for the three months ended March 31, 2019.

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

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

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Income Before Taxes | Net Income | Income Before Taxes | Net Income |
| | ($ in thousands) | | | |
| Income as reported | $ 25,491 | $ 22,728 | $ 17,114 | $ 15,633 |
| Net realized and unrealized investment (gains) losses | (1,625) | (1,015) | 810 | 665 |
| Other expenses | — | — | 4 | 20 |
| Interest expense on leased building the Company was previously deemed to own for accounting purposes | — | — | 318 | 251 |
| Adjusted net operating income | $ 23,866 | $ 21,713 | $ 18,246 | $ 16,569 |

***Combined Ratios***

The combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and other operating expenses to net earned premiums. Our combined ratio for the three months ended March 31, 2019 was 96.2%. A combined ratio of less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss. The combined ratio for the three months ended March 31, 2019 includes $1.0 million, or 0.5 percentage points, of net adverse reserve development on prior accident years, including $10,000 of net favorable reserve development from the Excess and Surplus Lines segment, $2.0 million of net favorable reserve development from the Specialty Admitted Insurance segment, and $3.0 million of net adverse reserve development from the Casualty Reinsurance segment.

The combined ratio for the three months ended March 31, 2018 was 96.4%. The combined ratio for the three months ended March 31, 2018 includes $2.6 million, or 1.3 percentage points, of net favorable reserve development on prior accident years, including $1.1 million of net favorable reserve development from the Excess and Surplus Lines segment, $1.3 million of net favorable reserve development from the Specialty Admitted Insurance segment, and $176,000 of net favorable reserve development from the Casualty Reinsurance segment.

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

***Expense Ratios***

Our expense ratio improved from 24.9% for the three months ended March 31, 2018 to 22.6% for the three months ended March 31, 2019. The improvement is due to a 9.0% increase in the net earned premiums of the Excess and Surplus Lines segment including in lines of business which carry relatively low expenses or that have meaningful ceding commissions. Our Excess and Surplus Lines segment has significant scale and produces a lower expense ratio than our other operating segments. The Excess and Surplus Lines segment is our largest segment and makes up 74.5% of consolidated net earned premiums for the three months ended March 31, 2019 compared to 64.7% for three months ended March 31, 2018. Gross fee income for the Company declined from $8.2 million for the three months ended March 31, 2018 to $6.4 million for the three months ended March 31, 2019.

***Premiums***

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

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

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % Change |
|---|---|---|---|
| | ($ in thousands) | | |
| Gross written premiums: | | | |
| Excess and Surplus Lines | $ 186,549 | $ 167,486 | *11.4 %* |
| Specialty Admitted Insurance | 102,953 | 87,401 | *17.8 %* |
| Casualty Reinsurance | 37,832 | 43,229 | *(12.5)%* |
| | $ 327,334 | $ 298,116 | *9.8 %* |
| Net written premiums: | | | |
| Excess and Surplus Lines | $ 154,861 | $ 153,931 | *0.6 %* |
| Specialty Admitted Insurance | 15,021 | 13,818 | *8.7 %* |
| Casualty Reinsurance | 37,859 | 43,229 | *(12.4)%* |
| | $ 207,741 | $ 210,978 | *(1.5)%* |
| Net earned premiums: | | | |
| Excess and Surplus Lines | $ 141,672 | $ 129,971 | *9.0 %* |
| Specialty Admitted Insurance | 12,360 | 13,340 | *(7.3)%* |
| Casualty Reinsurance | 36,120 | 57,631 | *(37.3)%* |
| | $ 190,152 | $ 200,942 | *(5.4)%* |

Gross written premiums for the Excess and Surplus Lines segment (which represents 57.0% of our consolidated gross written premiums in the three months ended March 31, 2019) increased 11.4% over the corresponding three month period in the prior year. Excluding commercial auto policies, gross written premiums increased 4.7% over the corresponding three month period in the prior year. Policy submissions excluding commercial auto policies were 17.4% higher and 24.8% more policies were bound in the three months ended March 31, 2019 than in the three months ended March 31, 2018. Rates for the Excess and Surplus Lines segment were up 2.6% compared to the three months ended March 31, 2018. The change in gross written premiums compared to the same period in 2018 was notable in several divisions as shown below:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | % Change |
|---|---|---|---|
| | ($ in thousands) | | |
| Commercial Auto | $ 92,002 | $ 77,212 | *19.2 %* |
| Manufacturers & Contractors | 23,511 | 17,600 | *33.6 %* |
| General Casualty | 21,283 | 14,552 | *46.3 %* |
| Excess Casualty | 15,170 | 9,796 | *54.9 %* |
| Allied Health | 9,256 | 21,122 | *(56.2)%* |
| Energy | 6,407 | 11,520 | *(44.4)%* |
| All other divisions | 18,920 | 15,684 | *20.6 %* |
| Excess and Surplus Lines gross written premium | $ 186,549 | $ 167,486 | *11.4 %* |

The Commercial Auto division is focused on underwriting the hired and non-owned auto liability exposures for a variety of industry segments with a particular niche for insuring organizations that operate networks connecting independent contractors with customers.

The components of gross written premiums for the Specialty Admitted Insurance segment (which represents 31.5% of our consolidated gross written premiums for the three months ended March 31, 2019) are as follows:

| | Three Months Ended March 31, | | % |
|---|---|---|---|
| | 2019 | 2018 | Change |
| | ($ in thousands) | | |
| Individual risk workers' compensation premium | $ 16,993 | $ 12,587 | *35.0%* |
| Fronting and program premium | 85,960 | 74,814 | *14.9%* |
| Specialty Admitted gross written premium | $ 102,953 | $ 87,401 | *17.8%* |

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

The premium growth in our fronting business was driven by growth in three new fronting relationships that generated $27.9 million of gross written premium in the quarter compared to $0 for the three months ended March 31, 2018. Our largest agency relationship produced $40.2 million of gross written premium for the three months ended March 31, 2019 (down from $48.8 million for the three months ended March 31, 2018) and represented 39.1% of the segment's gross written premium in the three months ended March 31, 2019 down from 55.8% in the three months ended March 31, 2018.

Gross written premiums for the Casualty Reinsurance segment (which represents 11.5% of our consolidated gross written premiums in the first three months of 2019) decreased 12.5% from the corresponding three month period in the prior year. The reduction in gross written premium in this segment was in line with our expectations and is consistent with our planned reductions for the Casualty Reinsurance segment as we redeploy our capital to where we believe we can make the highest operating returns on tangible equity. The Casualty Reinsurance segment generally writes large casualty-focused treaties that are expected to have lower volatility relative to property and catastrophe treaties. We rarely write stand-alone property reinsurance. When treaties that include property exposure are written, we utilize property occurrence caps, inuring reinsurance protection and low individual risk limits to minimize exposure.

***Net Retention***

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Excess and Surplus Lines | 83.0% | 91.9% |
| Specialty Admitted Insurance | 14.6% | 15.8% |
| Casualty Reinsurance | 100.1% | 100.0% |
| Total | 63.5% | 70.8% |

The net premium retention for the Excess and Surplus Lines segment decreased from 91.9% to 83.0% for the three months ended March 31, 2018 and 2019, respectively, due to growth in written premium in the Excess Casualty and Excess Property underwriting divisions, which have higher percentages of ceded premium than our other divisions, and due to the segment ceding $11.1 million of commercial auto written premium in the three months ended March 31, 2019 compared to none in the same quarter of 2018.

The net premium retention for the Specialty Admitted Insurance segment decreased slightly from 2018 to 2019 as a result of growth in the segment's fronting business, which generally has much lower net premium retention than our workers' compensation business. The net retention on the segment's fronting business was 8.7% and 10.6% for the three months ended March 31, 2019 and 2018, respectively, while the net retention on the workers' compensation business was 44.5% and 46.8% for the three months ended March 31, 2019 and 2018, respectively.

***Underwriting Results***

The following table compares our combined ratios by segment:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Excess and Surplus Lines | 90.8% | 91.3% |
| Specialty Admitted Insurance | 86.9% | 87.8% |
| Casualty Reinsurance | 99.1% | 97.0% |
| Total | 96.2% | 96.4% |

*Excess and Surplus Lines Segment*

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

| | Three Months Ended March 31, | | % |
|---|---|---|---|
| | 2019 | 2018 | Change |
| | ($ in thousands) | | |
| Gross written premiums | $ 186,549 | $ 167,486 | *11.4%* |
| Net written premiums | $ 154,861 | $ 153,931 | *0.6%* |
| Net earned premiums | $ 141,672 | $ 129,971 | *9.0%* |
| Losses and loss adjustment expenses | (108,205) | (100,619) | *7.5%* |
| Underwriting expenses | (20,365) | (18,053) | *12.8%* |
| Underwriting profit *(1), (2)* | $ 13,102 | $ 11,299 | *16.0%* |
| Ratios: | | | |
| Loss ratio | 76.4% | 77.4% | |
| Expense ratio | 14.4% | 13.9% | |
| Combined ratio | 90.8% | 91.3% | |

*(1) Underwriting Profit is a non-GAAP Measure. See "Reconciliation of Non-GAAP Measures" for a reconciliation to income before tax and for additional information.*
*(2) Underwriting results include gross fee income of $2.7 million and $4.8 million for the three months ended March 31, 2019 and 2018, respectively.*

The loss ratio of 76.4% for the three months ended March 31, 2019 includes $10,000 of net favorable development in our loss estimates for prior accident years. The loss ratio of 77.4% for the three months ended March 31, 2018 includes $1.1 million (0.9 percentage points) in net favorable reserve development in our loss estimates for prior accident years.

The expense ratio for this segment increased from 13.9% for the three months ended March 31, 2018 to 14.4% for the three months ended March 31, 2019. Gross fee income contributed to a reduction in the expense ratio of 1.9 and 3.7 percentage points for the three months ended March 31, 2019 and 2018, respectively.

Our commercial auto business generally has a lower expense ratio and higher loss ratio than the other underwriting divisions in the segment. Commercial auto made up 56.1% and 56.7% of the segment's net earned premiums for the three months ended March 31, 2019 and 2018, respectively.

As a result of the items discussed above, the underwriting profit of the Excess and Surplus Lines segment increased 16.0%, from $11.3 million for the three months ended March 31, 2018 to $13.1 million for the three months ended March 31, 2019.

*Specialty Admitted Insurance Segment*

Results for the Specialty Admitted Insurance segment are as follows:

| | Three Months Ended March 31, | | % |
|---|---|---|---|
| | 2019 | 2018 | Change |
| | ($ in thousands) | | |
| Gross written premiums | $ 102,953 | $ 87,401 | *17.8 %* |
| Net written premiums | $ 15,021 | $ 13,818 | *8.7 %* |
| Net earned premiums | $ 12,360 | $ 13,340 | *(7.3)%* |
| Losses and loss adjustment expenses | (7,202) | (7,611) | *(5.4)%* |
| Underwriting expenses | (3,535) | (4,106) | *(13.9)%* |
| Underwriting profit *(1), (2)* | $ 1,623 | $ 1,623 | *— %* |
| Ratios: | | | |
| Loss ratio | 58.3% | 57.1% | |
| Expense ratio | 28.6% | 30.7% | |
| Combined ratio | 86.9% | 87.8% | |

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

*(2) Underwriting results include gross fee income of $3.8 million and $3.3 million for the three months ended March 31, 2019 and 2018, respectively.*

The loss ratio of 58.3% for the three months ended March 31, 2019 includes $2.0 million (16.2 percentage points) of net favorable development in our loss estimates for prior accident years. The favorable reserve development in 2019 reflects the fact that actual loss emergence of the workers' compensation book has been better than expected. The loss ratio of 57.1% for the three months ended March 31, 2018 includes $1.3 million (9.9 percentage points) of net favorable reserve development in our loss estimates for prior accident years.

The expense ratio of the Specialty Admitted Insurance segment was 28.6% for the three months ended March 31, 2019 compared to the prior year ratio of 30.7%. The expense ratio declined in 2019 for this segment due to gross fee income from the fronting business which increased 13.3% for the three months ended March 31, 2019 compared to the same period in the prior year and to growth in individual risk workers' compensation business on which we receive ceding commissions on our 50% third-party quota share reinsurance coverage.

As a result of the items discussed above, the underwriting profit of the Specialty Admitted Insurance segment was $1.6 million for both the three months ended March 31, 2019 and 2018.

*Casualty Reinsurance Segment*

Results for the Casualty Reinsurance segment are as follows:

| | Three Months Ended March 31, | | % |
|---|---|---|---|
| | 2019 | 2018 | Change |
| | ($ in thousands) | | |
| Gross written premiums | $ 37,832 | $ 43,229 | *(12.5)%* |
| Net written premiums | $ 37,859 | $ 43,229 | *(12.4)%* |
| Net earned premiums | $ 36,120 | $ 57,631 | *(37.3)%* |
| Losses and loss adjustment expenses | (24,520) | (35,542) | *(31.0)%* |
| Underwriting expenses | (11,273) | (20,345) | *(44.6)%* |
| Underwriting profit *(1)* | $ 327 | $ 1,744 | *(81.3)%* |
| Ratios: | | | |
| Loss ratio | 67.9% | 61.7% | |
| Expense ratio | 31.2% | 35.3% | |
| Combined ratio | 99.1% | 97.0% | |

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

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

The loss ratio of 67.9% for the three months ended March 31, 2019 includes $3.0 million (8.3 percentage points) of net adverse development in our loss estimates for prior accident years. The adverse reserve development was primarily related to losses from risk profiles and treaty structures that we no longer underwrite. The loss ratio of 61.7% for the three months ended March 31, 2018 includes $176,000 (0.3 percentage points) of net favorable reserve development in our loss estimates for prior accident years.

The expense ratio of the Casualty Reinsurance segment was 31.2% for the three months ended March 31, 2019 compared to the prior year ratio of 35.3%. The decrease was driven by a reduction in sliding scale commissions on treaties that experienced adverse reserve development in the three months ended March 31, 2019. In the prior year quarter ended March 31, 2018, there was an increase in sliding scale commissions associated with treaties that experienced favorable reserve development in the quarter.

As a result of the items discussed above, underwriting profit for the Casualty Reinsurance segment was $327,000 for the three months ended March 31, 2019 compared to $1.7 million for the three months ended March 31, 2018.

***Reserves***

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

The Company's gross reserve for losses and loss adjustment expenses at March 31, 2019 was $1,730.3 million. Of this amount, 62.3% relates to amounts that are IBNR. This amount was 62.4% at December 31, 2018. The Company's gross reserves for losses and loss adjustment expenses by segment are summarized as follows:

| | Gross Reserves at March 31, 2019 | | |
|---|---|---|---|
| | Case | IBNR | Total |
| | ($ in thousands) | | |
| Excess and Surplus Lines | $ 377,663 | $ 625,272 | $ 1,002,935 |
| Specialty Admitted Insurance | 168,220 | 286,287 | 454,507 |
| Casualty Reinsurance | 106,387 | 166,478 | 272,865 |
| Total | $ 652,270 | $ 1,078,037 | $ 1,730,307 |

At March 31, 2019, the amount of net reserves of $1,221.7 million that related to IBNR was 60.6%. This amount was 61.5% at December 31, 2018. The Company's net reserves for losses and loss adjustment expenses by segment are summarized as follows:

| | Net Reserves at March 31, 2019 | | |
|---|---|---|---|
| | Case | IBNR | Total |
| | ($ in thousands) | | |
| Excess and Surplus Lines | $ 345,404 | $ 518,785 | $ 864,189 |
| Specialty Admitted Insurance | 32,762 | 56,306 | 89,068 |
| Casualty Reinsurance | 102,967 | 165,428 | 268,395 |
| Total | $ 481,133 | $ 740,519 | $ 1,221,652 |

***Other Operating Expenses***

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

***Corporate and Other Segment***

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

For the three months ended March 31, 2019 and 2018, the total operating expenses of the Corporate and Other segment were $7.9 million and $7.4 million, respectively, representing a 6.4% increase over the prior year. The increase was driven by compensation costs, including share-based compensation expenses, associated with increases in headcount.

***Investing Results***

Net investment income was $19.4 million for the three months ended March 31, 2019 compared to $13.3 million for the same period in the prior year. The change in our net investment income is as follows:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2019 | 2018 | % Change |
| | *($ in thousands)* | | |
| Renewable energy LLCs | $ 921 | $ 1,211 | *(23.9)%* |
| Other private investments | 2,483 | 609 | *307.7 %* |
| Other invested assets | 3,404 | 1,820 | *87.0 %* |
| All other net investment income | 16,027 | 11,436 | *40.1 %* |
| Total net investment income | $ 19,431 | $ 13,256 | *46.6 %* |

Income from the Company's private investments, including our renewable energy LLC investments, increased $1.6 million over the prior year quarter driven by higher returns from our limited partnership investments. Excluding private investments, our net investment income increased by 40.1% for the three months ending March 31, 2019 over the same period in the prior year. This increase in net investment income reflects growth in our fixed income portfolio of bonds and bank loans and higher investment yields. The average duration of our fixed maturity portfolio was 3.3 years at March 31, 2019.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | *($ in thousands)* | |
| Fixed maturity securities | $ 9,492 | $ 8,030 |
| Bank loan participations | 5,064 | 3,117 |
| Equity securities | 1,337 | 667 |
| Other invested assets | 3,404 | 1,820 |
| Cash, cash equivalents, short-term investments, and other | 1,312 | 592 |
| Trading losses | — | (3) |
| Gross investment income | 20,609 | 14,223 |
| Investment expense | (1,178) | (967) |
| Net investment income | $ 19,431 | $ 13,256 |

The following table summarizes our investment returns:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Annualized gross investment yield on: | | |
| Average cash and invested assets | 4.4% | 3.5% |
| Average fixed maturity securities | 3.8% | 3.4% |

Of our total cash and invested assets of $1,897.8 million at March 31, 2019, $132.6 million represents the cash and cash equivalents portion of the portfolio. The majority of the portfolio, or $1,250.9 million, is comprised of fixed maturity securities that are classified as available-for-sale and carried at fair value with unrealized gains and losses on these securities reported, net of applicable taxes, as a separate component of accumulated comprehensive income or loss. Also included in our investments are $263.3 million of bank loan participations, $84.4 million of equity securities, $92.1 million of short-term investments, and $74.5 million of other invested assets.

The $263.3 million of bank loan participations in our investment portfolio are classified as held-for-investment and reported at amortized cost, net of any allowance for credit losses. Changes in this credit allowance are included in realized gains or losses.

At March 31, 2019, there was a $1.5 million allowance for credit losses. These bank loan participations are primarily senior, secured floating-rate debt rated “BB”, “B”, or “CCC” by Standard & Poor’s or an equivalent rating from another nationally recognized statistical rating organization, and are therefore below investment grade. Bank loans include assignments of and participations in, performing and non-performing senior corporate debt generally acquired through primary bank syndications and in secondary markets. They consist of, but are not limited to, term loans, the funded and unfunded portions of revolving credit loans, and similar loans and investments. At March 31, 2019 and December 31, 2018, the fair market value of these securities was $257.3 million and $250.7 million, respectively.

For the three months ended March 31, 2019, the Company recognized net realized and unrealized investment gains of $1.6 million including $3.5 million of gains for the change in the fair value of equity securities, $1.5 million of realized losses to establish credit allowances on two impaired bank loans, $271,000 of impairment losses on fixed maturity securities, and $136,000 of net realized investment losses on the sale of bank loan securities.

For the three months ended March 31, 2018, the Company recognized net realized investment losses of $810,000 including $1.7 million of losses for the change in the fair value of equity securities and $201,000 of net realized investment losses on the sale of fixed maturity securities, partially offset by $1.1 million of net realized investment gains on the sale of bank loan securities (including an $807,000 realized gain on the repayment of the loan to the producer and supplier of power in Puerto Rico described below).

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

Management concluded that two of the loans in the Company's bank loan portfolio were impaired as of March 31, 2019. At March 31, 2019, the impaired loans had a carrying value of $4.4 million, unpaid principal of $5.9 million, and an allowance for credit losses of $1.5 million. Management concluded that none of the loans in the Company's bank loan portfolio were impaired at December 31, 2018.

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

At March 31, 2019, 99.5% of the Company’s fixed maturity security portfolio was rated “BBB-” or better (“investment grade”) by Standard & Poor’s or received an equivalent rating from another nationally recognized rating agency.

Management concluded that three fixed maturity securities from one issuer that we intend to sell at a loss in the second quarter were impaired as of March 31, 2019. The Company recorded impairment losses of $271,000 for the three securities in the three months ended March 31, 2019. Management does not intend to sell other available-for-sale securities in an unrealized loss position, and it is not “more likely than not” that the Company will be required to sell these other securities before a recovery in their value to their amortized cost basis occurs.

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

| | March 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | 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, available-for-sale: | | | | | | |
| State and municipal | $ 136,472 | $ 141,342 | *11.3%* | $ 147,160 | $ 149,295 | *12.6%* |
| Residential mortgage-backed | 225,702 | 223,544 | *17.9%* | 208,869 | 204,109 | *17.2%* |
| Corporate | 548,772 | 552,494 | *44.1%* | 534,024 | 524,768 | *44.3%* |
| Commercial mortgage and asset-backed | 204,612 | 204,517 | *16.3%* | 199,528 | 197,025 | *16.6%* |
| U.S. Treasury securities and obligations guaranteed by the U.S. government | 126,844 | 126,995 | *10.2%* | 107,803 | 107,193 | *9.1%* |
| Redeemable preferred stock | 2,025 | 2,034 | *0.2%* | 2,025 | 1,812 | *0.2%* |
| Total fixed maturity securities, available-for-sale | $ 1,244,427 | $ 1,250,926 | *100.0%* | $ 1,199,409 | $ 1,184,202 | *100.0%* |

The following table sets forth the composition of the Company's portfolio of available-for-sale fixed maturity securities by rating as of March 31, 2019:

| Standard & Poor's or Equivalent Designation | Fair Value | % of Total |
|---|---|---|
| | ($ in thousands) | |
| AAA | $ 209,043 | 16.7% |
| AA | 482,322 | 38.6% |
| A | 439,916 | 35.2% |
| BBB | 112,827 | 9.0% |
| Below BB and unrated | 6,818 | 0.5% |
| Total | $ 1,250,926 | 100.0% |

At March 31, 2019, our portfolio of fixed maturity securities contained corporate fixed maturity securities (available-for-sale) with a fair value of $552.5 million. A summary of these securities by industry segment is shown below as of March 31, 2019:

| Industry | Fair Value | % of Total |
|---|---|---|
| | ($ in thousands) | |
| Industrials and Other | $ 126,639 | 22.9% |
| Financial | 135,880 | 24.6% |
| Consumer Discretionary | 74,888 | 13.6% |
| Health Care | 87,686 | 15.9% |
| Consumer Staples | 61,415 | 11.1% |
| Utilities | 65,986 | 11.9% |
| Total | $ 552,494 | 100.0% |

Corporate fixed maturity securities (both available-for-sale and trading) include publicly traded securities and privately placed bonds as shown below as of March 31, 2019:

| Public/Private | Fair Value | % of Total |
|---|---|---|
| | ($ in thousands) | |
| Publicly traded | $ 502,123 | 90.9% |
| Privately placed | 50,371 | 9.1% |
| Total | $ 552,494 | 100.0% |

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

| | March 31, 2019 | | |
|---|---|---|---|
| | Amortized Cost | Fair Value | % of Total Value |
| | ($ in thousands) | | |
| Due in: | | | |
| One year or less | $ 39,494 | $ 39,447 | *3.1%* |
| After one year through five years | 438,067 | 440,339 | *35.2%* |
| After five years through ten years | 229,483 | 231,221 | *18.5%* |
| After ten years | 105,044 | 109,824 | *8.8%* |
| Residential mortgage-backed | 225,702 | 223,544 | *17.9%* |
| Commercial mortgage and asset-backed | 204,612 | 204,517 | *16.3%* |
| Redeemable preferred stock | 2,025 | 2,034 | *0.2%* |
| Total | $ 1,244,427 | $ 1,250,926 | *100.0%* |

At March 31, 2019, the Company had no investments in securitizations of alternative-A mortgages or sub-prime mortgages.

***Interest Expense***

Interest expense was $2.8 million and $2.5 million for the three months ended March 31, 2019 and 2018, respectively. See "—Liquidity and Capital Resources—Sources and Uses of Funds" for more information regarding our senior bank debt facilities and trust preferred securities.

***Amortization of Intangibles***

The Company recorded $149,000 of amortization of intangible assets for each of the three months ended March 31, 2019 and 2018, respectively.

***Income Tax Expense***

Our effective tax rate fluctuates from period to period based on the relative mix of income reported by country and the respective tax rates imposed by each tax jurisdiction. For the three months ended March 31, 2019 and 2018, our U.S. federal income tax expense was 10.8% and 8.7% of income before taxes, respectively. For U.S.-sourced income, the Company's U.S. federal income tax expense differs from the amounts computed by applying the federal statutory income tax rate to income before taxes due primarily to interest income on tax-advantaged state and municipal securities, dividends received income, and excess tax benefits on share based compensation.

## LIQUIDITY AND CAPITAL RESOURCES

***Sources and Uses of Funds***

*Dividends*

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

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

The Bermuda Insurance Act of 1978 prohibits an insurer from declaring or paying a dividend if it is in breach of its minimum solvency margin, its enhanced capital requirement, or its minimum liquidity ratio, or if the declaration or payment of such dividend would cause such a breach. An insurer can declare or pay dividends without prior regulatory approval up to 25% of the total statutory capital and surplus. The maximum combined amount of dividends and return of capital available to us from our Bermuda insurers in 2019 is calculated to be approximately $109.8 million. However, any dividend payment is contingent upon continued compliance with Bermuda regulatory requirements, including but not limited to the enhanced solvency requirement calculations.

At March 31, 2019, the Bermuda holding company had $1.3 million of cash and cash equivalents. The U.S. holding company had $53.0 million of cash and invested assets, comprised of cash and cash equivalents of $5.7 million and other invested assets of $47.3 million, which are not subject to regulatory restrictions. Additionally, our U.K. intermediate holding company had no invested assets and cash of less than ten thousand dollars at March 31, 2019.

Our net written premium to surplus ratio (defined as the ratio of net written premiums to regulatory capital and surplus) is reviewed by management as well as our rating agency as a measure of leverage and efficiency of deployed capital. For the three months ended March 31, 2019 and 2018, our annualized net written premium to surplus ratio was 1.1 to 1.0 and 1.3 to 1.0, respectively.

*Credit Agreements*

The Company has a $215.0 million senior revolving credit facility (as amended or amended and restated, the “2013 Facility”). The 2013 Facility is comprised of the following at March 31, 2019:

- A $102.5 million secured revolving facility used by JRG Re to issue letters of credit for the benefit of third-party reinsureds. This portion of our credit facility is secured by our investment securities. At March 31, 2019, the Company had $68.0 million of letters of credit issued under the secured facility.
- A $112.5 million unsecured revolving facility to meet the working capital needs of the Company. All unpaid principal on the revolver is due at maturity. Interest accrues quarterly and is payable in arrears at 3-month LIBOR plus a margin which is currently 1.5% and is subject to change according to terms in the credit agreement. At March 31, 2019, the Company had a drawn balance of $73.3 million outstanding on the unsecured revolver.

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

The 2013 Facility contains certain financial and other covenants (including 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 March 31, 2019.

On August 2, 2017, the Company, and its wholly-owned subsidiary, JRG Re, together as borrowers, entered into a credit agreement (the "2017 Facility") that provides the Company with a revolving line of credit of up to $100 million, which may be used for loans and letters of credit made or issued, at the borrowers' option, on a secured or unsecured basis. Obligations under the 2017 Facility carry a variable rate of interest subject to terms in the credit agreement and will mature 30 days after notice of termination from the lender. The 2017 Facility contains certain financial and other covenants with which we are in compliance at March 31, 2019. The loans and letters of credit made or issued under the revolving line of credit of the 2017 Facility may be used to finance the borrowers' general corporate purposes. At March 31, 2019, unsecured loans of $10.0 million and secured letters of credit totaling $5.3 million were outstanding on the 2017 Facility.

In May 2004, we issued $15.0 million of senior debt due April 29, 2034. The senior debt is not redeemable by the holder or subject to sinking fund requirements. Interest accrues quarterly and is payable in arrears at a floating rate per annum equal to the 3-month LIBOR plus 3.85%. This senior debt is redeemable at par prior to its stated maturity at our option in whole or in part. The terms of the senior debt contain certain covenants, with which we are in compliance at March 31, 2019, and which, among other things, restrict our ability to assume senior indebtedness secured by our U.S. holding company’s common stock or its subsidiaries’ capital stock or to issue shares of its subsidiaries’ capital stock.

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

The following table summarizes the nature and terms of the junior subordinated debt and trust preferred securities outstanding at March 31, 2019 (including the Company's repurchases of a portion of these trust preferred securities):

| | James River Capital Trust I | James River Capital Trust II | James River Capital Trust III | James River Capital Trust IV | Franklin Holdings II (Bermuda) Capital Trust I |
|---|---|---|---|---|---|
| | | | ($ 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% | Three-Month LIBOR plus 3.1% | Three-Month LIBOR plus 4.0% |

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

The junior subordinated debt contains certain covenants with which we are in compliance as of March 31, 2019.

At March 31, 2019 and December 31, 2018, the ratio of total debt outstanding, including both senior debt and junior subordinated debt, to total capitalization (defined as total debt plus total stockholders' equity) was 21.2% and 23.9%, respectively. Having debt as part of our capital structure allows us to generate a higher return on equity and greater book value per share results than we could by using equity capital alone.

***Ceded Reinsurance***

Our insurance segments enter into reinsurance contracts to limit our exposure to potential losses arising from large risks, to protect against the aggregation of several risks in a common loss occurrence, and to provide additional capacity for growth. Our reinsurance is contracted under excess of loss and quota share reinsurance contracts. In excess of loss reinsurance, the reinsurer agrees to assume all or a portion of the ceding company's losses in excess of a specified amount. The premiums payable to the reinsurer are negotiated by the parties based on their assessment of the amount of risk being ceded to the reinsurer because the reinsurer does not share proportionately in the ceding company's losses. In quota share reinsurance, the reinsurer agrees to assume a specified percentage of the ceding company's losses arising out of a defined class of business in exchange for a corresponding percentage of premiums. For the three months ended March 31, 2019 and 2018, our net premium retention was 63.5% and 70.8%, respectively.

The following is a summary of our Excess and Surplus Lines segment's net retention after reinsurance as of March 31, 2019:

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

*(1) Total exposure to any one claim is generally $1.0 million.*

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

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

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

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

Based upon the modeling of our Excess and Surplus Lines segment, a $45.0 million gross catastrophe loss would exceed our 1 in 1,000 year PML. In the event of a $45.0 million gross property catastrophe loss to the Excess and Surplus Lines segment, we estimate our pre-tax cost at approximately $7.1 million, including reinstatement premiums and net retentions. In addition to this retention, we would retain any losses in excess of our reinsurance coverage limits.

Effective March 1, 2019, our largest Commercial Auto ride share account is subject to an auto liability quota share reinsurance contract that contains a $10 million occurrence cap and an annual aggregate of 200% of subject premium.

The following is a summary of our Specialty Admitted Insurance segment's ceded reinsurance in place as of March 31, 2019:

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

*(1) Excluding one program which has quota share coverage for 90% of the first $1.0 million per occurrence and excess of loss coverage for $49.0 million in excess of $1.0 million.*

*(2) Includes any residual market pools.*

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

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

We also have a clash and contingency reinsurance treaty to cover both the Excess and Surplus Lines and Specialty Admitted Insurance segments in the event of a claims incident involving more than one of our insureds. The treaty covers $10.0 million in excess of a $2.0 million retention for loss occurrences within the treaty term. This coverage has two reinstatements in the event we exhaust any of the coverage. As of March 31, 2019, our average net retained limit per risk is $2.5 million.

The Company's insurance segments remain liable to policyholders if its reinsurers are unable to meet their contractual obligations under applicable reinsurance agreements. We establish allowances for amounts considered uncollectible. At March 31, 2019, there was no allowance for such uncollectible reinsurance recoverables. To minimize exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk. The Company generally seeks to purchase reinsurance from reinsurers with A.M. Best financial strength ratings of "A-" (Excellent) or better. The Company's reinsurance contracts generally require reinsurers that are not authorized as reinsurers under U.S. state insurance regulations or that experience rating downgrades from rating agencies below specified levels to fund their share of the Company's ceded outstanding losses and loss adjustment expense reserves, typically through the use of irrevocable and unconditional letters of credit. In fronting arrangements, which the Company conducts through its Specialty Admitted Insurance segment, we are subject to credit risk with regard to insurance companies who act as reinsurers for us in such arrangements. We customarily require a collateral trust arrangement to secure the obligations of the insurance entity for whom we are fronting.

At March 31, 2019, we had reinsurance recoverables on unpaid losses of $508.7 million and reinsurance recoverables on paid losses of $34.4 million, and all material recoverable amounts were from companies with A.M. Best ratings of “A-” or better or collateral had been posted by the reinsurer for our benefit.

***Amounts Recoverable from an Indemnifying Party***

The Company is a party to a set of insurance contracts with an insured group of companies under which the Company pays losses and loss adjustment expenses on the contract. The Company has indemnity agreements with this group of insured parties (non-insurance entities) and is contractually entitled to receive reimbursement for a significant portion of the losses and loss adjustment expenses paid on behalf of the insured parties and other expenses incurred by the Company. The insured parties are required to collateralize all amounts currently due to the Company and to provide additional collateral sufficient to cover the amounts that may be recoverable under the indemnity agreements, including, among other things, case loss and loss adjustment expense reserves, IBNR loss and loss adjustment expense reserves, extra contractual obligations and excess of policy limits liabilities. The collateral is currently provided through a collateral trust arrangement established in favor of the Company by a captive insurance company affiliate of the insured group. At March 31, 2019, the cash equivalent collateral held in the collateral trust arrangement was approximately $1,156.0 million, which exceeds the amount of claims receivable and unpaid reported losses and loss adjustment expenses outstanding. The Company has ongoing exposure to estimated losses and expenses on these contracts growing at a faster pace than growth in our collateral balances. In addition, we have credit exposure if our estimates of future losses and loss adjustment expenses and other amounts recoverable, which are the basis for establishing collateral balances, are lower than actual amounts paid or payable. The amount of our credit exposure in any of these instances could be material. To mitigate these risks, we closely and frequently monitor our exposure compared to our collateral held, and we request additional collateral when our analysis indicates that we have uncollateralized exposure.

***Cash Flows***

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| | ***($ in thousands)*** | |
| Cash and cash equivalents provided by (used in): | | |
| Operating activities | $ 35,450 | $ 48,461 |
| Investing activities | (47,369) | (53,244) |
| Financing activities | (27,986) | (7,666) |
| Change in cash and cash equivalents | $ (39,905) | $ (12,449) |

Cash provided by operating activities for the three months ended March 31, 2019 and 2018 reflects the growth in our U.S. segments and the fact that we are collecting premiums receivable at a quicker rate than we are paying loss and loss adjustment expenses. Cash provided by operating activities has declined compared to the prior year quarter due to reduced business writings in our Casualty Re segment.

Cash used in investing activities reflects our efforts to enhance the yield in our investment portfolio by investing available cash and cash equivalents into higher yielding fixed maturity securities and bank loan participations. Cash and cash equivalents comprised 7.0% and 9.2% of total cash and invested assets at March 31, 2019 and 2018, respectively.

Cash used in financing activities for the three months ended March 31, 2019 and 2018 included $9.2 million and $9.1 million of dividends paid to shareholders, respectively. In addition, we repaid $20.0 million on our 2017 Facility in the three months ended March 31, 2019.

***Ratings***

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

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

**EQUITY**

The Company issued 173,585 common shares in the three months ended March 31, 2019 with 98,975 of the new shares related to stock option exercises and 74,610 of the new shares related to vesting of RSUs. The total common shares outstanding increased from 29,988,460 at December 31, 2018 to 30,162,045 at March 31, 2019.

***Share Based Compensation Expense***

For the three months ended March 31, 2019 and 2018, the Company recognized $1.7 million and $1.5 million, respectively, of share based compensation expense. As of March 31, 2019, the Company had $13.7 million of unrecognized share based compensation expense expected to be charged to earnings over a weighted-average period of 2.2 years.

***Equity Incentive Plans***

***Options***

The following table summarizes option activity:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Shares | | Weighted-Average Exercise Price | Shares | | Weighted-Average Exercise Price |
| Outstanding: | | | | | | |
| Beginning of period | 1,115,324 | $ | 29.02 | 1,479,236 | $ | 27.81 |
| Granted | — | $ | — | — | $ | — |
| Exercised | (125,349) | $ | 29.47 | (142,129) | $ | 20.14 |
| Forfeited | (3,759) | $ | 36.37 | — | $ | — |
| End of period | 986,216 | $ | 28.94 | 1,337,107 | $ | 28.63 |
| Exercisable, end of period | 926,166 | $ | 28.07 | 983,508 | $ | 26.06 |

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

***RSUs***

The following table summarizes RSU activity:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Shares | | Weighted-Average Grant Date Fair Value | Shares | | Weighted-Average Grant Date Fair Value |
| Unvested, beginning of period | 300,142 | $ | 39.22 | 178,882 | $ | 37.93 |
| Granted | 167,295 | $ | 42.07 | 214,907 | $ | 39.81 |
| Vested | (109,545) | $ | 39.93 | (62,714) | $ | 40.90 |
| Forfeited | (1,398) | $ | 40.26 | — | $ | — |
| Unvested, end of period | 356,494 | $ | 40.33 | 331,075 | $ | 38.59 |

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

## RECONCILIATION OF NON-GAAP MEASURES

### *Reconciliation of Underwriting Profit*

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

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

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| | *(in thousands)* | |
| Underwriting profit of the insurance segments: | | |
| Excess and Surplus Lines | $ 13,102 | $ 11,299 |
| Specialty Admitted Insurance | 1,623 | 1,623 |
| Casualty Reinsurance | 327 | 1,744 |
| Total underwriting profit of insurance segments | 15,052 | 14,666 |
| Other operating expenses of the Corporate and Other segment | (7,906) | (7,431) |
| Underwriting profit (1) | 7,146 | 7,235 |
| Net investment income | 19,431 | 13,256 |
| Net realized and unrealized gains (losses) on investments | 1,625 | (810) |
| Amortization of intangible assets | (149) | (149) |
| Other income and expenses | 246 | 104 |
| Interest expense | (2,808) | (2,522) |
| Income before taxes | $ 25,491 | $ 17,114 |

*(1) Included in underwriting results for the three months ended March 31, 2019 and 2018 is gross fee income of $6.4 million and $8.2 million, respectively.*

### *Reconciliation of Adjusted Net Operating Income*

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

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

| | Three Months Ended March 31, 2019 | | 2018 | |
|---|---|---|---|---|
| | Income Before Taxes | Net Income | Income Before Taxes | Net Income |
| | *($ in thousands)* | | | |
| Income as reported | $ 25,491 | $ 22,728 | $ 17,114 | $ 15,633 |
| Net realized and unrealized (gains) losses on investments | (1,625) | (1,015) | 810 | 665 |
| Other expenses | — | — | 4 | 20 |
| Interest expense on leased building the Company was previously deemed to own for accounting purposes | — | — | 318 | 251 |
| Adjusted net operating income | $ 23,866 | $ 21,713 | $ 18,246 | $ 16,569 |

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

Key financial measures that we use to assess our longer term financial performance include the percentage growth in our tangible equity per share and our return on tangible equity. We believe tangible equity is a good measure to evaluate the strength of our balance sheet and to compare returns relative to this measure. For the three months ended March 31, 2019, our tangible equity per share increased by 8.6%. Absent the $9.1 million in dividends to shareholders in the three months ended March 31, 2019, our tangible equity per share increased by 10.4% for the three months ended March 31, 2019. Our operating return on tangible shareholders' equity was 16.9% for the three months ended March 31, 2019.

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

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Equity | Equity per Share | Equity | Equity per Share |
| | *($ in thousands, except share amounts)* | | | |
| Shareholders' equity | $ 754,297 | $ 25.01 | $ 709,241 | $ 23.65 |
| Less: | | | | |
| Goodwill | 181,831 | 6.03 | 181,831 | 6.06 |
| Intangible assets | 37,388 | 1.24 | 37,537 | 1.25 |
| Tangible equity | $ 535,078 | $ 17.74 | $ 489,873 | $ 16.34 |
| Dividends to shareholders for the three months ended March 31, 2019 | 9,144 | 0.30 | | |
| Pre-dividend tangible equity | $ 544,222 | $ 18.04 | | |

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

### Item 4. Controls and Procedures

***Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required financial disclosure. In connection with the preparation of this quarterly report on Form 10-Q, our management carried out an evaluation, under the supervision and with the participation of our management, including the CEO and CFO, as of March 31, 2019, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2019.

**Changes in Internal Controls over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Inherent Limitations on Effectiveness of Controls**

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

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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

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

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other information

None.

**Item 6. Exhibits**

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

**Signatures**

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

| | | | |
|---|---|---|---|
| | | | James River Group Holdings, Ltd. |
| Date: | May 3, 2019 | By: | /s/ Robert P. Myron |
| | | | Robert P. Myron<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: | May 3, 2019 | By: | /s/ Sarah C. Doran |
| | | | Sarah C. Doran<br>Chief Financial Officer<br>(Principal Financial Officer) |

**Exhibit 31.1**

**CERTIFICATION**

I, Robert P. Myron, certify that:

1. I have reviewed this quarterly report on Form 10-Q of James River Group Holdings, Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2019

/s/ Robert P. Myron

Robert P. Myron
President and Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**

I, Sarah C. Doran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of James River Group Holdings, Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2019

/s/ Sarah C. Doran

Sarah C. Doran
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32**

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

In connection with the quarterly report of James River Group Holdings, Ltd. (the “Company”) on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Robert P. Myron, President and Chief Executive Officer of the Company, and Sarah C. Doran, Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert P. Myron

Robert P. Myron
President and Chief Executive Officer
(Principal Executive Officer)
May 3, 2019

/s/ Sarah C. Doran

Sarah C. Doran
Chief Financial Officer
(Principal Financial Officer)
May 3, 2019