

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED December 31, 2021

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 000-25001

FedNat Holding Company

(Exact name of registrant as specified in its charter)

Florida

(State or Other Jurisdiction of Incorporation or Organization)

65-0248866

(IRS Employer Identification Number)

14050 N.W. 14th Street, Suite 180, Sunrise, FL

(Address of principal executive offices)

33323

(Zip Code)

Registrant's telephone number, including area code: 800-293-2532

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

Title of Each Class

Trading Symbol

Name of Each Exchange on Which Registered

Common Stock, par value \$0.01 per share

FNHC

NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

growth company" in Rule 12b-2 of the Exchange Act:

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report ☒

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

The aggregate market value of the Registrant's common stock held by non-affiliates was \$68,298,592 as of June 30, 2021, computed on the basis of the closing sale price of the Registrant's common stock on June 30, 2021 (the last business day of the second fiscal quarter).

As of March 4, 2022, the total number of common shares outstanding of Registrant's common stock was 17,446,930.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Form 10-K will be incorporated by reference from the Registrant's definitive proxy statement or included in an amendment on Form 10-K/A that will be filed not later than 120 days after the end of the fiscal year ended December 31, 2021.

FEDNAT HOLDING COMPANY TABLE OF CONTENTS

PART I		
ITEM 1	<u>BUSINESS</u>	2
ITEM 1A	<u>RISK FACTORS</u>	15
ITEM 1B	<u>UNRESOLVED STAFF COMMENTS</u>	28
ITEM 2	<u>PROPERTIES</u>	28
ITEM 3	<u>LEGAL PROCEEDINGS</u>	28
ITEM 4	<u>MINE SAFETY DISCLOSURES</u>	29
PART II		
ITEM 5	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	29
ITEM 6	<u>[RESERVED]</u>	30
ITEM 7	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	31
ITEM 7A	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	53
ITEM 8	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	54
ITEM 9	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	107
ITEM 9A	<u>CONTROLS AND PROCEDURES</u>	107
ITEM 9B	<u>OTHER INFORMATION</u>	108
ITEM 9C	<u>DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS</u>	108
PART III		
ITEM 10	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	108
ITEM 11	<u>EXECUTIVE COMPENSATION</u>	108
ITEM 12	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	108
ITEM 13	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	108
ITEM 14	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	108
PART IV		
ITEM 15	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	109
ITEM 16	<u>FORM 10-K SUMMARY</u>	116
<u>SIGNATURES</u>		

PART I

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS AND NON-GAAP MEASURES

This Annual Report on Form 10-K ("Annual Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are therefore entitled to the protection of the safe harbor provisions of these laws. These statements may be identified by the use of forward-looking terminology such as "anticipate," "believe," "budget," "contemplate," "continue," "could," "envision," "estimate," "expect," "forecast," "guidance," "indicate," "intend," "may," "might," "outlook," "plan," "possibly," "potential," "predict," "probably," "pro-forma," "project," "seek," "should," "target," "will," "would," "will be," "will continue" or the negative thereof or other variations thereon or comparable terminology. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve a number of risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Management cautions that the forward-looking statements contained in this Annual Report are not guarantees of future performance, and we cannot assume that such statements will be realized or the forward-looking events and circumstances will occur. Factors that might cause such a difference include, without limitation, the risks and uncertainties discussed under Item 1. Business – "Going Concern" and Item 1A. "Risk Factors" in this Annual Report, and discussed from time to time in our reports filed with the Securities and Exchange Commission ("SEC").

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included or incorporated by reference into this Annual Report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

In addition to providing consolidated revenues and net income (loss), in the Annual Report we also provide adjusted operating revenues and adjusted operating income (loss) because we believe these performance measures that are not United States of America generally accepted accounting principles ("GAAP") measures allow for a better understanding of the underlying trend in our business, as the excluded items are not necessarily indicative of our operating fundamentals or performance.

Non-GAAP measures do not replace the most directly comparable GAAP measures. Refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" below for a detailed reconciliation.

We exclude the after-tax (using our prevailing income tax rate) effects of the following items from GAAP net income (loss) to arrive at adjusted operating income (loss):

- Net realized and unrealized investment gains (losses);
- Gains (losses) associated with early extinguishment of debt;
- Merger and acquisition, integration and other strategic costs, and the amortization of specifically identifiable intangibles (other than value of business acquired);
- Impairment of intangibles;
- Income (loss) from initial adoption of new regulations and accounting guidance; and
- Income (loss) from discontinued operations.

We also exclude the pre-tax effect of the first bullet above from GAAP revenues to arrive at adjusted operating revenues.

ITEM 1. BUSINESS

GENERAL

FedNat Holding Company (“FNHC,” the “Company,” “we,” “us,” or “our”) is a regional insurance holding company that controls substantially all aspects of the insurance underwriting, distribution and claims processes through our subsidiaries and contractual relationships with independent agents and general agents. We, through our wholly owned subsidiaries, are authorized to underwrite, and/or place homeowners multi-peril (“homeowners”), federal flood and other lines of insurance in Florida and other states. We market, distribute and service our own and third-party insurers’ products and other services through a network of independent and general agents.

FedNat Insurance Company (“FNIC”), our largest wholly-owned insurance subsidiary, is licensed as an admitted carrier to write homeowners property and casualty insurance by the state insurance departments in Florida, Louisiana, Texas, South Carolina, Alabama, Georgia and Mississippi.

Maison Insurance Company (“MIC” or “Maison”), an insurance subsidiary that we acquired on December 2, 2019 (see “Maison Companies Acquisition” below for more information), is licensed as an admitted carrier to write homeowners property and casualty insurance as well as wind/hail only exposures by the state insurance departments in Louisiana, Texas and Florida. Refer to *Overview of Insurance Lines of Business - Non-Florida* below for information regarding the Company's plan to execute an orderly runoff of MIC's insurance operations.

Monarch National Insurance Company (“MNIC”), an insurance subsidiary, is licensed to write homeowners property and casualty insurance in Florida.

Through our wholly-owned subsidiary, FedNat Underwriters, Inc. (“FNU”), we serve as managing general agent for FNIC, MIC and MNIC. ClaimCor, LLC (“ClaimCor”), a wholly-owned subsidiary, is a claims solutions company that processes claims for FNIC, MIC and MNIC.

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Gross Premiums Written			
Homeowners:			
Florida	\$ 428,439	\$ 444,576	\$ 451,856
Texas	98,127	127,005	66,429
Louisiana	89,115	93,331	45,043
South Carolina	37,058	35,261	25,172
Alabama	9,311	7,676	5,841
Mississippi	1,667	261	—
Total homeowners	663,717	708,110	594,341
Personal automobile	—	—	(1)
Commercial general liability	(244)	(247)	(145)
Federal flood	21,304	19,022	16,413
Gross premiums written total	<u>\$ 684,777</u>	<u>\$ 726,885</u>	<u>\$ 610,608</u>

Acquisitions and Joint Ventures

Maison Companies Acquisition

On December 2, 2019, the Company closed its acquisition from 1347 Property Insurance Holdings, Inc., a Delaware corporation (“PIH”), of PIH’s insurance operations conducted through MIC, MMI and ClaimCor (collectively, “Maison Companies”). The results of operations of the Maison Companies are included herein only from the acquisition date forward.

Refer to Note 3 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information regarding the acquisition.

Material Distribution Relationships

We are a party to an insurance agency master agreement with Ivantage Select Agency, Inc. (“ISA”), an affiliate of Allstate Insurance Company (“Allstate”), pursuant to which we have been authorized by ISA to appoint Allstate agents to offer our homeowners insurance products to consumers in Florida.

We are a party to a managing general underwriting agreement with SageSure Insurance Managers, LLC (“SageSure”) in which they underwrite our FNIC homeowners business outside of Florida. Refer to *Overview of Insurance Lines of Business - Non-Florida* below for information regarding the Company’s plan to execute an orderly runoff of insurance policies in our non-Florida market.

Executive Office

Our executive office is located at 14050 N.W. 14th Street, Suite 180, Sunrise, Florida 33323. Our telephone number is (800) 293-2532.

Available Information

Our internet web site is www.FedNat.com for policy holders, agents and investors. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports are available, free of charge, through our website as soon as reasonably practicable after we electronically file or furnish such material to the SEC. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

GOING CONCERN

The Company has recently concluded that there is substantial doubt regarding its ability to continue as a going concern under Generally Accepted Accounting Principles. Our assessment of our ability to continue as a going concern was dependent on many factors, including, among other things, whether we would be able to maintain a Demotech rating of “A” for FNIC and MNIC, the impact such a downgrade might have on our ability to obtain excess-of-loss reinsurance for the period beginning July 1, 2022, and the continued impact severe weather events in 2022 will have on our RBC ratio and statutory surplus.

The Company reached this conclusion based on its expectation of continued underwriting losses in the first quarter of 2022, primarily as a result of new catastrophe weather events occurring late in the first quarter and, more importantly, based on Demotech’s downgrade of FNIC’s rating from “A” to “S”. MNIC’s “A” rating was recently reaffirmed. The Company believes that the downgrade of FNIC’s Demotech rating will adversely impact our ability to obtain excess-of-loss reinsurance for coverage beginning July 1, 2022. Absent such coverage, the Company will not be in compliance with requirements communicated by the Office of Insurance Regulation of the state of Florida (“OIR”) regarding such coverage, which could ultimately result in the Company being placed into receivership. Further, the Company’s conclusion that there is substantial doubt with respect to its ability to continue as a going concern is expected to result in increased regulatory oversight of the Company’s operations by the OIR. On April 21, 2022, the Company entered into a consent order with the OIR under which the Company has agreed to file with the OIR by April 29, 2022 a plan to demonstrate the Company’s ability to secure and maintain a financial strength rating acceptable to the secondary mortgage market, acquire sufficient reinsurance as of its July 1, 2022 renewal, support its existing business via the securing of additional capital, and address its non-Florida losses and policies.

Being placed into receivership and/or failing to obtain excess-of-loss reinsurance each represent potential defaults under the applicable covenants of our senior note indentures that could result in acceleration of repayment of our debt. We cannot provide any assurance that we will be able to comply with certain covenants in our senior note indentures or to make satisfactory alternative arrangements in the event we cannot do so. Please see Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” for further discussion. Also, for additional discussion of factors that may affect our ability to continue as a going concern and the potential consequences of our failure to do so, please see “Item 1A — Risk Factors.”

Accordingly, in the aggregate, such conditions raise substantial doubt regarding the Company's ability to continue as a going concern.

The Company continues to explore strategic alternatives in an effort to increase its capital resources to support its insurance carriers and preserve value for the Company's many stakeholders. These alternatives include raising additional capital and restructuring our insurance carriers (including potential reallocations of capital or books of business among our three carriers to safeguard portions of our existing business), as well as other reinsurance and capital options; however, there can be no assurance that we will be able to execute on all or any of the strategic alternatives, successfully raise additional capital or obtain excess-of-loss reinsurance. Management's action plans include the following, many of which are intended to improve profitability, some of which are already well underway:

- We have refocused our operations on writing Florida homeowners policies by, among other things, allowing our policies outside of Florida to run off. Our non-Florida policies have driven a disproportionately high percentage of catastrophe losses over the past two years. The runoff of our non-Florida business that began in December 2021 is currently expected to continue over a period of approximately 18 months, during which time policies would remain in effect until their expiration dates. We are also currently exploring options to accelerate this process. See Overview of Insurance Lines of Business – Non-Florida for more information about the status of the runoff of our non-Florida books.
- We are writing fewer policies to adjust to our lower level of capital.
- We are exploring restructuring alternatives for our insurance carriers to increase our ability to obtain an excess-of-loss reinsurance tower for our Florida book of business.
- We are exploring alternative terms and conditions to enhance our attractiveness to potential excess-of-loss reinsurance partners.
- We have applied for rate increases with an estimated 12.9% increase of our rates on our existing and new business in Florida, and will continue new rate filings as needed to keep up with our substantially increased costs of doing business.
- We may merge one or more of our insurance carriers, subject to regulatory approvals, to the extent that such action would drive capital and/or RBC efficiencies.
- We are seeking additional capital through various means, including the potential issuance of equity and/or debt securities (consistent with our existing debt indentures) and possible sales of non-core assets.

In assessing the Company's ability to continue as a going concern, the Company did not assume the successful execution of such strategies and action plans because they are not fully within the Company's control.

INSURANCE OPERATIONS AND RELATED SERVICES

Business Strategy

To address the challenges facing the Company as discussed above, the Company is continuing numerous operational initiatives to improve our underwriting results, as follows:

- refocusing on writing policies in Florida, where the market has improved over the last few years due to legislative reform and significant rate increases implemented by FNIC and MNIC;
- executing an orderly runoff of insurance policies in our non-Florida markets, including all insurance operations of MIC and FNIC's non-Florida book written through SageSure, a third-party managing general underwriter;
- increasing rates on our policies, where warranted, based on claims experience and the increased cost of catastrophe and quota-share reinsurance, with a focus on generating an overall sustainable underwriting profit, irrespective of competitive pricing pressures within the markets where we operate, in all cases subject to required regulatory approvals;
- continuing to non-renew, within all relevant regulatory parameters, policies that no longer meet our underwriting and/or profitability standards as we continuously update our view of risk based on emerging trends and information;
- applying rigorous underwriting standards on all new and renewal business, even if that limits growth in our Florida book of business, due to the challenging claims environment;
- focusing on operational efficiencies to reduce expenses in conjunction with our continued investment in, and use of, technology;
- enhancing our property analytical metrics on our property books of business, such as construction type, year built and age of roof, while managing our underwriting appetite, whether new or renewal, in pursuit of a better quality book of business;
- maintaining our commitment to provide high quality customer service to our agents and insureds;
- continued focus of our marketing efforts by retaining key personnel and utilizing multiple distribution strategies;
- offering competitive compensation to our agents to place quality business with our companies;
- continuing with our comprehensive catastrophe reinsurance programs to reduce our exposure to risks;

- continuing our execution of the strategic review process initiated by our board of directors, as announced on November 4, 2020, which could result in, among other things, changes in our strategy or operations, a strategic business combination or other possible transactions, possible joint ventures or dispositions of assets, or continuing to execute on our current business plan; and
- optimizing the free cash flow generated by our managing general agencies and other insurance services businesses.

Refer to Note 18 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for information regarding recent developments.

Overview of Insurance Lines of Business

Homeowners Property and Casualty Insurance

FNIC, MIC and MNIC underwrite homeowners insurance in Florida and FNIC and MIC also underwrites homeowners insurance in Louisiana and Texas, while FNIC also underwrites homeowners in South Carolina, Alabama and Mississippi. Homeowners insurance generally protects an owner of real and personal property against covered causes of loss to that property. As of December 31, 2021, the total homeowners policies in-force was 280,000, of which 160,000 were in Florida and 120,000 were outside of Florida. As of December 31, 2020, the total homeowners policies in-force was 361,000, of which 207,000 were in Florida and 154,000 were outside of Florida. Refer to *Overview of Insurance Lines of Business - Non-Florida* below for information regarding the Company's plan to execute an orderly runoff of our non-Florida insurance operations.

Florida

Our homeowners insurance products provide maximum dwelling coverage of approximately \$3.6 million, with the aggregate maximum policy limit being approximately \$6.3 million. We currently offer dwelling coverage "A" up to \$4.0 million with an aggregate total insured value of \$6.5 million. We continually review and update these limits. The approximate average premium on the policies currently in-force is \$2,696, as compared with \$2,100 for 2020. The typical deductible is either \$2,500 or \$1,000 for non-hurricane-related claims and generally 2% of the coverage amount for the structure for hurricane-related claims.

Premium rates charged to our homeowners insurance policyholders are continually evaluated to assure that they meet the expectation that they are actuarially sound and produce a reasonable level of profit (neither excessive, inadequate or discriminatory). Premium rates in Florida and other states are regulated and approved by the respective states' office of insurance regulation. We continuously monitor and seek appropriate adjustment to our rates in order to remain competitive and profitable.

Through MIC, we have assumed Florida policies through the state-run insurer Citizens Property Insurance Corporation ("Citizens").

The following are our recent approved rate actions that we have taken across our three insurance subsidiaries:

- In 2020, FNIC received approval from the OIR for a statewide-average rate increase of 6.7% for Florida homeowners multiple-peril insurance policies, which became effective for new policies on February 8, 2021 and for renewal policies on March 30, 2021.
- In 2020, FNIC received OIR approval for a statewide-average rate increase of 8.3% for Florida dwelling fire insurance policies, which became effective for new policies on February 2, 2021 and for renewal policies on March 30, 2021.
- In 2020, MIC received OIR approval for a statewide-average rate increase of 15.0% for Florida manufactured home insurance policies, which became effective for new policies on March 10, 2021.
- In 2021, FNIC received OIR approval for a statewide-average rate increase of 9.0% for Florida homeowners multiple-peril insurance policies, which became effective for new policies on March 1, 2021 and for renewal policies on April 15, 2021.
- In 2021, MIC received OIR approval for a statewide-average rate increase of 14.8% for Florida takeout wind only policies, which became effective on August 1, 2021.
- In 2021, MIC filed for a statewide-average rate increase of 14.9% for Florida manufactured home insurance policies, which became effective for new and renewal policies on August 15, 2021.
- In 2021, FNIC received approval from the OIR for a statewide-average rate increase of 0.9% for Florida homeowners multiple-peril insurance policies, which became effective for new policies on September 1, 2021 and for renewal policies on October 15, 2021.
- In 2021, MIC received OIR approval for a statewide-average rate increase of 14.9% for Florida takeout wind only policies, which became effective on December 25, 2021.
- In 2021, MIC received OIR approval for a statewide-average rate increase of 14.9% for Florida voluntary wind only policies, which became effective on February 7, 2022.

- Other rate filings have been filed with the OIR and are pending approval.

Non-Florida

Our FNIC non-Florida homeowners insurance products, produced through our partnership with SageSure, provide maximum dwelling coverage “A” up to \$1.8 million, with the aggregate maximum policy limit being approximately \$3.5 million. The approximate average premium on the policies currently in-force is \$1,968, as compared with \$1,761 for 2020. The typical deductible is either \$2,500 or \$1,000 for non-hurricane-related claims and generally 2% of the coverage amount for the structure for hurricane-related claims.

As part of our partnership with SageSure, previously we entered into a profit share agreement, whereby we shared 50% of net profits of this line of business through June 30, 2020, as calculated per the terms of the agreement, subject to limitations, which included limits on the net losses that SageSure could realize. The profit share cost was reflected in commissions and other underwriting expenses on our consolidated statement of operations. Effective July 1, 2020, FNIC entered into a quota-share treaty with Anchor Re, Inc. (“Anchor Re”), an Arizona captive that is an affiliate of SageSure, the non-affiliated managing general underwriter that writes FNIC’s non-Florida homeowners business. The treaty provides 50% quota-share reinsurance protection on claims incurred subsequent to July 1, 2020 on in-force, new and renewal business through June 30, 2021, subject to certain limitations. The treaty was fully collateralized through Anchor Re. The financial economics of this treaty substantially mirrored the 50% profit-sharing arrangement that was previously in place. Thus, this treaty did not have any impact on the pre-tax operating results of the Company, though the components of the combined ratio were affected by the ceding of premiums, claims and commissions.

On November 3, 2020, FNIC increased its cession percentage in this treaty from 50% to 80%, effective December 1, 2020, on claims incurred subsequent to December 1, 2020 on in-force, new and renewal basis. Effective January 31, 2021, the Company terminated its then-existing quota-share reinsurance treaty with Anchor Re and commuted the agreement. Immediately after the commutation, the Company entered into an 80% quota-share treaty with Anchor Re on February 1, 2021 on an in-force, new and renewal basis, which covered the thirteen month period through February 28, 2022, subject to certain limitations. The treaty arrangement was fully collateralized through Anchor Re.

Effective December 31, 2021, the Company terminated its existing 80% quota-share reinsurance treaty with Anchor Re and commuted the agreement. Immediately after the commutation, the Company entered into a 100% quota-share treaty with Anchor Re on December 31, 2021 on an in-force, new and renewal basis, which covers the six month period through June 30, 2022, subject to certain limitations which include limits on the net losses that Anchor Re can realize during the treaty year. The new treaty excludes catastrophe losses, involves a funded trust and is fully collateralized through Anchor Re.

Our MIC non-Florida insurance products include homeowners insurance, manufactured home insurance and dwelling fire insurance. MIC writes both full peril property policies as well as wind/hail only exposures.

The following are our recent approved rate actions that we have taken across our insurance subsidiaries that do business outside of Florida:

- In 2021, FNIC applied for a statewide-average rate increase of 8.4% for Mississippi homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on January 17, 2022 and for renewal policies on March 1, 2022.
- In 2021, MIC applied for a statewide-average rate increase of 24.6% for Louisiana voluntary dwelling insurance policies, which was approved by the respective regulatory agency and became effect for new policies on March 15, 2021 and for renewal policies on April 15, 2021.
- In 2021, FNIC applied for a statewide-average rate increase of 5.0% for Alabama homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on April 1, 2021 and for renewal policies on May 1, 2021.
- In 2021, FNIC applied for a statewide-average rate increase of 6.9% for South Carolina homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on April 1, 2021 and for renewal policies on May 1, 2021.
- In 2021, FNIC applied for a statewide-average rate increase of 9.0% for Texas homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on April 8, 2021 and for renewal policies on May 1, 2021.
- In 2021, FNIC applied for a statewide-average rate increase of 9.5% for Texas homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on August 16, 2021 for renewal policies on November 1, 2021.

- In 2021, FNIC applied for a statewide-average rate increase of 15.0% for Texas homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on November 1, 2021 and for renewal policies on December 16, 2021.
- In 2021, MIC applied for a statewide-average rate increase of 11.1% for Louisiana homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on May 15, 2021 and for renewal policies on July 1, 2021.
- In 2021, MIC applied for a statewide-average rate increase of 11.0% for Louisiana takeout insurance policies, which was approved by the respective regulatory agency and became effective for new and renewal policies on July 1, 2021.
- In 2021, FNIC applied for a statewide-average rate increase of 11.0% for Louisiana homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new and renewal policies on July 1, 2021. In 2021, MIC applied for a statewide-average rate increase of 25.7% for Texas voluntary wind only insurance policies, which was effective for new and renewal policies on July 15, 2021.
- In 2021, MIC applied for a statewide-average rate increase of 9.5% for Texas takeout wind only insurance policies, which was effective for new and renewal policies on July 15, 2021.
- In 2021, MIC applied for a statewide-average rate increase of 22.6% for Texas manufactured home insurance policies, which was effective for new and renewal policies on August 15, 2021.
- In 2021, FNIC applied for a statewide-average rate increase of 15.0% for Louisiana homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on October 25, 2021 and for renewal policies on December 1, 2021.
- In 2021, MIC applied for a statewide-average rate increase of 19.0% for Louisiana takeout insurance policies, which was approved by the respective regulatory agency and became effective for new and renewal policies on November 25, 2021.
- In 2021, MIC applied for a statewide-average rate increase of 8.6% for Louisiana manufactured home insurance policies, which was approved by the respective regulatory agency and became effective for new and renewal policies on November 25, 2021.
- In 2021, MIC applied for a statewide-average rate increase of 23.1% for Texas homeowners insurance policies, which was effective for new policies on December 1, 2021 and effective for renewal policies on January 1, 2022.
- In 2021, MIC applied for a statewide-average rate increase of 18.9% for Louisiana homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new and renewal policies on December 3, 2021.
- In 2021, FNIC applied for a statewide-average rate increase of 20.0% for South Carolina homeowners insurance policies, which was approved by the respective regulatory agency and became effective for new policies on April 1, 2022 and for renewal policies on May 1, 2022.
- Additional rate filings have been applied for by FNIC and MIC and are pending to be approved by the respective regulatory agency.

In November 2021, the Company announced its plan to re-focus its operations on the Florida market, which has been the Company's historical focus. In conjunction with this shift in strategy, the Company commenced an orderly runoff of MIC's insurance operations. In that regard, MIC filed appropriate documentation with its insurance regulators in Louisiana, Florida and Texas concerning MIC's withdrawal plan. We began non-renewing MIC's Louisiana policies on their anniversary dates in January 2022. Non-renewal of MIC's Texas policies began in March 2022, and the non-renewal of MIC's Florida policies is expected to begin in July 2022. With respect to FNIC's Texas and Louisiana books, the Company and SageSure (the third-party MGU that underwrote the business and owns the renewal rights thereof) began transferring policies onto alternative SageSure insurance carrier partners in December 2021, by virtue of making offers of coverage to FNIC policyholders. FNIC policies in South Carolina, Alabama and Mississippi are expected to continue to be renewed by FNIC up through June 30, 2022. SageSure has begun offering renewals in Texas and Louisiana from alternative SageSure insurance carrier partners and we expect they will do the same in South Carolina, Alabama and Mississippi by July 2022. We expect to begin non-renewing all FNIC's policies produced by SageSure in all states, subject to regulatory approvals of our withdrawal plans, beginning April 30, 2022 for Texas and Louisiana and beginning May 31, 2022 for Alabama and Mississippi, and June 30, 2022 in South Carolina. The non-renewal of all existing policies is governed by the appropriate regulatory requirements of each state in which the property insured by the policy is located. In conjunction with the 100% quota-share treaty and the in-process transfer of the book discussed above, effective February 1, 2022, claims handling for the SageSure book was transferred to an affiliate of SageSure.

Other Lines of Business

Flood: FNIC writes flood insurance through the National Flood Insurance Program ("NFIP"). We write the policy for the NFIP, which assumes 100% of the flood risk while we retain a commission for our service. FNIC offers this line of business in Florida,

Louisiana, Texas, Alabama, South Carolina and Mississippi. FNIC plans to file an admitted flood endorsement as an alternative to the NFIP program. Until December 2021, MIC wrote flood insurance through a partnership with Bintech Partners, Inc. who assumes 100% of the risk, in Louisiana only.

MARKETING AND DISTRIBUTION

Our independent agents and general agents have the authority to sell and bind insurance coverage in accordance with procedures established by FNU. FNU generally accepts all coverage that falls within stated underwriting criteria. For all policies issued, FNU has the right, within a period that varies by state between 60 days and 120 days from a policy's inception, to cancel any policy, upon an advanced notice provided in accordance with statutory specific guidelines, even if the risk falls within our underwriting criteria. We are focusing our marketing efforts on Florida and are maintaining our commitment to long-term relationships. We market our products and services throughout Florida by establishing relationships with independent agents and general agents. As previously discussed, we are in the process of executing an orderly runoff of insurance policies in our non-Florida market.

We believe that our integrated computer systems, which allow for rapid automated premium quotation and policy issuance by our agents, are key elements in providing quality service to both our agents and insureds for our various lines of business.

LIABILITY FOR LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

We are directly liable for loss and loss adjustment expense ("LAE") payments under the terms of the insurance policies that are underwritten by our insurance companies. In many cases, there may be a time lag between the occurrence and reporting of an insured loss and our payment of that loss. As required by insurance regulations and accounting rules, we reflect the liability for the ultimate payment of all incurred losses and LAE by establishing a liability for those unpaid losses and LAE for both reported and unreported claims, which represent estimates of future amounts needed to pay claims and related expenses.

When a claim involving a probable loss is reported, we establish a liability for the estimated amount of our ultimate loss and LAE payments. We based our estimate upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure, estimate of liability on the part of the insured, past experience with similar claims and the applicable policy provisions.

We also establish a liability on an aggregate basis to provide for incurred but not reported ("IBNR"). The estimates of the liability for loss and LAE reserves are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, we review historical data and consider various factors, including known and anticipated legal developments, inflation and economic conditions. As experience develops and other data becomes available, these estimates are revised, as required, resulting in an increase or decrease of the existing liability for loss and LAE reserves. Adjustments are reflected in results of operations in the period in which they are made and the liability may deviate substantially from prior estimates.

REINSURANCE

Reinsurance is used to mitigate the insurance loss exposure related to certain events such as natural and man-made catastrophes, manage overall capital adequacy and protect capital resources. We reinsure (cede) a portion of written premiums on an excess of loss or a quota-share basis in order to limit our loss exposure. To the extent that reinsuring companies are unable to meet their obligations assumed under these reinsurance agreements, we remain primarily liable to our policyholders.

Reinsurance markets include:

- Traditional local and global reinsurance markets including those in the United States ("U.S."), Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;
- Capital markets through insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, sidecars and similar vehicles;
- Other insurers that engage in both direct and assumed reinsurance; and
- Other entities, including unrated reinsurance captives, to facilitate the sharing of the financial results of certain programs.

The form of reinsurance that we may choose from time to time will generally depend on whether we are seeking:

- Proportional reinsurance, whereby we cede a specified percentage of premium and losses to reinsurers;
- Non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis; or

- Facultative contracts that reinsure individual policies.

Significant Reinsurance Contracts

FNIC, MIC and MNIC operate primarily by underwriting and accepting risks for their direct accounts on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those exceed the desired retention level. We continually evaluate the relative attractiveness of different forms of reinsurance contracts and different markets that may be used to achieve our risk and profitability objectives. Our reinsurance contracts do not relieve FNIC, MIC or MNIC from their direct obligations to the insured.

Portions of our 2021-2022 program exclude coverage for severe convective storms after December 1, 2021. Those portions of the reinsurance program that exclude severe convective storms are specifically in the lowest layer of coverage (below approximately \$30 million in each tower). As such, other than the potential coverage under certain quota-share reinsurance treaties, the Company will retain 100% of any severe convective storm losses that may occur in this layer. We may determine to purchase additional coverage for such storms, but the Company anticipates that the reinsurance market will remain hard such that additional coverage may not be available or may be on terms, including premiums, unfavorable to us.

While it is not always possible to reinsure every known and unknown risk to our company, an effective reinsurance program substantially mitigates our exposure to potentially significant losses. There is a credit risk exposure with respect to ceded losses to the extent that any reinsurer is unable or unwilling to meet the obligations assumed under the reinsurance contracts. The collectability of reinsurance is subject to the solvency of the reinsurers, interpretation of contract language and other factors. The availability and amount of ceded premiums and losses associated with the acquisition of reinsurance will vary year to year. Our reinsurance program is subject to approval primarily by the OIR and other regulators in states where we do business, and subject to review by Demotech, Inc. (“Demotech”). Demotech provides Financial Stability Ratings (“FSR”) for property and casualty insurance companies throughout the United States.

We are selective in choosing reinsurers and consider numerous factors, the most important of which are the financial stability of the reinsurer or capital specifically pledged to uphold the contract, its history of responding to claims and its overall reputation. In an effort to minimize our exposure to the insolvency of a reinsurer, we evaluate the acceptability and review the financial condition of the reinsurer at least annually with the assistance of our reinsurance broker. As of December 31, 2021 and 2020, we had over 60 reinsurance companies on our program which are required to have at least an “A-” or better rating by A.M. Best Company (“A.M. Best”) or the agreement would need to be fully collateralized. In addition, FNIC has a quota-share reinsurance treaty on a collateralized basis with Anchor Re, which is an affiliate of SageSure that does not have an A.M. Best rating. Refer to *Overview of Insurance Lines of Business - Non-Florida* for information on this reinsurance treaty.

Refer to Note 6 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for further information regarding our reinsurance programs.

EMPLOYEE, ENVIRONMENTAL AND SOCIAL GOVERNANCE

Our mission is to be a leading provider of insurance by providing unparalleled service to customers, a compelling work environment for our employees, a fair return to our shareholders, and to operate the Company today with a vision of tomorrow. We believe that our behaviors, decisions and vision, including how we manage talent, shapes the future we share with our customers, communities and investors. We believe that business can only flourish in societies where human rights are protected and respected. We recognize that business has the responsibility to respect human rights and the ability to contribute to positive human rights impacts. This is an area of growing importance to our employees, workers, shareholders, investors, customers, consumers, the communities where we operate and civil society groups. There is therefore both a business and a moral case for ensuring that human rights are upheld across our operations. Our enterprise strategy is driven by continued focus on our core cultural values:

- Radiate Integrity - Maintain the highest order of ethical and legal conduct in all aspects of our business. There is no right way to do a wrong thing.
- Embrace Responsibility - Own the outcomes of our results. Accept accountability and meet challenges with insightful perspective and collaborative solutions.
- Ensure Respect - See every person as an individual deserving of trust, value and dignity who brings unique and worthy viewpoints, contributions and capabilities to any given situation. Everyone is entitled to fair treatment.
- Invoke Excellence - Strive to be extraordinary in the approach of all we do. Meet and surpass expectations and objectives by delivering straightforward, relevant strategy with unmatched service. When we take five-star care of each other, we’re empowered to deliver five-star service to our customers and drive our business performance. Accept nothing less.

- Provide Stability - In an industry grounded in uncertainty, be a constant in every relationship. Dependability is essential to who we are.

Our Company is committed to the International Bill of Human Rights, which consists of the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights and the principles concerning fundamental rights set out in the International Labor Organization's Declaration on Fundamental Principles and Rights at Work. It is the Company's policy to respect the human rights of all individuals impacted by our operations, including employees and external stakeholders. While governments have the primary responsibility to protect against human rights violations, the Company recognizes its corporate responsibility to respect human rights. However, we do not tolerate violations committed by our employees, affiliates, or any third parties action on behalf or related in any respect to the Company's operations. We do not tolerate discrimination against individuals on the basis of race, color, gender, religion, political opinion, nationality, sexual orientation or social origin, or harassment of individuals freely employed. We are committed to the protection of minority groups' rights and women's rights. The Company recognizes the right to water as a fundamental human right. FNHC recognizes and respects the freedom to join or refrain from joining legally authorized associations or organizations and respects the safety and health of workers. The Company does not tolerate threats, intimidation or attacks against human rights defenders. In its relationship with host governments, contractors and third-party service providers, the Company seeks to avoid being complicit in adverse human rights impacts. Our principle is that where national law and international human rights standards differ, we will follow the higher standard; where they are in conflict, we will adhere to national law, while seeking ways to respect international human rights to the greatest extent possible.

As an insurance holding company, the Company relies on its employees to perform a substantial portion of the insurance- and support-related services for our insurance subsidiaries, including policy underwriting, marketing, risk management and claims management. As of December 31, 2021, we had 341 employees, all based in the United States. The Company considers its employees to be critical to accomplishing its corporate goals, which are focused on providing unparalleled service to its insureds and its agents. In addition to providing competitive compensation and benefits discussed below, the Company believes that providing a compelling work environment for its employees is important to its success. Doing so among other things, helps our employees improve their well-being, understand the value of their work, develop their careers and thrive in a diverse and inclusive environment. To that end, the Company provides a variety of employee-focused benefits, including:

- The Company has for the past several years provided eligible employees with opportunities for remote work. Having an existing infrastructure for remote work allowed the Company to seamlessly transition to an entirely remote work environment during the Covid-19 pandemic. The Company provides varied support options for eligible employees, including Company-issued computers and monitors, IT support and flexible scheduling.
- We reimburse eligible employees who are required to maintain licenses or certifications as part of their job responsibilities all associated fees to maintain these licenses and certifications, and provide a Company-paid platform for all required continuing education.
- The Company encourages all of its employees to continue their education to improve knowledge, responsibility and growth in their professional careers. The Company has established, for the benefit of its employees, an Education Assistance Program, through which the Company reimburses expenses to eligible employees for collegiate degree programs and professional industry designations at approved institutions.
- FNHC has an environmental policy to promote social responsibility by integrating environmental concerns into the Company's business operations. The Company has provided resources and technology to its employees to reduce their use of consumables, including virtual printing and electronic document collaboration, file storage, signature collection and forms. These measures have enabled the Company to substantially reduce its use of paper and printer toner.

We work continuously with our employees and managers to ensure that they are well informed and trained with regard to the impacts our business can have in order to increase their ability to protect human rights and related issues. We provide expectations and recognize the importance of dialogue with our employees, workers and external stakeholders who are or could potentially be affected by our actions. We offer paid time off, in addition to benefits and wellness programs focusing on the physical, social and financial well-being of our employees. For eligible employees, such programs include:

- medical, dental and vision plans and a health savings account;
- a well-being program;
- an employee assistance program;
- a dependent care flexible spending account;
- third-party consultants to evaluate employee retirement readiness and help them map out ways to improve;
- our employee 401(k) plan with a company match; and
- accident and critical illness insurance coverages, short- and long-term disability plans, and company-provided life insurance.

Our business depends on adequate levels of staff to service our new business and policies in force, manage and resolve reported claims, and provide support services to the Company. These support services include technology, human resources, finance and internal audit teams. We anticipate staffing needs and make changes to our staff as needed to meet the needs of our operations and regulatory requirements, and to achieve our service standards to our insureds. We are able to expand our workforce as needed in connection with weather events through relationships with trusted subcontractors. We continue our support of diversity to create an inclusive culture to enhance performance and broaden perspectives. None of our employees are represented by a labor union.

We are committed to managing our direct environmental impacts in a responsible manner to ensure environmental laws and recognized standards are met. As a property and casualty insurance company, natural catastrophes are among the most serious risks facing our customers and communities. Climate change is increasing the unpredictability of catastrophes, such as hurricanes, floods, severe convective storms and wildfires, and causing significant property losses. Our responsive claims team helps restore our customers' lives after a catastrophic loss. We have taken active steps to allocate capital through underwriting initiatives away from environmentally hazardous classes of business. Our enterprise risk management framework, overseen by senior management and the Board, models and assesses loss probabilities. To reduce the impact of climate change, we are reducing our environmental footprint and investing in building a more sustainable environment for future generations. At our headquarters, we have implemented paperless policies, reduced power and water usage, and recycled more commingled materials than in past years.

We strive to create a sustainable workplace for our employees, our community, and our planet, with an objective towards preserving our environment for future generations. As a property and casualty insurance company, we understand the risks posed by climate change and seek to mitigate catastrophe risk for our customers and shareholders through prudent exposure management, underwriting initiatives, and proactive notifications. Our underwriting and claims functions restrict or eliminate the use of paper communications and record retention in favor of digital media. We acknowledge our responsibility to reduce the environmental impacts of our business operations.

COMPETITION

We face competition from national, regional and residual market insurance companies in the homeowners and flood insurance markets in which we operate. Our competitors include companies that market their products through agents and companies that sell insurance directly to their customers. Large national captive writers may have certain competitive advantages over independent agency writers, including increased name recognition, increased loyalty of their customer base, and reduced policy acquisition costs. Adverse loss experience and increasing catastrophe reinsurance costs in recent years could also potentially disrupt smaller competitors that lack adequate scale.

Three of our larger competitors in Florida currently are Citizens, Universal Property and Casualty Insurance Company, and Heritage Property and Casualty Insurance Company. As the legislatively created insurance company in Florida, Citizens is free of many of the constraints on private carriers, such as minimum surplus, financial ratio requirements, income tax and reinsurance expense. Other states in which we have policies have similar mechanisms to provide insurance to consumers who are not able to obtain coverage in the private market.

REGULATION

Overview

Our current insurance operations are subject to the laws and regulations of Florida, Georgia, Louisiana, Texas, South Carolina, Alabama and Mississippi. The regulations cover all aspects of our business and are generally designed to protect the interests of insurance policyholders, as opposed to the interests of shareholders. Such regulations relate to authorized lines of business, capital and surplus requirements, allowable rates and forms, investment parameters, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, market conduct, maximum amount allowable for premium financing service charges and a variety of other financial and non-financial components of our business. Our failure to comply with certain provisions of applicable insurance laws and regulations could have a material adverse effect on our business, results of operations or financial condition. In addition, any changes in such laws and regulations, including the adoption of consumer initiatives regarding rates charged for coverage, could materially and adversely affect our operations or our ability to expand.

Most states' laws restrict an insurer's underwriting discretion, such as the ability to terminate policies, terminate agents or reject insurance coverage applications, and many state regulators have the power to reduce, or to disallow, increases in premium rates. In addition, state laws generally require that rate schedules and other information be filed with the state's insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it finds that the rates are inadequate, excessive or unfairly discriminatory. Rates, which are not necessarily uniform for all insurers,

vary by class of business, hazard covered, and size of risk. Certain states, including Florida, as discussed above, have adopted laws or are considering proposed legislation which, among other things, limit the ability of insurance companies to effect rate increases or to cancel, reduce or non-renew insurance coverage with respect to existing policies, particularly personal automobile insurance.

Most states require licensure or regulatory approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company's business plan, solvency, financial projections, reinsurance, character of its officers and directors, rates, forms and other financial and non-financial aspects of a company. The regulatory authorities may prohibit entry into a new market by not granting a license or by withholding approval.

All insurance companies must file quarterly and annual statements with certain regulatory agencies and are subject to regular and special examinations by those agencies. We may be the subject of additional special examinations or analysis. These examinations or analysis may result in one or more corrective orders being issued by the respective states' regulatory authority. Florida and Louisiana have completed their examinations of FNIC and MNIC with no significant findings. The Texas Department of Insurance is conducting a limited scope exam of MIC's operations in Texas.

Various states routinely require deposits of assets for the protection of policyholders either in those states or for all policyholders. As of December 31, 2021, FNIC, MIC and MNIC held investment securities with a fair value of approximately \$9.3 million, as deposits with the states of Florida, Texas, Georgia, South Carolina, Alabama and Mississippi.

On July 1, 2019, Florida legislation to address Assignments of Benefits ("AOB") took effect. AOB is the assignment of benefits for a claim where a service provider agrees to make a repair that may be covered by an insurance policy in exchange for the policyholder's right to sue the insurance carrier directly. AOB has substantially increased over the last few years, leading to material adverse losses, particularly from our Florida homeowners insurance policies, due to inflated claims, attorney's fees and costs. Provisions and limitations in this legislation are intended to reduce inflated claims as well as offset negative claims trends. Since this AOB reform was enacted, the Company has seen a decrease in AOB-related lawsuits. Additionally, incremental adverse non-AOB claim trends are currently offsetting any initial favorable impact of the AOB legislation.

Please see Item 7 — "Item I. Business — Going Concern" and "Item 1A — Risk Factors" for potential regulatory impacts related to the Company's conclusion that there is substantial doubt regarding its ability to continue as a going concern.

COVID-19 Impact

To slow and limit the COVID-19 outbreak and protect individuals and the health care systems worldwide, local and Federal governments have taken containment actions, including travel restrictions, testing, contact tracing and lockdowns. Companies have required working from home and in many cases laid off employees. These factors among others have caused global financial markets to experience extreme volatility and disruptions to capital and credit markets. In advance of government mandates, we implemented procedures to help reduce the spread of the outbreak, including having most of our employees work remotely, that are intended to prioritize the safety and health of our employees. In addition, we remained focused on the needs of our insureds and independent agents and fulfilling regulatory requirements and guidelines. During 2020 and 2021, we did not see a material impact of COVID-19 to our operations, financial condition and results. We currently believe that we have limited, if any, exposure to the pandemic based on our product offerings and contractual coverages, although possible actions that our regulators or other governmental or judicial entities may take may materially adversely impact our coverages in both a retrospective and go-forward manner. We continue our focus on maintaining the safety, security and health of all our stakeholders, including policyholders, employees, partner agents, vendors and shareholders, and monitoring the impacts of the pandemic on our operations, financial condition and results. Based on the Company's already existing business continuity plan, which we have implemented to address local catastrophes events, and based on our financial condition and anticipated operating cash flows, we currently expect to continue to meet our working capital and operating expenditure requirements, even if there is further economic downturn from the pandemic.

Insurance Holding Company Regulation

FNHC, as the parent holding company, is subject to laws governing insurance holding companies in Florida where FNIC and MNIC are domiciled or Louisiana where MIC is domiciled. Among other things, these laws: (i) require us to file periodic information with the OIR, including information concerning our capital structure, ownership, financial condition and general business operations; (ii) regulate certain transactions between us and our affiliates, including the amount of dividends and other distributions, the terms of surplus notes and amounts that our affiliates can charge the holding company for services such as management fees or commissions; and (iii) restrict the ability of any one person to acquire certain levels of our voting securities without prior regulatory approval. Any purchaser of 10% or more of the outstanding shares of our common stock will be presumed to have acquired control of FNIC, MIC or MNIC and is required to file an application with the OIR or Louisiana Department of Insurance ("LDI") to obtain approval of such acquisition.

Restrictions in Payments of Dividends by Domestic Insurance Companies

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its shareholders except out of that part of its available and accumulated capital surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to shareholders without prior approval of the OIR if the dividend or distribution would exceed the larger of (i) the lesser of (a) 10.0% of its surplus or (b) net income, not including realized capital gains, plus a two-year carryforward, (ii) 10.0% of surplus with dividends payable constrained to unassigned funds minus 25.0% of unrealized capital gains or (iii) the lesser of (a) 10.0% of surplus or (b) net investment income plus a three-year carryforward with dividends payable constrained to unassigned funds minus 25.0% of unrealized capital gains.

Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the OIR: (i) if the dividend is equal to or less than the greater of: (a) 10.0% of the insurer's surplus as regards policyholders derived from realized net operating profits on its business and net realized capital gains or (b) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year; (ii) the insurer will have policy holder surplus equal to or exceeding 115.0% of the minimum required statutory surplus after the dividend or distribution; (iii) the insurer files a notice of the dividend or distribution with the OIR at least ten business days prior to the dividend payment or distribution; and (iv) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115.0% of required statutory surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution: (i) subject to prior approval by the OIR; or (ii) 30 days after the OIR has received notice of such dividend or distribution and has not disapproved it within such time.

Under Louisiana law, a domestic insurer may not declare or pay any dividend to its stockholders unless its capital is fully paid in cash and is unimpaired and it has a surplus beyond its capital stock and the initial minimum surplus required and all other liabilities equal to fifteen percent of its capital stock, provided that this restriction does not apply when an insurer's paid-in capital and surplus exceeds the minimum required by Louisiana law by one hundred percent or more. No extraordinary dividend or other extraordinary distribution to its shareholders may be made until 30 days after the Louisiana Commissioner of Insurance has received notice of the declaration thereof and has not within that period disapproved the payment, or has approved the payment within the thirty-day period. An extraordinary dividend or distribution includes any dividend or distribution of cash or other property, whose fair market value together with that of other dividends or distributions made within the preceding twelve months exceeds the lesser of (a) 10.0% percent of the insurer's surplus as regards policyholders as of the 31st day of December next preceding; or (b) the net income, not including realized capital gains, for the twelve-month period ending the 31st day of December next preceding, but shall not include pro rata distributions of any class of the insurer's own securities. In determining whether a dividend or distribution is extraordinary, an insurer may carry forward net income from the previous two calendar years that has not already been paid out as dividends. This carryforward shall be computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and immediately preceding calendar years. Notwithstanding the foregoing, an insurer may declare an extraordinary dividend or distribution which is conditional upon regulatory approval. and the declaration shall confer no rights upon shareholders until either the payment is approved or has not been disapproved within the 30 day period referred to above.

No dividends were paid by FNIC or MNIC in 2021, 2020 and 2019, and none are anticipated in 2022. No dividends were paid by MIC since the acquisition date, and none are anticipated in 2022. Although we believe that amounts required to meet our financial and operating obligations will be available from sources other than dividends from our insurance subsidiaries, there can be no assurance in this regard. Further, there can be no assurance that, if requested, the OIR or LDI will allow any dividends to be paid by FNIC, MIC or MNIC to FNHC, the parent company, in the future. The maximum dividends permitted by state law are not necessarily indicative of an insurer's actual ability to pay dividends or other distributions to a parent company, which also may be constrained by business and regulatory considerations, such as the impact of dividends on surplus, which could affect an insurer's competitive position, the amount of premiums that can be written and the ability to pay future dividends. Further, state insurance laws and regulations require that the statutory surplus of an insurance company following any dividend or distribution by it be reasonable in relation to its outstanding liabilities and adequate for its financial needs.

While the non-insurance company subsidiaries (FNU and any other affiliate) are not subject directly to the dividend and other distribution limitations, insurance holding company regulations govern the amount that any affiliate within the holding company structure may charge any of the insurance companies for services (e.g., management fees and commissions).

Underwriting and Marketing Restrictions

During the past several years, various regulatory and legislative bodies have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing. These regulations include: (i) the creation of “market assistance plans” under which insurers are induced to provide certain coverages; (ii) restrictions on the ability of insurers to rescind or otherwise cancel certain policies in mid-term; (iii) advance notice requirements or limitations imposed for certain policy non-renewals; and (iv) limitations upon or decreases in rates permitted to be charged.

Risk-Based Capital Requirements

The National Association of Insurance Commissioners (“NAIC”) provides risk-based capital (“RBC”) requirements for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policy holders. These requirements measure four major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss development and inadequate pricing; (ii) declines in asset values arising from credit risk; (iii) other business risks from investments; and (iv) catastrophe risk. Insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The OIR and LDI, which follow these requirements, could require FNIC, MIC or MNIC to cease operations in the event they fail to maintain the required statutory capital. Based upon the 2021 and 2020 statutory financial statements for FNIC, MIC and MNIC, statutory surplus exceeded the regulatory action levels established by the NAIC’s RBC requirements.

Based on RBC requirements, the extent of regulatory intervention and action increases as the ratio of an insurer’s statutory surplus to its Authorized Control Level (“ACL”), as calculated under the NAIC’s requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200% of the ACL amount. The second action level, the Regulatory Action Level, requires an insurer to submit a plan containing corrective actions and permits the insurance regulators to perform an examination or other analysis and issue a corrective order if statutory surplus falls below 150% of the ACL amount. The third action level, ACL, allows the regulators to rehabilitate or liquidate an insurer in addition to the aforementioned actions if statutory surplus falls below the ACL amount. The fourth action level is the Mandatory Control Level, which requires the regulators to rehabilitate or liquidate the insurer if statutory surplus falls below 70% of the ACL amount.

FNIC’s ratio of statutory surplus to its ACL was 313% (\$99,369 / \$31,703) and 303% (\$105,920 / \$35,020) as of December 31, 2021 and 2020, respectively. MNIC’s ratio of statutory surplus to its ACL was 1,152% (\$20,256 / \$1,759) and 736% (\$18,264 / \$2,482) as of December 31, 2021 and 2020, respectively. MIC’s ratio of statutory surplus to its ACL was 305% (\$30,848 / \$10,116) and 348% (\$39,282 / \$11,288) as of December 31, 2021 and 2020, respectively. We expect that the statutory surplus levels of our insurance subsidiaries to be negatively impacted by the severe weather occurring in our markets in the first quarter of 2022.

Industry Ratings Services

Third-party rating agencies assess and rate the ability of insurers to pay their claims. The insurance industry uses financial strength ratings to assess the financial strength and quality of insurers. Ratings are based upon criteria established by the rating agencies and reflect evaluations of each insurer’s profitability, debt and cash levels, customer base, adequacy and soundness of reinsurance, quality and estimated market value of assets, adequacy of reserves and management. Ratings are also based upon factors of concern to agents, reinsurers and policyholders, including RBC requirements, and are not directed toward the protection of investors, such as purchasers of our common stock.

As of December 31, 2021 and 2020, FNIC and MNIC were rated by Demotech as “A” (“Exceptional”), which is the third highest of eight ratings, and is defined as “Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating (“FSR”) of “A” possess “Exceptional” financial stability related to maintaining surplus as regards to policyholders.” Maintenance of statutory surplus at or above 300% of the ACL amount is considered necessary to maintain a Demotech rating. As of December 31, 2021 and 2020, MIC was rated by Demotech as “NR” (“Not Rated”) and “A” (“Exceptional”), respectively. “NR” is the seventh highest of eight ratings, and defined as “insurers that are Not Rated do not currently have an FSR.” MIC’s “NR” rating materialized as Demotech withdrew its rating of MIC in November 2021 in conjunction with our decision to execute an orderly runoff of MIC’s book of business. MIC’s change in rating is independent of FNIC’s and MNIC’s rating. MNIC’s rating was recently reaffirmed; however, Demotech has notified the Company that it has downgraded FNIC’s rating by one notch to “S” (“Substantial”).

Demotech’s ratings are based upon factors of concern to agents, reinsurers and policyholders and are not primarily directed toward the protection of investors. Our Demotech rating will be jeopardized by factors including recurring underwriting losses, adverse loss

reserve development and various surplus related ratio exceptions (e.g., FNHC's insurance carriers ratio of statutory surplus to its ACL falling below 300%).

ITEM 1A. RISK FACTORS

We are subject to various risks in our business operations as described below. The risks and uncertainties described below are the known risk factors we consider material. Additional risks and uncertainties not currently known, or currently deemed immaterial, may also impair our business operations. Investors should carefully consider these risks before making an investment decision.

Risks Related to Our Business

Management has concluded the Company does not qualify as a going concern, and could be placed into receivership or experience an event of default that would accelerate the mandatory repayment of our debt.

The Company has concluded that there is substantial doubt regarding its ability to continue as a going concern. The Company recently received notice from Demotech that FNIC's rating has been downgraded from "A" to "S." The Company believes that the downgrade of FNIC's Demotech rating will adversely impact our ability to obtain excess-of-loss reinsurance for coverage beginning July 1, 2022. Absent such coverage, the Company will not be in compliance with requirements communicated by the Office of Insurance Regulation of the state of Florida regarding such coverage, which could ultimately result in the Company being placed into receivership. Additionally, being placed into receivership and/or failing to obtain excess-of-loss reinsurance each represent potential defaults under the applicable covenants of our senior debt indentures that could result in acceleration of repayment of our debt. We cannot provide any assurance that we will be able to comply with certain covenants in our senior note indentures or to make satisfactory alternative arrangements in the event we cannot do so. Such conditions raise substantial doubt regarding the Company's ability to continue as a going concern. Further, the Company's conclusion that there is substantial doubt with respect to its ability to continue to as a going concern is expected to result in increased regulatory oversight of the Company's operations by the OIR, as evidenced by the consent order entered into by the Company on April 21, 2022 (see Going Concern in "Part I, Item I. Business, Insurance Operations and Related Services" of this annual report for further discussion of the consent order).

Our financial condition is adversely affected by the occurrence of natural and man-made disasters.

We write insurance policies that cover homeowners for losses that result from, among other things, catastrophes and sinkholes. Catastrophic losses can be caused by natural events such as hurricanes, tropical storms, tornadoes, wind, hail, brush fires, explosions and other events. The incidence and severity of these events are inherently unpredictable. Catastrophic losses can also be caused by terrorist attacks, war, riots, political instability and other man-made events. The extent of losses from a catastrophe is a function of two factors: the total amount of the insurance company's exposure in the area affected by the event and the severity of the event. Our homeowners policyholders are disbursed throughout the southeast United States, although the majority of our policyholders are located in Florida. Further, a substantial portion of our Florida homeowners policyholders are located in south Florida, and therefore are especially subject to adverse weather conditions such as hurricanes and tropical storms.

The occurrence of claims from catastrophic events has resulted in substantial volatility in our results of operations or financial condition for any fiscal quarter or year, as seen in 2021, 2020 and 2019, and we expect such volatility to continue. An elevation in the values and concentrations of insured property may increase the severity of the occurrence of claims in the future. Although we attempt to manage our exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, catastrophic events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in our pricing and risk management expectations. As a result, the occurrence of one or more catastrophic events could have a material adverse effect on our results of operations or financial condition.

Florida, Louisiana and Texas, all states in which we write homeowners policies, collectively, experienced several significant hurricanes in 2021, 2020 and 2019, which some weather analysts believe is consistent with a period of greater hurricane activity. Exposure risk management alternatives are carefully evaluated as they may increase operating expenses and may not be successful in protecting long-term profitability. If our loss experience is more adverse than is contemplated by our loss reserves, the related increase in our loss reserves may have a material adverse effect on our results of operations in the period in which the increase occurs.

As a property and casualty insurer, we are impacted by different severe weather events at different times of the year.

Our homeowners business is impacted by catastrophic and other severe weather events, which causes our operating results and financial condition to vary significantly from one period to the next. The incidence and severity of weather conditions are largely unpredictable, although certain types of events are more likely to occur during particular times of year. For example, hurricane season

in the Atlantic and Caribbean oceans and in the Gulf of Mexico is from June 1st to November 30th of each year, with the peak occurrence of storms typically from mid-August to late October. By comparison, severe storms resulting in hail and tornados are more likely to occur in the spring in the states in which we have policies. The nature of spring storms also tends to result in multiple occurrences, none of which would typically exceed our catastrophe reinsurance retention on an individual basis. There is generally an increase in the frequency and severity of claims when severe weather conditions occur.

Adverse ratings by insurance rating agencies may adversely impact our ability to write new policies, renew desirable policies or obtain adequate reinsurance, which could limit or halt our growth and harm our business.

Third-party rating agencies assess and rate the ability of insurers to pay their claims. The insurance industry uses financial strength ratings to assess the financial strength and quality of insurers. Ratings are based on criteria established by the rating agencies and reflect evaluations of each insurer's profitability, debt and cash levels, customer base, adequacy and soundness of reinsurance, quality and estimated market value of assets, adequacy of reserves, capital and RBC ratios (e.g. 300%), and management. Ratings are also based upon factors of concern to agents, reinsurers and policyholders and are not directed toward the protection of investors, such as purchasers of our common stock.

Our ability to compete successfully in states outside of Florida to expand our business footprint may also be negatively affected by our lack of an A.M. Best company rating of our financial strength. As of December 31, 2021, FNIC and MNIC had Demotech ratings of "A" (Exceptional), which is generally accepted in Florida and certain other states, a rating by A.M. Best is more widely accepted outside of Florida and may cause customers and agents to prefer a policy written by an A.M. Best-rated company over a policy written by us. In addition, some mortgage companies outside of Florida may require homeowners to obtain property insurance from an insurance company with a minimum A.M. Best rating.

The Company has recently been notified by Demotech that MNIC's "A" rating has been reaffirmed; however, FNIC has been downgraded to "S". The withdrawal or downgrade of our ratings could limit or prevent us from obtaining adequate reinsurance, writing or renewing desirable insurance policies, or competing with insurers who have higher ratings. The withdrawal or downgrade of our ratings could have a material adverse effect on our results of operations and financial position because our insurance products might no longer be acceptable to the secondary marketplace and mortgage lenders or the related government sponsored entities (Fannie Mae and Freddie Mac). Furthermore, a withdrawal or downgrade of our ratings could prevent independent agents from selling and servicing our insurance products or could increase the commissions we must pay to these agents.

Our loss reserves are estimates and may be inadequate to cover our actual liability for losses, causing our results of operations to be adversely affected.

We maintain reserves to cover our estimated ultimate liabilities for losses and LAE. These reserves are estimates based on historical data and statistical projections of what we believe the settlement and administration of claims will cost based on facts and circumstances then known to us. Actual loss and LAE reserves, however, may vary significantly from our estimates. Factors that affect loss and LAE reserves include the estimates made on a claim-by-claim basis known as "case reserves" coupled with bulk estimates known as IBNR. Periodic estimates by management of the ultimate costs required to settle all claim files are based on our analysis of historical data and estimations of the impact of numerous factors such as:

- per-claim information;
- company and industry historical loss experience, including the impact of trends such as the AOB (as described in more detail below) by insureds;
- legislative enactments, judicial decisions, legal developments in the awarding of damages, and changes in political attitudes; and
- trends in general economic conditions, including the effects of inflation.

Management revises its estimates based on the results of its analysis. This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for estimating the ultimate settlement of all claims. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of the reserves, because the eventual redundancy or deficiency is affected by multiple factors. Because of the uncertainties that surround estimated loss reserves, we cannot be certain that our reserves will be adequate to cover our actual losses. If our loss and LAE reserves are less than actual losses and LAE, we will be required to increase our reserves with a corresponding reduction in our net income in the period in which the deficiency is identified. Future loss experience, substantially in excess of our loss and LAE reserves, could substantially harm our results of operations and financial condition.

Our insurance companies are subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.

Our insurance companies are subject to RBC standards and other minimum capital and surplus requirements imposed under applicable state laws, including the laws of the State of Florida. The RBC standards, based upon the Risk Based Capital Model Act adopted by the NAIC, require our insurance companies to report their results of RBC calculations to state departments of insurance and the NAIC. These RBC standards provide for different levels of regulatory attention depending upon the ratio of an insurance company's total adjusted capital, as calculated in accordance with NAIC guidelines, to its ACL RBC.

If we fail to meet the applicable RBC or minimum statutory capital requirements imposed by the laws of Florida or other states where we do business, we would be required to raise additional capital and we could be subject to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, additional state supervision, receivership or liquidation. Similarly, an increase in existing RBC requirements or minimum statutory capital requirements, such as the catastrophic risk component of RBC may require us to increase our statutory capital levels. Ratios calculated based on RBC also tend to be key criteria in the assignment of ratings by insurance rating agencies.

The non-admissibility of the surplus note from MIC to FNIC would cause FNIC to have an immediate additional capital need.

As of December 31, 2021, FNIC held a surplus note receivable with a carrying value of \$17.1 million payable by MIC. If MIC were to have a ratio of statutory surplus to its ACL below 300% and a combined ratio in excess of 120%, then such surplus note would no longer be an admitted asset (meaning an asset that qualified for treatment as capital for statutory purposes) and FNIC would need replacement surplus to maintain its ratio of statutory surplus to its ACL of 300% or greater. As a result of catastrophe weather events impacting our carriers (including MIC) during the first quarter of 2022, we expect that this surplus note receivable will be non-admitted for purposes of first quarter 2022 statutory reporting.

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

Our current and future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses, and manage our claims resolution processes. Many factors will affect the amount and timing of our capital needs, including our claims experience, the availability of reinsurance, market disruptions, and regulatory and other unforeseeable developments. In addition, our insurance companies are subject to RBC standards and other minimum capital and surplus requirements imposed under applicable state laws. To the extent that our capital is insufficient to meet future operating requirements, minimum statutory requirements and the minimal capital expectations of the rating agency that provides Financial Stability Ratings for our insurance subsidiaries, we will be required to raise additional funds through financings or further curtail our business.

As discussed elsewhere in this Form 10-K, we have determined to runoff our non-Florida business and, concurrently with that determination, have determined to maintain MIC's capital at the minimum statutory level but not to the 300% RBC level. Although FNIC and MNIC currently have capital at the 300% RBC level, they may nevertheless require additional capital in the future. When we are required to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to us. In the case of equity financings, dilution to our shareholders' ownership could result, and in any case such securities may have rights, preferences and privileges that are senior to those of existing shareholders. The Company is precluded from issuing more than \$10 million of incremental debt without the approval of existing holders of our debt. If we were to raise additional funds by incurring debt financing the terms of any such debt may involve significant cash payment obligations as well as covenants and specific financial ratios that restrict our ability to operate our business. If we are unable to obtain adequate capital on favorable terms or at all, our business, financial condition, and results of operations could be materially adversely affected. In addition, if we were unable to meet the applicable RBC or minimum statutory capital requirements imposed by the laws of Florida or other states in which we currently have policies, and were unable to obtain additional capital when needed, we could be subject to corrective action imposed by state regulators, including limitations on our writing of additional business, additional state supervision, or liquidation.

Although we follow the industry practice of reinsuring a portion of our risks, our costs of obtaining reinsurance in each of the last two years has increased substantially and the terms have become less favorable, with the result that we may not be able to successfully alleviate risk through our reinsurance arrangements.

We have a reinsurance structure that is a combination of private reinsurance and the Florida Hurricane Catastrophe Fund ("FHCF"). Our reinsurance structure is composed of several reinsurance companies with varying levels of participation providing coverage for

losses and LAE at pre-established minimum and maximum amounts. Losses incurred in connection with a catastrophic event below the minimum and above the maximum are the responsibility of FNIC, MIC and MNIC.

The availability and costs associated with the acquisition of reinsurance varies year to year, with significant increases occurring in each of the last two years. We are not able to control additional future availability and price increases of reinsurance, which may be significant and may limit our ability to purchase adequate coverage. In addition, when the statutory surplus of our insurance subsidiaries decreases, it decreases the maximum per-event retention allowed by our rating agency and our regulators. While a lower per-event retention has the benefit of reducing our maximum exposure to any single catastrophic event, it also further increases the cost of our reinsurance program. The recovery of increased reinsurance costs through rate increases is not immediate and cannot be presumed, as rate increases are subject to approval of the OIR or LDI.

We will experience increased financial exposure due to changes in private excess-of-loss reinsurance market terms and conditions.

The private reinsurance market goes through what are known in the industry as “soft” and “hard” market cycles based on factors such as capital availability and expected returns within the reinsurance industry and variations in world-wide and regional weather patterns and other natural or man-made catastrophes that produce higher or lower loss experience than expected for the reinsurance industry. During soft market cycles, where losses have been less than expected, more favorable pricing, terms and conditions are more readily available to us, which reduces our potential exposure by providing broader coverage and at better pricing. During a hard market cycle, when less capital is available, higher returns are expected or where prior losses have been more than expected, private reinsurance markets typically increase pricing and tighten coverage, potentially resulting in more financial exposure to the Company. Certain hard markets can lead to the absence of certain types of reinsurance capacity at any reasonable price. Examples of tighter terms include, but are not limited to, the exclusion of coverage for certain types of weather events, removal of cascading protection and elimination of individual insurance carrier per-event retentions when there are multiple insurance carriers in a group. The reinsurance market for our 2021-2022 reinsurance program was a hard market, with less favorable terms, as described above, on a portion of our July 1, 2021 through June 30, 2022 property catastrophe excess-of-loss reinsurance program. In particular, portions of our 2021-2022 program exclude coverage for severe convective storms after hurricane season. Those portions of the reinsurance program that exclude severe convective storms are specifically in the lowest layer of coverage (below approximately \$30 million in each tower). As such, other than the potential coverage under certain quota-share reinsurance treaties, the Company will retain 100% of any severe convective storm losses that may occur in this layer. We may determine to purchase additional coverage for such storms, but the Company anticipates that the reinsurance market will remain hard such that additional coverage may not be available or may be on terms, including premiums, unfavorable to us. While it is not possible to know what specific weather events will occur in the future, it is possible that we could experience a large event, or a series of smaller events that in aggregate could materially impact our balance sheet and our ability to comply with the capital requirements of our rating agencies and regulators. Peak season for severe convective storm losses occurs in March through May of each year. Our gross exposure to severe convective storms has been reduced somewhat for the 2022 peak season by the exposure management and runoff initiatives described herein. Such exposure will decrease substantially in future years as we continue to shrink the footprint of our book of business outside of Florida, particularly in Texas and Louisiana.

We face a risk of non-collectability of reinsurance, which could materially and adversely affect our business, results of operations and financial condition.

As is common practice within the insurance industry, we transfer a portion of the risks insured under our policies to other companies through the purchase of reinsurance. This reinsurance is maintained to protect our insurance subsidiaries against the severity of losses on individual claims, unusually serious occurrences in which a number of claims produce an aggregate extraordinary loss and other catastrophic events. Although reinsurance does not discharge our insurance subsidiaries from their respective primary obligations to pay for losses insured under the policies they issue, reinsurance does make the assuming reinsurer liable to the insurance subsidiary for the reinsured portion of the risk. A credit exposure exists with respect to ceded losses to the extent that any reinsurer is unable or unwilling to meet the obligations assumed under the reinsurance contracts. The collectability of reinsurance is subject to the solvency of the reinsurers, interpretation of contract language and other factors. A reinsurer’s insolvency or inability to make payments under the terms of a reinsurance contract could have a material adverse effect on our business, results of operations and financial condition.

Our reinsurance structure has significant risks, including the fact that the FHCF or our other reinsurers may not have available capital resources to pay their claims or that their ability to pay their claims in a timely manner may be impaired. This could result in significant financial, legal and operational challenges to our company. Therefore, in the event of a catastrophic loss, we may become dependent upon the FHCF’s and our other reinsurers’ ability to pay their claims. With respect to the FHCF, we may, in turn, be dependent upon the ability of the State Board of Administration of Florida to issue bonds in amounts that would be required to meet its reinsurance obligations in the event of such a catastrophic loss.

Contractual terms within our quota-share reinsurance treaties may limit the extent to which catastrophe losses can be ceded into the treaties, increasing the Company's net losses retained.

Many of the Company's quota-share reinsurance treaties include contractual terms that limit the nature or amount of catastrophe losses that can be ceded into the treaties. For example, the quota-share treaties covering FNIC's Florida homeowners book of business exclude named storm catastrophe losses and contain caps on non-named storm losses, or exclude them altogether. In addition, the quota-share treaty covering FNIC's non-Florida book of business includes limits on the net loss that the reinsurer can incur during the treaty year, and has been commuted such that no further losses related to 2021 and prior can be ceded into the treaty. The quota-share treaty covering FNIC's non-Florida book of business for the period from January 1, 2022 through June 30, 2022 excludes most catastrophe losses altogether.

A reduction in our future capacity to enter new, renew, or maintain existing quota-share or excess of loss reinsurance treaties could potentially decrease the scope of options available to us in response to managing future statutory surplus needs.

Our company is dependent on reinsurance to manage our exposure to weather events. We purchase excess of loss reinsurance to satisfy requirements of our state regulators, insurance industry rating agency, and debt rating agency. We also purchase quota-share reinsurance, which assists us in managing the statutory surplus of our insurance subsidiaries. Our inability to maintain, renew or secure excess of loss or quota-share reinsurance at an affordable price, or at any price, could impact our ability to write new business or continue our operations.

There are also practical constraints on the total percentage of a given book of business that can be ceded via quota-share reinsurance. During the two years ending December 31, 2021, the quota-share cession percentage on FNIC's Florida homeowners book of business was increased from 10% to 40%, and the cession percentage on its non-Florida homeowners book was increased from zero to 100%, actions which benefited FNIC's statutory surplus and RBC ratio. As such, FNIC has reduced capacity to increase the level of quota-share cessions in the future. MIC and MNIC currently have no quota-share treaties in place.

A future reduction in the amount of quota-share reinsurance in place, upon the expiration of the current treaties or termination of our treaties resulting from a ratings downgrade or the failures of such treaties to pass risk transfer, could reduce existing statutory surplus of the impacted carrier, potentially triggering the need for additional capital infusions.

To qualify as reinsurance for accounting purposes, a contract must embody substantive risk transfer, which is defined as the reasonable possibility that the reinsurer could experience a significant loss on the treaty. Contractual provisions in a treaty that excessively limit the extent or timing of the net loss that a reinsurer can experience can conceivably preclude the treaty from meeting the criteria for risk transfer, thereby disqualifying it from reinsurance accounting treatment. An assessment of risk transfer must be performed upon entry into a new treaty, as well as each time the treaty is renewed. Each of our in-force quota-share reinsurance treaties qualified for reinsurance accounting at the time of its most-recent inception. Each of these treaties has a term of one-year or less (refer to Note 6 of the notes to our Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for further discussion of these reinsurance treaties). The Company currently expects to be able to renew each of the treaties that it determines beneficial to renew on terms that qualify for continued reinsurance accounting; however, there can be no assurance that the available market terms of these renewals (including pricing, coverage and exclusions) will also pass risk transfer. If a treaty that we desire to renew fails to qualify for reinsurance accounting based on its then-current renewal terms, it could adversely impact that carrier's statutory surplus, triggering the need for additional capital infusions within a short period of time.

Certain of the Company's quota-share treaties contain provisions that give the reinsurer the option to terminate the treaty in the event that our Demotech rating is downgraded or that we are placed into receivership. The termination of any of our quota-share treaties would place additional strain on our statutory surplus.

We expect to experience significantly increased financial exposure from climate change.

A body of scientific evidence strongly indicates that climate change is occurring. Climate change, to the extent that it affects weather patterns, is likely to cause a significant increase in the frequency and/or the severity of catastrophic events or severe weather conditions. Our financial exposure from climate change is most notably associated with losses in connection with the occurrence of hurricanes striking Florida, Louisiana and Texas and severe convective storms occurring in Louisiana and Texas. We mitigate the risk of financial exposure from climate change by restrictive underwriting criteria, sensitivity to geographic concentrations, and reinsurance.

Restrictive underwriting criteria can include, but are not limited to, limitations on the geographic areas in which we will write policies, higher premiums and deductibles and more specifically excluded policy risks such as fences and screened-in enclosures. New

technological advances in computer generated geographical mapping afford us an enhanced perspective as to geographic concentrations of policyholders and proximity to wind and/or flood-prone areas. Our amount of maximum reinsurance coverage is determined in part by subjecting our homeowners exposures to statistical forecasting models that are designed to quantify a catastrophic event in terms of the frequency of a storm occurring once in every “n” years. The statistical forecasting models have limitations, including the possible failure to contemplate emerging claims trends. This could include the impact of “social inflation,” where contractors and vendors extract more overages from an insurance policy than it was designed and price to provide, including the rise of “cottage industries” that are more active and aggressive than historical loss data may indicate. The potential failure of these models to capture such emerging trends, such as elevated claims litigation in Florida, gives rise to the risk that we may not purchase adequate catastrophic wind coverage. Our reinsurance coverage contemplates the effects of catastrophic events in a manner that satisfies our regulators, debtholders and our rating agency. Our amount of losses retained (our deductible) and the amount of coverage purchased in connection for any single event and in aggregate for a treaty year are influenced by market capacity, pricing conditions and our need for surplus preservation. There can be no assurance that our reinsurance coverage and other measures taken will be sufficient to mitigate losses resulting from one or more catastrophic events.

We are refocusing our operations on the Florida homeowners market, which could have consequences that materially adversely impact our results of operations.

We are refocusing our operations on writing Florida homeowners policies by, among other things, allowing our policies outside of Florida to runoff. This process requires us to comply with applicable regulatory requirements when non-renewing our non-Florida policies at their expiration dates. As a result, the runoff of our non-Florida business will occur over a period of approximately 18 months during which policies will remain in effect until their expiration dates. The runoff of our non-Florida business may have consequences that could materially impact our financial condition and results of operations, such as the following:

- We expect our policies outside of Florida will remain in effect until their individual expiration dates, which means that we may have losses relating to weather events and other insured events in those markets until the policies expire.
- Our focus on writing policies only in Florida means that catastrophic weather events that impact Florida, such as hurricanes, tornados and hail events, may have a more severe adverse impact on us because of our more limited geographic footprint.
- As a result of our Florida-only focus, we may experience higher reinsurance costs or less reinsurance availability because of concerns by reinsurers about our lack of geographic diversity.
- Our decision to wind-down our business outside of Florida could cause agents to stop recommending us to their clients inside of Florida and could cause Florida homeowners seeking insurance to decide to move existing policies or not to obtain new policies from us.
- We may need to reduce our workforce as a result of the wind-down of our non-Florida operations, which may adversely impact our ability to retain our remaining employees.
- Non-Florida policies may leave the Company more quickly than expected, which could reduce our available earned premium to pay for certain expenses including ceded excess of loss reinsurance, which was priced based on the Company’s in-force exposure as of September 30, 2021 for the treaty year ending June 30, 2022, and thereby increase our expense ratios.
- Reputational risk with our investors, reinsurers, staff, agents, vendors and others with whom we interact and compete in our marketplace, which may impact our ability to compete in the competitive marketplace.
- The Company may be limited in its ability to exit these policies based on regulatory requirements including limitations on cancellations of policies that have recently had a claim, or based on limited ability by SageSure to move these policies to other insurance carriers based on the availability of similar coverages at competitive prices within the markets that we operate.

Trends in claims and coverage issues have had, and may continue to have, a material adverse impact on our business.

As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage emerge. These issues have adversely affect our business over the past few years and continue to impact us in ways that may not be fully clear at this time, by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance policies that are affected by the changes. As a result, the full extent of liability under our insurance policies may not be known for many years after a policy is issued. An example of an existing trend, particularly in Florida homeowners insurance, is the assignment of benefits (“AOB”) for a claim where a service provider agrees to make a repair that may be covered by an insurance policy in exchange for the policyholder’s right to sue the insurance carrier directly. The AOB phenomenon substantially increased, and may continue to increase, our exposure to inflated claims, attorney’s fees and costs. Although legislative actions in the State of Florida to limit the effect of AOB

on insurance companies were passed in 2019, the effect of such legislation has been a shift in the volume of lawsuits from third-party/AOB suits from third party contractors and vendors, to first party suits from our policyholders instead. Another recent trend has been increased litigation regarding construction defect claims against the insureds under our commercial general liability policies written in prior years in Florida. This recent trend has resulted in low severity, high frequency claims that, although typically excluded by our policy language, nevertheless generate a high volume of litigation and related defense costs. There can be no assurances that the 2019 AOB legislation or any other future legislative actions for broader tort or insurance reform will become law or, if enacted, that such actions will have the effect of limiting the impact on us of “social inflation” and/or other causes of elevated levels of lawsuits.

If our capital must be used to pay greater than anticipated claims, instead of continuing our focus on our products or markets in Florida, our financial results may suffer.

As discussed elsewhere in this Annual Report, we are focusing our operations on the Florida market. Our ability to continue that focus will depend on our ability to support growth in the geographic markets in which we do business, balanced by the business risks we choose to assume and cede. Our existing sources of funds include issuance of equity or debt securities (although the incurrence of additional debt in certain circumstances would require the consent of existing debt holders), sales of our investment securities, and our earnings from operations and investments. Catastrophic events in our market areas, such as the hurricanes experienced in Florida, Louisiana and Texas in 2021, 2020 and 2019, and other catastrophic weather events, have resulted and may result in greater claims losses than anticipated, which could require us to restrict growth while we redeploy our capital to pay these unanticipated claims.

The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or our results of operations.

Various provisions of our policies, such as limitations or exclusions from coverage which have been structured to limit our risks, may not be enforceable in the manner we intend. At the present time, we employ a variety of exclusions to our policies that limit exposure to known risks, including, but not limited to, exclusions relating to certain named liabilities and specific artisan activities. In addition, the policies we issue contain conditions requiring the prompt reporting of claims to us and our right to decline coverage in the event of a violation of that condition. While we believe our insurance product exclusions and limitations reduce the loss exposure to us and help eliminate known exposures to certain risks, it is possible that a court or regulatory authority could nullify or void an exclusion or that legislation could be enacted modifying or barring the use of such endorsements and limitations in a way that would adversely affect our loss experience, which could have a material adverse effect on our financial condition or results of operations.

The failure of various risk mitigation strategies utilized could have a material, adverse effect on our financial condition, results of operations or reputation in the marketplace.

We utilize a number of tactics to mitigate risk exposure within our insurance business, which include:

- Avoidance of risks that do not conform to underwriting standards;
- Risk portfolio optimization;
- Transferring portfolio risk to financially sound reinsurance companies;
- Acquiring adequate primary insurance to ensure continued operations; and
- Promoting an enterprise risk management culture.

If we fail to effectively mitigate our risk exposures, the Company could experience increased claims, losses from catastrophic events that are not reinsured and/or damage of our reputation that makes agents and reinsurers reluctant to work with us.

Our failure to comply with the covenants in our senior note indenture, including as a result of events beyond our control such as a downgrade in our financial rating or a failure to renew excess-of-loss reinsurance coverage, could result in an event of default, which could materially and adversely affect our financial condition and results of operations.

The indentures for our senior notes require us to maintain certain financial ratios and to comply with various operational and other covenants, including maintenance of certain financial ratings and limitations on our ability to incur additional debt in certain circumstances without the approval of the existing noteholders. As of the date of this Annual Report, our debt is rated ‘BBB.’ If our rating were to decrease by two notches, to ‘BB+,’ the interest rate due on the senior notes would increase by 50 basis points and an additional 50 basis points for each additional notch below ‘BB+.’ The terms of our senior note indentures currently prevent us from incurring additional debt (above a stated amount of \$10 million) as provided in the indentures, paying cash dividends or repurchasing our shares.

If there were an event of default under the indentures that was not cured or waived, the holders of the senior notes could cause all amounts outstanding with respect to the senior notes to be due and payable immediately. A four notch decrease to our debt rating, to the level of BB-, would constitute such an event of default. If the Company is placed into receivership and/or fails to obtain excess-of-loss reinsurance, such conditions also represent potential defaults. We cannot assure our shareholders that our assets or cash flow would be sufficient to fully repay the senior notes, if accelerated upon an event of default, or that we would be able to refinance or restructure the payments on the senior notes. This would have a material adverse impact on our liquidity, financial condition and results of operations.

Because of our recent losses, our net deferred tax asset, against which we established a valuation allowance in the second quarter of 2021, will not be recoverable if we do not achieve net income.

Because of our recent losses, we established a valuation allowance in the second quarter of 2021 against the entire amount of the net deferred tax asset we had been reflecting on our balance sheet as required by GAAP. We will be able to recover the net deferred tax asset over time if we achieve taxable income, as to which there can be no assurances. In addition, our financial condition and results of operations, including of our insurance subsidiaries under statutory accounting principles, may be adversely affected by the lack of tax offsets against operating losses until we achieve adequate levels of taxable income.

Our business is heavily regulated, and changes in regulation may reduce our profitability and limit our growth.

We are subject to extensive regulation in the states in which we conduct business. This regulation is generally designed to protect the interests of policyholders, as opposed to shareholders and other investors, and relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurance company's business. Regulators may also exert influence over the loss and loss adjustment expense reserves we carry for future claims on the insurance policies we issue. These regulatory requirements may adversely affect or inhibit our ability to achieve some or all of our business objectives. State regulatory authorities also conduct periodic examinations into insurers' business practices. These reviews may reveal deficiencies in our insurance operations or differences between our interpretations of regulatory requirements and those of the regulators.

The NAIC and state insurance regulators are constantly reexamining existing laws and regulations, generally focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws.

From time to time, some states in which we conduct business have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. In other situations, states in which we conduct business have considered or enacted laws that impact the competitive environment and marketplace for property and casualty insurance. In addition, in recent years the state insurance regulatory framework has come under increased federal scrutiny. Changes in federal legislation and administrative policies in several areas, including changes in financial services regulation and federal taxation, can significantly impact the insurance industry and us.

We cannot predict with certainty the effect any enacted, proposed or future state or federal legislation or NAIC initiatives may have on the conduct of our business. Furthermore, there can be no assurance that the regulatory requirements applicable to our business will not become more stringent in the future or result in materially higher costs than current requirements. Changes in the regulation of our business may reduce our profitability, limit our growth or otherwise adversely affect our operations.

Our revenues and operating performance will fluctuate due to statutorily approved assessments that support property and casualty insurance pools and associations.

We operate in a regulatory environment where certain entities and organizations have the authority to require us to participate in assessments. Currently these entities and organizations include, but are not limited to, the Florida Insurance Guaranty Association ("FIGA"), Citizens, the FHCF, Texas Windstorm Insurance Association ("TWIA") and Louisiana Citizens Property Insurance ("LCPI").

Insurance companies currently pass these assessments on to holders of insurance policies in the form of a policy surcharge and reflect the collection of these assessments as fully earned credits to operations in the period collected. The collection of these fees, however, may adversely affect our overall marketing strategy due to the competitive landscape in Florida. As a result, the impact of possible future assessments on our balance sheet, results of operations or cash flow are indeterminable at this time.

Our operations, financial condition and results could be adversely affected by COVID-19 and other future contagious severe health viruses.

We are exposed to the risk of natural or man-made events, such as COVID-19 or other pandemics that could cause substantial deaths, illnesses and business disruptions. We continue to closely monitor developments related to COVID-19 and its variants to assess any potential future impact on our business, which continues to be an evolving and highly uncertain situation. As a means of limiting the exposure of FNHC's team to the spread of infectious diseases, the Company has long supported a work-from-home culture in response to business continuity concerns by establishing and supporting the expansion of the Company's network infrastructure to include dedicated home workstations for most employees. Nevertheless, material disruptions to the Company caused by the pandemic could include:

- Although we believe that our product offerings and contractual coverages limit our exposure to claims related to COVID-19, there may be a risk that legislative, regulatory, judicial or social influences could extend coverage beyond our contractual obligations or may result in an increase in the frequency or severity of claims beyond expected levels.
- Volatile and illiquid global financial markets resulting from the outbreak may adversely impact the fair value or credit quality of securities in our investment portfolio.
- Reduced liquidity, higher operating costs and strained profitability from legislative, regulatory or judicial actions may result in denials of rate increases, including rate increases we have already implemented, require premium payment grace periods, or prevent cancellations for non-payment of premium.
- A decline in demand for our product offerings or declining ability or willingness of our policy holders to pay premiums may reduce our revenues.
- We may require additional liquidity at a time when our cost of capital increases and/or access to capital is hampered.
- Social distancing impedes observing certain claims on-site and, in some cases, may adversely impact our ability to properly assess certain claims.
- The economic effects adversely impacting the liquidity and financial stability of our reinsurers may cause an increase in our reinsurance costs and/or counterparty risk with resulting write-offs of reinsurance recoverables.
- Market volatility and declining economic conditions adversely impacting the liquidity and financial stability of the issuers of securities we hold may result in realized losses.
- Our ability to maintain relationships with key vendors, and those vendors' willingness or ability to perform services for us as expected, may be adversely impacted.
- We may experience cyber security losses due to our employees working remotely.

Additional localized or widespread events resulting from COVID-19 or its variants, or other infectious diseases that directly affect our workplace, insureds or reinsurers could cause a material adverse effect on our results of operations in any period and, depending on their severity, could also materially and adversely affect our ability to effectively conduct business, including our ability to write new business, and our financial condition. Therefore, additional prolonged periods of commercial disruption, reduced economic activity, high unemployment, extreme market volatility, disruptions to capital and credit markets, and other consequences of the COVID-19 pandemic, its variants or other infectious diseases could have a material adverse impact on our operations, financial condition and results.

Our investment portfolio may suffer reduced returns, or losses, which would significantly reduce our earnings.

Like other insurance companies, we depend on income from our investment portfolio for a portion of our earnings. During the time that normally elapses between the receipt of insurance premiums and any payment of insurance claims, we invest the premiums received, together with our other available capital, primarily in debt securities and to a lesser extent in equity securities, in order to generate investment income.

Our investment portfolio consists primarily of interest rate sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. A significant increase in interest rates or decrease in credit worthiness could have a material adverse effect on our financial condition or results of operations. Declines in interest rates, such as occurred during 2020, could have an adverse effect on our investment income. In periods of rising interest rates, unrealized losses will arise on our investment portfolio. Further, if periods of net cash outflows arise, whether due to catastrophe losses or for other reasons, we may need to draw down our bond

portfolio, reducing the interest income we will earn in future periods and converting unrealized losses to realized losses, which impact the statutory surplus of our insurance carriers.

In addition, volatile and illiquid markets increase the likelihood that investment securities may not behave in historically predictable manners, resulting in fair value estimates that may be overstated compared with actual amounts that could be realized upon disposition or maturity of the security. The effects of market volatility, declining economic conditions, such as a US or global economic slowdown, whether due to coronavirus, or other factors, could adversely impact the fair value or credit quality of securities in our portfolio and may have unforeseen consequences on the liquidity and financial stability of the issuers of securities we hold. Such deteriorations in financial condition can occur rapidly, leaving us unable to react to such a scenario in a prudent manner consistent with our historical practices in dealing with more orderly markets. This, in turn, could adversely and negatively affect our results of operations, liquidity or financial condition.

Our failure to pay claims accurately could adversely affect our business, financial results and capital requirements.

We must accurately evaluate and pay claims that are made under our policies. Many factors affect our ability to pay claims accurately, including the training and experience of our claims representatives, the culture of our claims organization and the effectiveness of our management, our ability to develop or select and implement appropriate procedures and systems to support our claims functions and other factors. Our failure to pay claims accurately could lead to material litigation, undermine our reputation in the marketplace, impair our image and negatively affect our financial results.

In addition, if we are not able to handle an increasing number of claims as a result of a catastrophic event, or if we do not train new claims adjusting employees effectively or lose a significant number of experienced claims adjusting employees, our claims department's ability to handle an increasing workload could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, we could suffer decreased quality of claims work, which in turn could lower our operating margins.

Further, FNU has entered into a Claims Services Agreement with SageSure, effective February 1, 2022, wherein SageSure will provide claims adjusting and other claims-related services with respect to claims made under insurance policies issued by FNIC that were placed by SageSure. The personnel adjusting these claims will be adjusters employed by, or contracted with, SageSure and we are relying on SageSure to ensure that such personnel are trained and supervised appropriately. If such personnel are unable to adjust assigned claims in a timely manner in accordance with our guidelines, this could adversely affect our ability to pay and settle claims accurately, resulting in material litigation and negatively impacting our financial results.

Our revenues and operating performance may fluctuate with business cycles in the property and casualty insurance industry.

Historically, the financial performance of the property and casualty insurance industry has tended to fluctuate in cyclical patterns characterized by periods of significant competition in pricing and underwriting terms and conditions, which is known as a "soft" insurance market, followed by periods of lessened competition and increasing premium rates, which is known as a "hard" insurance market. Although an individual insurance company's financial performance is dependent upon its own specific business characteristics, the profitability of most property and casualty insurance companies tends to follow this cyclical market pattern, with profitability generally increasing in hard markets and decreasing in soft markets. At present, on a consolidated basis, we continue to file and obtain rate increases as the current Florida property and casualty market continues to harden. We cannot predict how long these market conditions will persist. Although we do not compete entirely on price or targeted market share, negative market conditions may impair our ability to write insurance at rates that we consider appropriate relative to the risk assumed. If we cannot write insurance at appropriate rates, our revenues and operating performance may be adversely affected.

Our success depends on our ability to accurately price the risks we underwrite.

The results of operations and the financial condition of our insurance companies depend on our ability to underwrite and set premium rates accurately for a wide variety of risks. Rate adequacy is necessary to generate sufficient premiums to pay losses, LAE and underwriting expenses and to earn a profit. In order to price our products accurately, we must collect and properly analyze a substantial amount of data; develop, test and apply appropriate rating formulas; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy. Our ability to undertake these efforts successfully and price our products accurately is subject to a number of risks and uncertainties, some of which are outside our control, including:

- the availability of sufficient reliable data and our ability to properly analyze available data;
- the uncertainties that inherently characterize estimates and assumptions;

- our selection and application of appropriate rating and pricing techniques;
- changes in legal standards, claim settlement practices, medical care expenses and restoration costs;
- regulatory restrictions, including, without limitation regulatory approval of rates sought; and
- legislatively imposed consumer initiatives.

Consequently, we could underprice risks, which would negatively affect our profit margins, or we could overprice risks, which could reduce our sales volume and competitiveness. In either event, the profitability of our insurance companies could be materially and adversely affected.

We rely on independent and general agents to write our insurance policies, and if we are not able to attract and retain independent and general agents, our revenues would be negatively affected.

We currently market and distribute our products and services through contractual relationships with a network of independent agents and a select number of general agents. Our independent agents are our primary source for our property and liability insurance policies. Many of our competitors also rely on independent agents. As a result, we must compete with other insurers for independent agents' business. Our competitors may offer a greater variety of insurance products, lower premiums for insurance coverage, or higher commissions to their agents. If our products, pricing and commissions do not remain competitive, we may find it more difficult to attract business from independent agents to sell our products. A material reduction in the amount of our products that independent agents sell or a material reduction in the number of independent agents with whom we maintain a relationship could negatively affect our results of operations and financial condition.

We are a party to an insurance agency master agreement with ISA, an affiliate of Allstate, pursuant to which we are authorized by ISA to appoint Allstate agents to offer our homeowners insurance products to consumers in Florida. During the years ended December 31, 2021, 2020 and 2019, 19.3%, 20.7% and 23.2%, respectively, of the homeowners premiums we underwrote were from Allstate's network of Florida agents. This concentration may increase further. An interruption or change in our relationship with ISA could have a material adverse effect on the amount of premiums we are able to write, as well as our results of operations.

We are a party to a managing general underwriting agreement with SageSure to manage our FNIC homeowners business outside of Florida. As a percentage of our total homeowners premiums, 24.6%, 25.5% and 23.1%, for the years ended December 31, 2021, 2020 and 2019, respectively, were underwritten by SageSure. As discussed elsewhere in the Form 10-K, the Company is in the process of running off the book of business managed by SageSure. An interruption in SageSure's services for us, or issues with the quality thereof, could have a material adverse effect on the profitability of the business obtained through this relationship.

Some agreements with agents provide that the renewal rights for policies written under those agreements belong to the agents, making it more difficult for us to maintain the policies written and the premium income generated through these relationships.

Our agreements with ISA and SageSure provide that ISA and SageSure, respectively, own the expirations of the policies underwritten under these agreements. This means that we do not have the right to solicit renewals of these policies. As a result, we may be less able to maintain the policies and the corresponding premium income from renewals of policies written by us under these agreements.

Cybersecurity breaches and other disruptions could compromise our information and expose us to loss of data or liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we store sensitive data, including our proprietary business information and personally identifiable information of our insureds and employees, on our networks. The secure processing and maintenance of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. We have also promoted the ability of our team to work remotely, particularly through the COVID-19 pandemic, which could make our systems more vulnerable to breaches. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, or stolen. Any such access, disclosure or loss of information could result in legal claims against us, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations, and damage our reputation, which could materially adversely affect our results of operations. Although we have implemented security measures to protect our systems from viruses and other intrusions by third parties, there can be no assurances that these measures will be effective. To mitigate these costs, we carry a cyber-liability insurance policy. Our insurance may not be sufficient to protect against all financial and other loss. Additionally, this policy will not cover us for security breaches, data loss, or cyber-attacks experienced by our third-party business partners who have access to our customer, agent, or employee data.

Our business could be materially and adversely affected by a security breach or other attack involving the systems of one or more of our business partners or vendors.

We conduct significant business functions and computer operations using the systems of third-party business partners and vendors, who provide software, hosting, communication, and other computer services to us. Our networks could be compromised by the errors or actions of our vendors and other business partners with legitimate access to our systems. If one of our vendors or other business partners are the subject of a security breach or cyber-attack, such breach or attack may result in improper or unauthorized access to our systems, and the loss, theft or unauthorized publication of our information or the confidential information of our customers, agents or employees, notwithstanding our substantial efforts to protect our systems and sensitive or confidential information. An unauthorized disclosure or loss of policyholder or employee information or other sensitive or confidential information, including by cyber-attack or other security breach, could cause a loss of data, give rise to remediation or other expenses, expose us to liability under federal and state laws, and subject us to litigation and investigations, which could have an adverse effect on our business, cash flows, financial condition and results of operations. While we expend significant resources on these defensive measures, there can be no assurance that we will be successful in preventing attacks or detecting and stopping them once they have begun.

We rely on our information technology and telecommunications systems, and the failure of these systems could disrupt our operations.

Our business is highly dependent upon the successful and uninterrupted functioning of our current information technology and telecommunications systems. We rely on these systems to process new and renewal business, provide customer service, make claims payments and facilitate collections and cancellations, as well as to perform actuarial and other analytical functions necessary for pricing and product development. As a result, the failure of these systems could interrupt our operations and adversely affect our financial results.

Increased competition, competitive pressures, industry developments and market conditions could affect the growth of our business and adversely impact our financial results.

We operate in highly competitive markets and face competition from national, regional and residual market insurance companies in the homeowners markets, many of whom are larger, have greater financial and other resources, have higher financial strength ratings and offer more diversified insurance coverage. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers. One particular competitor to note is Citizens, which is a quasi-governmental entity within the State of Florida. Citizens is designed to operate as a market of last resort, and is subject to limitations on how much it can raise its rates in any one year. Citizens has emerged in recent years as a significant competitor with rates that are now often cheaper than the private carriers, including our Company. Citizens is currently growing rapidly and is expected to do so for the foreseeable future, which limits our ability to write and retain business that may be profitable for our Company. Also, large national captive writers may have certain competitive advantages over independent agency writers, including increased name recognition, increased loyalty of their customer base and reduced policy acquisition costs. We may be forced to reduce our premiums or increase our commissions significantly to compete, which could make us less profitable and have a material adverse effect on our business, results of operations and financial condition. If we do not meet the prices offered by our competitors, we may lose business in the short term, which could also result in a material adverse effect on our business, results of operations and financial condition.

Our executive management team is critical to the strategic direction of our company. If there were an unplanned loss of service by any of our officers our business could be harmed.

We depend, and will continue to depend, on the services of our executive management team, which includes Michael H. Braun, Chief Executive Officer and President, and others. Our success also will depend in part upon our ability to attract and retain qualified executive officers, experienced underwriting talent and other skilled employees who are knowledgeable about our business. If we were to lose the services of one or more members of our executive management team, our business could be adversely affected. Although we have employment agreements with certain of our executive officers, any unplanned loss of service could substantially harm our business.

Our reliance on insurance scoring in pricing and underwriting certain of our insurance policies may be limited by changes in applicable law, regulation or policies of regulatory authorities, which could cause our pricing and underwriting to be less effective.

We rely on insurance scoring, which combines credit scores and claims history of persons applying for insurance policies with us, in pricing and underwriting these policies. We believe that the use of this information, together with other relevant information provided to us in the application process, is important to our ability to effectively price our insurance products and determine the risks we are willing to underwrite. We also believe that we use this information in accordance with applicable law, regulations and policies. From time to time, however, the use of this information has come under review by insurance and other regulators. If the use of this information is limited or prohibited, our pricing and underwriting of our insurance policies may be less effective, with the result that our results of operations may be adversely affected.

Risks Related to an Investment in Our Shares

Our stock price in recent years has been volatile and is likely to continue to be volatile. As a result, the market price of our common stock may drop below the price you pay, and you may not be able to resell your shares at a profit.

The market price of our common stock has experienced, and may continue to experience, significant volatility from time to time. Such volatility may be affected by various factors and events, such as:

- our operating results, including a shortfall in operating revenue or net income from that expected by securities analysts and investors;
- recognition of large unanticipated accounting charges, such as related to a loss reserve strengthening;
- changes in securities analysts' estimates of our financial performance or the financial performance of our competitors or companies in our industry generally;
- a downgrade of our Demotech rating or the rating of our outstanding debt;
- the announcement of a material event or anticipated event involving us or our industry or the markets in which we operate;
- the issuance of a significant number of shares; and
- the other risk factors described in this Annual Report, the accompanying notes and the documents incorporated by reference herein.

In recent years, the U.S. stock market has experienced extreme price and volume fluctuations, which have sometimes affected the market price of the securities issued by a particular company in a manner unrelated to the operational performance of the Company. This type of market effect could impact our common stock price as well. The volatility of our common stock means that the price of our common stock may have declined substantially at such time as you may look to sell your shares of our common stock. If our share price decreases, the value of your investment could decline.

Our failure to continue to meet Nasdaq's continued listing standards, including its newly adopted board diversity rule, could have an adverse impact on our stock price.

Our shares are currently listed for trading on the Nasdaq Global Market. Remaining listed for trading on Nasdaq requires us to remain compliant with Nasdaq's current continued listing requirements, which include maintaining minimum levels of shareholders' equity, assets and revenues (depending on the compliance standard being used to demonstrate compliance), and other quantitative standards such as minimum market value of publicly held shares, \$1.00 minimum closing bid price, and number of market makers. In addition, Nasdaq requires Nasdaq-listed companies to disclose board-level diversity statistics using a standard matrix beginning with the 2022 proxy statement, and to have or explain why they do not have at least two diverse directors beginning August 7, 2023. Although we currently meet the Nasdaq continued listing requirements, there can be no assurances that we will continue to do so in the future.

We have authorized but unissued preferred stock, which could affect rights of holders of common stock.

Our articles of incorporation authorize the issuance of preferred stock with designations, rights and preferences determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without shareholder approval, to issue preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of common stock. In addition, the preferred stock could be issued as a method of discouraging a takeover attempt. Although we do not intend to issue any preferred stock at this time, we may do so in the future.

As a holding company, we depend on the earnings of our subsidiaries (particularly our non-regulated subsidiaries) and their ability to pay management fees and dividends to the holding company as the primary source of our income.

We are an insurance holding company whose primary assets are our subsidiaries. Our operations, and our ability to pay dividends or service our debt, are limited by the earnings of our subsidiaries and their payment of their earnings to us in the form of management fees, commissions, dividends, loans, advances or the reimbursement of expenses. These payments can be made only when our subsidiaries have adequate earnings. In addition, dividend payments made to us by our insurance subsidiaries are restricted by the applicable state laws governing our insurance subsidiaries. Generally, these laws limit the dividends permitted to be paid by insurance companies under complicated formulas based on the companies' available capital and earnings. Our insurance subsidiaries have not paid any dividends to the holding company in over five years and we do not anticipate any such payments from our insurance carriers in the foreseeable future.

Payment of dividends from our non-insurance subsidiaries to the holding company in the future will depend upon the earnings and financial position of our non-regulated subsidiaries and such other factors as our board of directors deems relevant.

As described earlier in these risk factors, the Company has concluded there is substantial doubt as to its ability to continue as a going concern.

Our articles of incorporation, our bylaws and Florida law provide for anti-takeover provisions that could make it more difficult for a third party to acquire us.

Provisions of our articles of incorporation, our bylaws and Florida law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions, alone or in combination with each other, may discourage transactions involving actual or potential changes of control, including transactions that otherwise could involve payment of a premium over prevailing market prices to holders of our common stock, or could limit the ability of our shareholders to approve transactions that they may deem to be in their best interests.

Future sales of our common stock by our existing shareholders in the public market, or the possibility or perception of such future sales, or sales of additional shares of common stock by us, could depress our stock price.

Investors currently known to be the beneficial owners of more than 5.0% of our common stock hold approximately 40% of our outstanding shares. Sales of a substantial number of shares of our common stock in the public market or otherwise by our existing shareholders, or the possibility or perception that such sales could occur, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. In addition, we may issue additional shares of our common stock from time to time in the future in amounts that may be significant. The sale of substantial amounts of our common stock by us, or the perception that these sales may occur, could adversely impact our stock price. Refer to Note 3 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for information regarding our acquisition of the Maison Companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive office is located at 14050 N.W. 14th Street, Suite 180, Sunrise, Florida 33323 in a 64,727 square foot office facility. Our lease for this office space is scheduled to expire in October 2028.

We also lease office space located at 7861 Woodland Center Boulevard, Tampa, Florida 33614 in a 5,880 square foot office facility, which serves as the principal office space for our subsidiary, MIC. Our lease for this office space is scheduled to expire in January 2025.

Refer to Note 12 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for further information regarding our leases.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of conducting our business, we become involved in various legal actions and claims. Litigation is subject to many uncertainties and we may be unable to accurately predict the outcome of such matters, some of which could be decided unfavorably to us. Management does not believe the ultimate outcome of any pending matters of this nature would be material.

Refer to Note 12 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for further information regarding our legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed for trading on the NASDAQ Global Market under the symbol "FNHC."

HOLDERS

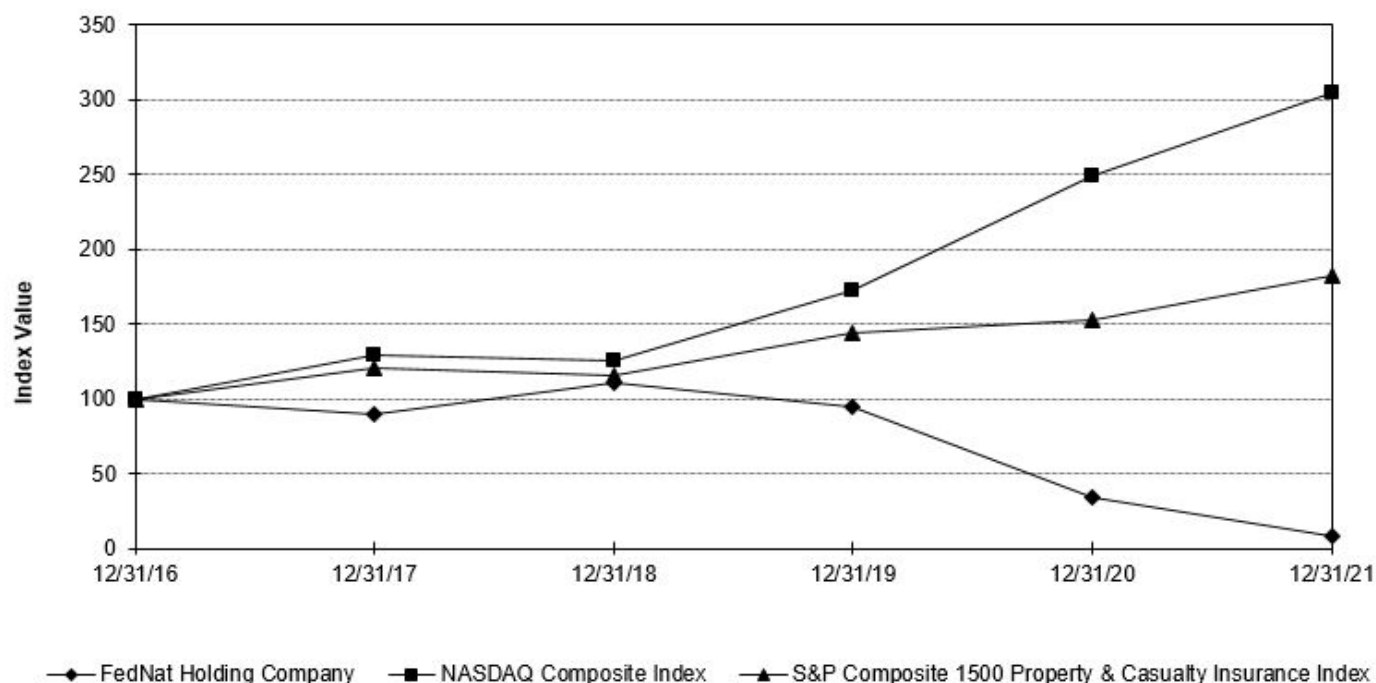
As of March 4, 2022, there were 125 holders of record of our common stock.

STOCK PERFORMANCE GRAPH

The following graph shows the cumulative total shareholder return on our common stock over the last five fiscal years as compared with the total returns of the NASDAQ Composite Index and the SNL Property & Casualty Insurance Index. In accordance with SEC rules, this graph includes indices that we believe are comparable and appropriate.

FedNat Holding Company

Total Return Performance



Index	Period Ending					
	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
FedNat Holding Company	100.00	90.40	110.51	94.33	34.84	8.30
NASDAQ Composite	100.00	129.64	125.96	172.18	249.51	304.85
SNL Insurance P&C	100.00	120.37	116.34	144.66	152.46	182.30

Returns are based on the change in year-end to year-end price. The graph assumes \$100 was invested on December 31, 2016 in our common stock, the NASDAQ Composite Index and the SNL Property & Casualty Insurance Index and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

Our filings with the SEC may incorporate information by reference, including this Annual Report. Unless we specifically state otherwise, the information under this heading “Stock Performance Graph” shall not be deemed to be “soliciting materials” and shall not be deemed to be “filed” with the SEC or incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934.

RECENT SALES OF UNREGISTERED SECURITIES

On December 2, 2019, we issued 1,773,102 shares of common stock to PIH as part of the consideration we paid for the Maison Companies. These shares were issued pursuant to the exemption from registration set forth in Section 4(a)(2) of the Securities Act of 1933, as amended.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Operating Results Overview — Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

The following table sets forth results of operations for the periods presented:

	Year Ended December 31,		
	2021	% Change	2020
	(Dollars in thousands)		
Revenues:			
Gross premiums written	\$ 684,777	(5.8)%	\$ 726,885
Gross premiums earned	708,820	(1.7)%	720,967
Ceded premiums	(525,517)	47.3 %	(356,833)
Net premiums earned	183,303	(49.7)%	364,134
Net investment income	6,770	(42.6)%	11,786
Net realized and unrealized gains (losses)	11,017	(38.9)%	18,032
Direct written policy fees	13,051	(6.6)%	13,970
Other income	31,408	31.2 %	23,941
Total revenues	245,549	(43.1)%	431,863
Costs and expenses:			
Losses and loss adjustment expenses	232,760	(38.2)%	376,449
Commissions and other underwriting expenses	81,180	(34.7)%	124,288
General and administrative expenses	24,355	4.0 %	23,420
Interest expense	8,758	14.3 %	7,661
Impairment of intangibles	1,280	(89.1)%	11,699
Total costs and expenses	348,333	(35.9)%	543,517
Income (loss) before income taxes	(102,784)	NCM	(111,654)
Income tax expense (benefit)	316	NCM	(33,496)
Net income (loss)	\$ (103,100)	NCM	\$ (78,158)
Ratios to net premiums earned:			
Net loss ratio	127.0 %		103.4 %
Net expense ratio	57.6 %		40.5 %
Combined ratio	184.6 %		143.9 %

- (1) Net loss ratio is calculated as losses and loss adjustment expenses ("LAE") divided by net premiums earned.
- (2) Net expense ratio is calculated as all operating expenses less interest expense divided by net premiums earned.
- (3) Combined ratio is calculated as the sum of losses and LAE and all operating expenses less interest expense divided by net premiums earned.

The following table sets forth a reconciliation of GAAP to non-GAAP measures:

	Year Ended December 31,	
	2021	2020
	(Dollars in thousands)	
Revenue		
Total revenues	\$ 245,549	\$ 431,863
Less:		
Net realized and unrealized investment gains (losses)	1,592	18,032
Adjusted operating revenues	<u>\$ 243,957</u>	<u>\$ 413,831</u>
Net Income (Loss)		
Net income (loss)	\$ (103,100)	\$ (78,158)
Less:		
Net realized and unrealized investment gains (losses)	1,592	10,801
Acquisition and strategic costs	(12)	(171)
Amortization of identifiable intangibles	(138)	(90)
Impairment of intangibles	(1,280)	(11,417)
Adjusted operating income (loss)	<u>\$ (103,262)</u>	<u>\$ (77,281)</u>
Income tax rate assumed for reconciling items above, excluding impairment of goodwill	— %	40.100 %

Revenue

Total revenue decreased \$186.4 million, or 43.1%, to \$245.5 million for the year ended December 31, 2021, as compared to \$431.9 million for the year ended December 31, 2020. The decrease was driven primarily by increases in ceded premiums from incremental quota-share agreements and higher catastrophe reinsurance costs, as well as lower gross premiums, net investment income and net realized gains, slightly offset by higher other income, all of which are discussed in further detail below.

Gross Premiums Written

The following table sets forth the gross premiums written for the periods presented:

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Gross premiums written:		
Homeowners Florida	\$ 428,439	\$ 444,576
Homeowners non-Florida	235,278	263,534
Federal flood	21,304	19,022
Non-core (1)	(244)	(247)
Total gross premiums written	<u>\$ 684,777</u>	<u>\$ 726,885</u>

(1) Reflects exited lines of business.

Gross premiums written decreased \$42.1 million, or 5.8%, to \$684.8 million for the year ended December 31, 2021, as compared to \$726.9 million for the year ended December 31, 2020, which was driven by a reduction in our policies-in-force and exposure across all states, as a result of our rigorous exposure management in response to the challenging litigation environment, partially offset by rate actions that we have taken across our insurance subsidiaries.

Gross Premiums Earned

The following table sets forth the gross premiums earned for the periods presented:

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Gross premiums earned:		
Homeowners Florida	\$ 434,120	\$ 459,511
Homeowners non-Florida	254,740	244,192
Federal flood	20,204	17,511
Non-core (1)	(244)	(247)
Total gross premiums earned	<u>\$ 708,820</u>	<u>\$ 720,967</u>

(1) Reflects exited lines of business.

Gross premiums earned decreased \$12.2 million, or 1.7%, to \$708.8 million for the year ended December 31, 2021, as compared to \$721.0 million for the year ended December 31, 2020, driven primarily by the same reasons as the decrease in gross premiums written, discussed above.

Ceded Premiums Earned

Ceded premiums earned increased \$168.7 million, or 47.3%, to \$525.5 million for the year ended December 31, 2021, as compared to \$356.8 million for the year ended December 31, 2020. The increase was driven by approximately \$124 million of higher quota-share ceded premium: \$69 million related to new and incremental quota-share treaties for FNIC's Florida book of business and \$55 million related to the 80% quota-share treaty for FNIC's non-Florida book of business. Additionally, there was approximately \$41 million higher catastrophe reinsurance spend, driven by higher rate-on-line prices in the 2020-2021 catastrophe excess of loss reinsurance program as well as additional purchases of supplemental coverage in that treaty year to backfill layers and gaps in coverage stemming from the non-cascading portion of our reinsurance tower, following the six retention catastrophe events that have occurred since July 1, 2020. The increase to ceded premium earned associated with the aforementioned quota-share treaties is largely offset by corresponding reductions in loss and LAE, and commission and other underwriting expenses when comparing the periods. Refer to Note 6 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information regarding these quota-share treaties.

Net Investment Income

Net investment income decreased \$5.0 million, or 42.6%, to \$6.8 million during the year ended December 31, 2021, as compared to \$11.8 million during the year ended December 31, 2020. This decrease was driven by a smaller fixed income portfolio as well as a decline in the associated yield as a result of declining interest rates during the last year. Related to the former, we have been impacted by several catastrophes, hail and wind-related severe weather events and private reinsurers have raised the cost of their coverages. As a result, sales of our portfolio of fixed income securities was a significant source of liquidity over the last year, particularly with respect to funding of retained losses from catastrophe weather events.

Net Realized and Unrealized Gains (Losses)

Net realized and unrealized gains (losses) decreased \$7.0 million, to \$11.0 million for the year ended December 31, 2021, as compared to \$18.0 million for the year ended December 31, 2020. We recognized less than \$0.1 million and \$(4.1) million in unrealized investment gains (losses) for equity securities during these respective periods. Our current and prior year net realized investment gains are primarily associated with our portfolio managers, under our control, moving out of positions due to both macro and micro conditions, a typical practice in most quarters. Furthermore, to mitigate the potential COVID-19 related adverse impact on the financial stability of the issuers of securities we hold, certain positions were liquidated during 2020.

During the first six months of 2021, we purchased additional reinsurance limit for our excess of loss catastrophe reinsurance program for 2020-2021, which we determined had an embedded derivative. For the twelve months ended December 31, 2021, the Company recognized \$9.4 million in realized and unrealized embedded derivative gains. Refer to Notes 2, 4, and 6 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report. for further information related to our embedded derivative.

Direct Written Policy Fees

Direct written policy fees decreased by \$0.9 million, or 6.6%, to \$13.1 million for the year ended December 31, 2021, as compared to \$14.0 million for the year ended December 31, 2020. The decrease is primarily driven by a reduction in our policies in-force and exposure in Florida, as a result of our rigorous exposure management in response to the challenging litigation environment.

Other Income

Other income increased \$7.5 million, or 31.2%, to \$31.4 million for the year ended December 31, 2021, as compared to \$23.9 million for the year ended December 31, 2020. Other income included the following for the periods presented:

	Year Ended December 31,		
	2021	% Change	2020
(Dollars in thousands)			
Other income:			
Commission and other fee income	\$ 4,584	36.6 %	\$ 3,357
Brokerage	25,343	33.8 %	18,948
Financing and other revenue	1,481	(9.5)%	1,636
Total other income	<u>\$ 31,408</u>	<u>31.2 %</u>	<u>\$ 23,941</u>

The increase in other income was primarily driven by higher brokerage revenue. The brokerage revenue increase is the result of higher excess of loss reinsurance spend from the reinsurance programs in place, including reinstatement premiums and/or additional purchases, during 2021 as compared to 2020.

Expenses

Losses and LAE

Losses and LAE incurred, net of reinsurance, included the following for the periods presented:

	Year Ended December 31,			
	2021		2020	
	Net Loss		Net Loss	
	Amount	Ratio	Amount	Ratio
(In thousands)				
Current accident year, excluding catastrophes:				
Homeowners	\$ 144,782	79.0 %	\$ 230,602	63.3 %
Non-core (1)	—	— %	—	— %
Total current accident year, excluding catastrophes	144,782	79.0 %	230,602	63.3 %
Current year catastrophes (2):				
Florida	26,476	14.4 %	55,533	15.3 %
Texas	46,396	25.3 %	26,204	7.2 %
Louisiana	6,810	3.7 %	44,174	12.1 %
Other states	2,059	1.1 %	2,386	0.7 %
Total current year catastrophes	81,741	44.5 %	128,297	35.3 %
Prior year loss development (redundancy):				
Homeowners	7,450	4.1 %	(655)	(0.2)%
Non-core (1)	(1,145)	(0.6)%	19,022	5.2 %
Ceded losses subject to offsetting experience account adjustments (3)	(68)	— %	(816)	(0.2)%
Total prior year loss development (redundancy)	6,237	3.5 %	17,551	4.8 %
Total net losses and LAE	\$ 232,760	127.0 %	\$ 376,449	103.4 %

(1) Reflects exited lines of business.

(2) Includes Property Claims Services ("PCS") weather events and other events impacting multiple insureds for which the Company's insurance carriers established catastrophe event codes, net of the benefit of claims handling services. These catastrophe events are typically wind, hail and tornado related weather events. Any individual catastrophe event with gross losses greater than \$20 million, on a pre-tax basis, are considered significant and specifically addressed in the commentary below. Excludes any catastrophe related activity recorded in other financial statement line items, outside of loss and loss adjustment expenses.

(3) Reflects homeowners losses ceded under retrospective reinsurance treaties to the extent there is an offsetting experience account adjustment, such that there is no impact on pre-tax net income (loss).

Losses and LAE decreased \$143.6 million, or 38.2%, to \$232.8 million for the year ended December 31, 2021, as compared to \$376.4 million for the year ended December 31, 2020 driven by higher ceded losses under quota-share reinsurance treaties and lower net catastrophe losses. The net loss ratio increased 23.6 percentage points, to 127.0% in 2021, as compared to 103.4% in 2020. The higher loss ratio was primarily the result of higher ceded premiums, as discussed earlier, which reduces net earned premiums, the denominator on the net loss ratio calculation.

Net losses and LAE for the year ended December 31, 2021 were driven by approximately \$81.7 million of net catastrophe losses, net of reinsurance and claims handling fee income, and prior year reserve strengthening of \$6.2 million, which was partially offset by \$10.7 million of income recognized within realized and unrealized gains in our consolidated statement of operations (refer to Notes 2, 4 and 6 for further information). The 2021 weather events were driven by Hurricane Ida, Winter Storm Uri as well as a number of convective storm and hail events impacting Louisiana, Florida and Texas. The net catastrophe losses were adversely impacted by having reached the net loss limit contained in the FNIC non-Florida quota-share treaty, which reduced the amount of net losses that we were able to cede in 2021. The 2020 net losses were driven by net catastrophe losses of \$128.3 million and prior period reserve strengthening of \$17.6 million. Additionally, higher ceded losses through our quota-share treaties and lower attritional losses in FNIC's Florida book of business drove lower current accident year losses, excluding catastrophes, compared to the prior year.

Commissions and Other Underwriting Expenses

The following table sets forth the commissions and other underwriting expenses for the periods presented:

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Commissions and other underwriting expenses:		
Homeowners Florida	\$ 47,817	\$ 54,043
All other	48,672	49,384
Ceding commissions	(77,090)	(27,143)
Total commissions	19,399	76,284
Fees	5,367	5,079
Salaries and wages	13,896	13,791
Other underwriting expenses	42,518	29,134
Total commissions and other underwriting expenses	\$ 81,180	\$ 124,288

Commissions and other underwriting expenses decreased \$43.1 million, or 34.7%, to \$81.2 million for the year ended December 31, 2021, as compared to \$124.3 million for the year ended December 31, 2020. This decrease was primarily due to higher ceding commission driven primarily by the new quota-share treaties in FNIC's Florida and non-Florida books of business. Refer to Ceded Premium Earned above for additional information. The higher ceding commission was partially offset by an increase in other underwriting expenses, which was the result of the benefit from the 50% profit-sharing agreement in the first half of 2020.

The net expense ratio increased 17.1 percentage points to 57.6% in 2021, as compared to 40.5% in 2020 due primarily to higher ceded reinsurance premiums in 2021. Our gross expense ratio was 25.8% and 24.3% during the 2021 and 2020, respectively, demonstrating the Company's continued focus on expense control.

General and Administrative Expenses

General and administrative expenses increased \$1.0 million, or 4.0%, to \$24.4 million for the year ended December 31, 2021, as compared to \$23.4 million for the year ended December 31, 2020.

Interest Expense

Interest expense increased \$1.1 million to \$8.8 million for the year ended December 31, 2021, as compared to \$7.7 million for the year ended December 31, 2020. Refer to Note 10 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for information related to changes to our existing debt and new debt issuance, which increased interest expense during 2021 as compared to 2020.

Impairment of Intangibles

Effective October 1, 2021, due to the Company's plan to execute an orderly runoff of MIC's insurance operations, management concluded there was an indication of impairment for the identifiable intangible assets established in conjunction with the acquisition of the Maison Companies in December 2019. Therefore, during the fourth quarter of 2021, we performed a discounted cash flow analysis to measure and record a non-cash impairment of \$1.3 million, against which there is no tax offset. The impairment was due primarily to a decline in forecasted revenue and a higher discount rate, which lowered the fair value below carrying value. Refer to *Overview of Insurance Lines of Business - Non-Florida* set forth in Part I, Item 1. Business of this Annual Report, above for additional information on the Company's plan related to MIC.

Coinciding with the preparation of the financial statements for the year ended December 31, 2020, the Company's annual goodwill impairment testing resulted in the conclusion that the goodwill intangible asset established in conjunction with the acquisition of the Maison Companies in December 2019 was impaired. Therefore, during the fourth quarter of 2020, we recorded a non-cash impairment charge of \$11.0 million, against which there was no tax offset, representing the write-off of the full amount of the goodwill

asset. The Company's impairment analysis considered the earnings and share price of the Company and comparable companies, as well as projected cash flows. Continued adverse storm activity, higher excess of loss catastrophe reinsurance costs and the unfavorable claims environment in the state of Florida that existed at that time reduced the previously modeled fair value of the Company. These impacts, along with other information relevant to the estimated fair value of the Company, including the trading price of our shares, resulted in the impairment conclusion.

Correspondingly, effective October 1, 2020, we believed there was an indication of impairment for the identifiable intangible assets, and performed a discounted cash flow analysis to measure and record a non-cash impairment of \$0.7 million, due primarily to a higher discount rate, which lowered the fair value below carrying value.

Refer to Note 8 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information related to our goodwill and identifiable intangible assets.

Income Taxes

Income tax expense (benefit) increased \$33.8 million to \$0.3 million for the year ended December 31, 2021, as compared to \$(33.5) million for the year ended December 31, 2020. Refer to Note 11 of the notes to our Consolidated Financial Statements for information related to the increase in our valuation allowance for 2021 and our effective income tax rate.

Consolidated Company Outlook – Potential Changes in Financial Trends

As discussed under Overview of Insurance Lines of Business – Non-Florida above in “Part I, Item I. Business, Insurance Operations and Related Services” of this annual report, the Company intends to re-focus its operations on its Florida homeowners business. The orderly runoff of MIC and the transfer-upon-renewal of FNIC's non-Florida business to alternative insurance carrier partners of SageSure impact forward-looking expectations with respect to financial trends. Such impacts with respect to the Company's non-Florida business include, but are not limited to:

- Declines in net written and gross earned premiums;
- Declines in loss and loss adjustment expenses as well as in commissions and other underwriting expenses;
- Declines in exposure to catastrophe weather losses;
- Declines in the expected cost of excess of loss reinsurance coverages over the runoff period; and
- Reduced need or potential need for surplus infusions into FNIC and MIC, and corresponding reductions in the Company's overall capital needs.

Overall, the Company anticipates lower consolidated earnings. However, if catastrophe losses were to continue at the elevated levels experienced in the past eighteen months, it is expected that the orderly exit of the non-Florida business will have proven beneficial to the Company's earnings over the runoff period.

See *Going Concern* in “Part I, Item I. Business, Insurance Operations and Related Services” of this annual report for discussion of the potential for the Company to be placed into receivership, which would materially impact financial trends in our results of operations

Operating Results Overview — Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

The following table sets forth selected results of operations for the periods presented:

	Year Ended December 31,		
	2020	% Change	2019
	(Dollars in thousands)		
Revenues:			
Gross premiums written	\$ 726,885	19.0 %	\$ 610,608
Gross premiums earned	720,967	23.8 %	582,334
Ceded premiums	(356,833)	63.2 %	(218,682)
Net premiums earned	364,134	0.1 %	363,652
Net investment income	11,786	(25.9)%	15,901
Net realized and unrealized investment gains (losses)	18,032	154.5 %	7,084
Direct written policy fees	13,970	37.0 %	10,200
Other income	23,941	32.1 %	18,124
Total revenues	431,863	4.1 %	414,961
Costs and expenses:			
Losses and LAE	376,449	37.9 %	273,080
Commissions and other underwriting expenses	124,288	16.0 %	107,189
General and administrative expenses	23,420	0.9 %	23,203
Interest expense	7,661	(28.9)%	10,776
Impairment of intangibles	11,699	NCM	—
Total costs and expenses	543,517	31.2 %	414,248
Income (loss) before income taxes	(111,654)	NCM	713
Income tax expense (benefit)	(33,496)	NCM	(298)
Net income (loss)	\$ (78,158)	NCM	\$ 1,011
Ratios to net premiums earned:			
Net loss ratio	103.4 %		75.1 %
Net expense ratio	40.5 %		35.9 %
Combined ratio	143.9 %		111.0 %

- (1) Net loss ratio is calculated as losses and LAE divided by net premiums earned.
- (2) Net expense ratio is calculated as all operating expenses less interest expense divided by net premiums earned.
- (3) Combined ratio is calculated as the sum of losses and LAE and all operating expenses less interest expense divided by net premiums earned.

The following table sets forth a reconciliation of GAAP to non-GAAP measures:

	Year Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Revenue		
Total revenues	\$ 431,863	\$ 414,961
Less:		
Net realized and unrealized investment gains (losses)	18,032	7,084
Adjusted operating revenues	<u>\$ 413,831</u>	<u>\$ 407,877</u>
Net Income (Loss)		
Net income (loss)	\$ (78,158)	\$ 1,011
Less:		
Net realized and unrealized investment gains (losses)	10,801	5,347
Acquisition and strategic costs	(171)	(1,267)
Amortization of identifiable intangibles	(90)	(10)
Gain (loss) on early extinguishment of debt	—	(2,698)
Impairment of intangibles	(11,417)	—
Adjusted operating income (loss)	<u>\$ (77,281)</u>	<u>\$ (361)</u>
Income tax rate assumed for reconciling items above, excluding impairment of goodwill	40.100 %	24.522 %

Revenue

Total revenue increased \$16.9 million, or 4.1%, to \$431.9 million for the year ended December 31, 2020, as compared to \$415.0 million for the year ended December 31, 2019. The increase was primarily driven by higher net investment gains, policy fees and other income, partially offset by lower net investment income, all of which are discussed below.

Gross Premiums Written

The following table sets forth the gross premiums written for the periods presented:

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Gross premiums written:		
Homeowners Florida	\$ 444,576	\$ 451,856
Homeowners non-Florida	263,534	142,485
Federal flood	19,022	16,413
Non-core (1)	(247)	(146)
Total gross premiums written	\$ 726,885	\$ 610,608

(1) Reflects exited lines of business.

Gross premiums written increased \$116.3 million, or 19.0%, to \$726.9 million for the year ended December 31, 2020, as compared to \$610.6 million for the year ended December 31, 2019. The gross premiums written increase was driven by our growth in our non-Florida book of business, including \$77.8 million from MIC's non-Florida business, as we reduce our exposure in the state of Florida, as a result of the challenging litigation environment. Overall, homeowners grew 19.1%.

Gross Premiums Earned

The following table sets forth the gross premiums earned for the periods presented:

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Gross premiums earned:		
Homeowners Florida	\$ 459,511	\$ 452,730
Homeowners non-Florida	244,192	112,836
Federal flood	17,511	15,073
Non-core (1)	(247)	1,695
Total gross premiums earned	<u>\$ 720,967</u>	<u>\$ 582,334</u>

(1) Reflects exited lines of business.

Gross premiums earned increased \$138.7 million, or 23.8%, to \$721.0 million for the year ended December 31, 2020, as compared to \$582.3 million for the year ended December 31, 2019. The higher gross premiums earned was primarily driven by higher non-Florida premiums, including \$73.3 million from MIC's non-Florida business.

Ceded Premiums Earned

Ceded premiums earned increased \$138.1 million, or 63.2%, to \$356.8 million for the year ended December 31, 2020, as compared to \$218.7 million for the year ended December 31, 2019. The increase was driven by approximately \$91.5 million higher excess of loss reinsurance spend, as prices and overall property exposures increased, including \$32.8 million from the Maison Companies acquisition, in the year 2020 as compared to 2019. Additionally, stemming from the non-cascading portion of our reinsurance tower and number of catastrophe events, we purchased supplemental coverage to backfill layers and gaps in coverage, which increased ceded premium earned by \$10.4 million when comparing these periods. Furthermore, there was approximately \$34.1 million of additional ceded premium related to the 50% quota-share treaty for FNIC's non-Florida book of business that became effective July 1, 2020 and was subsequently increased to 80% effective December 1, 2020. The increase to ceded premium earned associated with the aforementioned quota-share treaties is partially offset by corresponding reductions in loss and LAE, and commission and other underwriting expenses when comparing the periods.

Net Investment Income

Net investment income decreased \$4.1 million, or 25.9%, to \$11.8 million for the year ended December 31, 2020, as compared to \$15.9 million for the year ended December 31, 2019. The decrease was primarily due to the lower interest rate environment in 2020 and elevated second quarter 2019 income earned on debt proceeds that had not yet been deployed on the Maison Companies acquisition, partially offset by fixed income portfolio growth from the Maison Companies acquisition.

Net Realized and Unrealized Investment Gains (Losses)

Net realized and unrealized investment gains (losses) increased \$10.9 million, to \$18.0 million for the year ended December 31, 2020, as compared to \$7.1 million for the year ended December 31, 2019. We recognized \$(4.1) million (more than offset by realized gains on sales) and \$4.1 million in unrealized investment gains (losses) for equity securities during these respective periods. Our current and prior year net realized gains are primarily associated with our portfolio managers, under our control, moving out of positions due to both macro and micro conditions, a typical practice most quarters. Furthermore, to mitigate the potential COVID-19 related adverse impact on the financial stability of the issuers of securities we hold, certain positions were liquidated during 2020. In addition, to reduce the potential impact of equity market volatility on our capital and liquidity, we sold all of the Company's investments in common stock.

Direct Written Policy Fees

Direct written policy fees increased by \$3.8 million, or 37.0%, to \$14.0 million for the year ended December 31, 2020, as compared to \$10.2 million for the year ended December 31, 2019. The increase is primarily driven by the policy fees generated from MIC's policies in-force and higher fees as a result of FNIC's non-Florida premium growth.

Other Income

Other income increased \$5.8 million, or 32.1%, to \$23.9 million for the year ended December 31, 2020, as compared to \$18.1 million for the year ended December 31, 2019. Other income included the following for the periods presented:

	Year Ended December 31,		
	2020	% Change	2019
(Dollars in thousands)			
Other income:			
Commission income	\$ 3,357	15.6 %	\$ 2,904
Brokerage	18,948	39.6 %	13,577
Financing and other revenue	1,636	(0.4)%	1,643
Total other income	<u>\$ 23,941</u>	<u>32.1 %</u>	<u>\$ 18,124</u>

The increase in other income was primarily driven by higher brokerage revenue. The brokerage revenue increase is the result of higher excess of loss reinsurance spend from the reinsurance programs in place during 2020 as compared to 2019.

Expenses

Losses and LAE

Losses and LAE incurred, net of reinsurance, included the following for the periods presented:

	Year Ended December 31,			
	2020		2019	
	Amount	Net Loss Ratio	Amount	Net Loss Ratio
(In thousands)				
Current accident year, excluding catastrophes:				
Homeowners	\$ 230,602	63.3 %	\$ 207,808	57.1 %
Non-core (1)	—	— %	1,601	0.4 %
Total current accident year, excluding catastrophes	<u>230,602</u>	<u>63.3 %</u>	<u>209,409</u>	<u>57.5 %</u>
Current year catastrophes (2):				
Florida	55,533	15.3 %	26,250	7.4 %
Texas	26,204	7.2 %	12,400	3.4 %
Louisiana	44,174	12.1 %	8,900	2.4 %
Other states	2,386	0.7 %	5,150	1.4 %
Total current year catastrophes	<u>128,297</u>	<u>35.3 %</u>	<u>52,700</u>	<u>14.6 %</u>
Prior year loss development (redundancy):				
Homeowners	(655)	(0.2)%	615	0.2 %
Non-core (1)	19,022	5.2 %	12,845	3.5 %
Ceded losses subject to offsetting experience account adjustments (3)	<u>(816)</u>	<u>(0.2)%</u>	<u>(2,489)</u>	<u>(0.7)%</u>
Total prior year loss development (redundancy)	<u>17,551</u>	<u>4.8 %</u>	<u>10,971</u>	<u>3.0 %</u>
Total net losses and LAE	<u>\$ 376,449</u>	<u>103.4 %</u>	<u>\$ 273,080</u>	<u>75.1 %</u>

(1) Reflects exited lines of business.

(2) Includes PCS weather events and other events impacting multiple insureds for which the Company's insurance carriers established catastrophe event codes, net of the benefit of claims handling services. These catastrophe events are typically wind, hail and tornado related weather events. Any individual catastrophe event with gross losses greater than \$20 million, on a pre-tax basis, are considered significant and specifically addressed in the commentary below.

- (3) Reflects homeowners losses ceded under retrospective reinsurance treaties to the extent there is an offsetting experience account adjustment, such that there is no impact on pre-tax net income (loss).

Losses and LAE increased \$103.3 million, or 37.9%, to \$376.4 million for the year ended December 31, 2020, as compared to \$273.1 million for the year ended December 31, 2019. The net loss ratio increased 28.3 percentage points, to 103.4% in 2020, as compared to 75.1% in 2019. The higher ratio was primarily the result of higher catastrophe net losses when comparing the periods, as 2020 included \$128.3 million, net of reinsurance. Approximately \$37 million of catastrophe net losses from FNIC's non-Florida book of business was subject to a 50% profit-sharing agreement prior to the 50% profit-sharing agreement prior to the 50% quota share becoming effective on July 1, 2020 and increasing to 80% effective December 1, 2020, as discussed above.

The 2020 catastrophe net losses were \$109.8 million, net of reinsurance and profit-share impact described above, which included Hurricanes Laura, Sally, Delta, Zeta and Eta, as well as a number of hail and wind-related severe weather events, which impacted Florida, Louisiana, Texas and other states. By comparison, 2019 catastrophe net losses were \$39.5 million, net of reinsurance and profit-share impact, which primarily included \$18.7 million attributed to a single hail storm in Brevard County, Florida, and hail and wind related events during the spring months in the southeastern part of the United States. The remaining variance was the result of higher prior year development, as detailed in the table above, and higher current year gross losses from a higher volume of policies, mostly offset by increased ceded losses in FNIC's Florida and non-Florida books of business as a result of additional quota-share agreements in place in the second half of 2020 as compared to the second half of 2019.

Commissions and Other Underwriting Expenses

The following table sets forth commissions and other underwriting expenses for the periods presented:

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Commissions and other underwriting expenses:		
Homeowners Florida	\$ 54,043	\$ 52,962
All others	49,384	25,491
Ceding commissions	(27,143)	(12,128)
Total commissions and other fees	76,284	66,325
Fees	5,079	3,368
Salaries and wages	13,791	12,114
Other underwriting expenses	29,134	25,382
Total commissions and other underwriting expenses	\$ 124,288	\$ 107,189

Commissions and other underwriting expenses increased \$17.1 million, or 16.0%, to \$124.3 million for the year ended December 31, 2020, as compared to \$107.2 million for the year ended December 31, 2019. The increase was primarily driven by higher non-Florida acquisition related costs, which includes gross commissions, fees and other underwriting expenses as a result of premium growth, including from MIC's non-Florida business. When comparing these periods, this increase was partially offset by a higher ceding commission driven in part by the new quota-share treaties in FNIC's Florida and non-Florida books of business. Refer to Ceded Premium Earned above for additional information.

The net expense ratio increased 4.6 percentage points to 40.5% in 2020, as compared to 35.9% in 2019 due primarily to higher excess of loss ceded reinsurance premiums in 2020.

General and Administrative Expenses

Despite the addition of the Maison Companies and enabled by our rigorous integration efforts, general and administrative expenses increased only \$0.2 million, or 0.9%, to \$23.4 million for the year ended December 31, 2020, as compared to \$23.2 million for the year ended December 31, 2019.

Interest Expense

Interest expense decreased \$3.1 million to \$7.7 million for the year ended December 31, 2020, as compared to \$10.8 million for the year ended December 31, 2019, which included \$3.6 million of prepayment fees, including the write-off of remaining debt issuance costs. This decline was partially offset by the fact that our March 2019 debt offering was only outstanding for a portion of the first quarter of 2019.

Impairment of Intangibles

Coinciding with the preparation of the financial statements for the year ended December 31, 2020, the Company's annual goodwill impairment testing resulted in the conclusion that the goodwill intangible asset established in conjunction with the acquisition of the Maison Companies in December 2019 was impaired. Therefore, during the fourth quarter of 2020, we recorded a non-cash impairment charge of \$11.0 million, against which there is no tax offset, representing the write-off of the full amount of our goodwill asset. The Company's impairment analysis considered the earnings and share price of the Company and comparable companies, as well as projected cash flows. Continued adverse storm activity, higher excess of loss catastrophe reinsurance costs and the continued unfavorable claims environment in the state of Florida reduced the previously modeled fair value of the Company. These impacts, along with other information relevant to the estimated fair value of the Company, including the trading price of our shares, resulted in the impairment conclusion.

Correspondingly, effective as of October 1, 2020, we believed there was an indication of impairment for our identifiable intangible assets, therefore we performed a discounted cash flow analysis to measure and record a non-cash impairment of \$0.7 million, due primarily to a higher discount rate, which lowered the fair value below carrying value.

Refer to Note 8 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information related to our goodwill and identifiable intangible assets.

Income Taxes

Income tax expense (benefit) decreased \$33.2 million to \$(33.5) million for the year ended December 31, 2020, as compared to \$(0.3) million for the year ended December 31, 2019. The decrease in income tax expense is predominantly the result of the pre-tax loss during the current year as compared to income during 2019. Additionally, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), signed into law on March 27, 2020, enabled us to carry back net operating loss to prior years when the statutory federal income tax rate was at 35%, which increased our effective tax rate during 2020. Refer to Note 11 of the notes to our Consolidated Financial Statements for additional information regarding the CARES Act.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary sources of funds are gross written premiums, ceding of claims payments pursuant to reinsurance treaties, investment income, commission income and fee income. Our primary uses of funds are the payment of claims, catastrophe and other reinsurance premiums and operating expenses. As of December 31, 2021, on a consolidated basis, the Company held \$83.5 million in cash and cash equivalents and \$333.4 million in investments. As of December 31, 2020, on a consolidated basis, the Company held \$102.4 million in cash and cash equivalents and \$491.4 million in investments. Total shareholders' equity decreased \$98.8 million, to \$59.4 million as of December 31, 2021, as compared with \$158.2 million as of December 31, 2020, due primarily to a net loss and unrealized losses on our bond portfolio, partially offset by issuance of common stock. The Company believes it has adequate holding company liquidity to accommodate its potential first quarter catastrophe losses, and to maintain regulatory minimum RBC ratios throughout 2022.

As described in *Going Concern* in "Part I, Item I. Business, Insurance Operations and Related Services" of this annual report, the Company believes there is substantial doubt regarding its ability to continue as a going concern. The Company has been notified by Demotech that FNIC has been downgraded from "A" to "S". MNIC's "A" rating was recently affirmed. The Company believes that the downgrade of FNIC's Demotech rating will adversely impact our ability to obtain excess-of-loss reinsurance for coverage beginning July 1, 2022. Absent such coverage, the Company will not be in compliance with requirements communicated by the Office of Insurance Regulation of the state of Florida regarding such coverage, which could ultimately result in the Company being placed into receivership.

The Company has outstanding \$100 million of 2029 Notes ("2029 Notes"), which at issuance bore interest at the annual rate of 7.50%. In connection with the amendment of the indenture covenants to increase the maximum debt-to-capital ratio applicable to the

incurrence of debt to 60% and decreasing the maximum debt-to-capital ratio applicable to restricted payments, including cash dividends on our common stock, to 20%, the interest rate was increased by 0.25% to 7.75% per annum beginning March 15, 2021. Refer to Note 10 of the notes to our Consolidated Financial Statements for additional information regarding the 2029 Notes.

The Company has outstanding \$21 million of Convertible Senior Unsecured Notes due 2026 ("2026 Notes"), which bear interest at the annual rate of 5.0%. The 2026 Notes are convertible in part or in whole at the option of the holders at any time until the close of business on the second trading day prior to the maturity date on April 19, 2026 ("Maturity Date") into shares of the Company's common stock at an initial conversion rate of 166.6667 shares of the Company's common stock per \$1,000 principal amount of the 2026 Notes (equivalent to an initial conversion price of \$6.00 per share), subject to customary adjustments in certain circumstances. The Company will not have the right to redeem the 2026 Notes prior to the Maturity Date. Holders of the 2026 Notes may require the Company to purchase their 2026 Notes upon a change of control at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to, but excluding, the date of purchase.

If the Company is placed into receivership and/or fails to obtain excess-of-loss reinsurance, such conditions represent potential defaults under our debt indentures that could result in acceleration of repayment of our debt. We cannot provide any assurance that we will be able to comply with certain covenants in our senior note indentures or to make satisfactory alternative arrangements in the event we cannot do so.

The Company's actual debt to capital ratio as of December 31, 2021 was approximately 66.7%.

On March 15, 2021, the Company closed an underwritten public offering of 3,500,000 shares of its common stock at a price of \$4.75 per share for gross proceeds of \$16.6 million. The offering generated net proceeds to the Company of approximately \$15.1 million, after deducting the underwriter's discount and offering expenses payable by the Company. In April 2021, the Company sold an additional 100,650 shares upon the partial exercise of the underwriter's overallotment option and received net proceeds of \$0.4 million. This offering, the offering of 2026 Notes and changes to our 2029 Notes, are part of our ongoing execution of the strategic review process initiated by the Company's Board of Directors announced in November 2020.

Historically, we have met our liquidity requirements primarily through cash generated from operations. Beginning in 2020, property and casualty businesses, including FNHC's insurance carriers, have been materially adversely impacted by multiple catastrophes, hail, and wind-related severe weather events and private reinsurers have tightened coverage provisions and raised the cost of their coverages. As a result, sales of our portfolio of fixed income securities was a significant source of liquidity for the Company. Quota-share reinsurance treaties are another liquidity management tool, via the ceding commission the Company receives upon inception and the related reduction to statutory surplus requirements. New quota-share treaties entered or increased were responsive to these purposes, as well as to reduce the Company's exposure to non-named storm catastrophes. Certain of the Company's quota-share treaties contain provisions that give the reinsurer the option to terminate the treaty in the event that our Demotech rating is downgraded or that we are placed into receivership. The termination of any of our quota-share treaties would place additional strain on our statutory surplus.

Management continually monitors and adjusts its liquidity and capital plans for FNHC and its subsidiaries in light of the aforementioned challenges to ensure that we have adequate liquidity and capital. The Company's Board and management continue to explore all options to strengthen the Company's capital position. Management is pursuing various financing alternatives to augment our capital and liquidity, including possible equity or debt financings (consistent with our indentures) and possible sales of non-core assets. Continuing occurrences of severe weather events and the current significant economic uncertainty and volatility in the credit and capital markets may impair our ability to raise additional capital. We may not be able to raise sufficient additional capital to avoid a down grade of our Demotech rating, and our other efforts to improve our profitability may not succeed.

Statutory Capital and Surplus of our Insurance Subsidiaries

As described more fully in Part I, Item 1. Business, Regulation of this Annual Report, the Company's insurance operations are subject to the laws and regulations of the states in which we operate. The OIR and their regulatory counterparts in other states utilize the National Association of Insurance Commissioners ("NAIC") risk-based capital ("RBC") requirements, and the resulting RBC ratio, as a key metric in the exercise of their regulatory oversight. The RBC ratio is a measure of the sufficiency of an insurer's statutory capital and surplus. In addition, the RBC ratio is used by insurance industry ratings services in the determination of the financial strength ratings (i.e., claims paying ability) they assign to insurance companies. Our rating agency for our insurance carriers, Demotech, Inc. requires a minimum RBC ratio of 300%, among other metrics, for a carrier to maintain a Demotech rating. FNIC was recently downgraded from "A" to "S". See *Going Concern* in "Part I, Item I. Business, Insurance Operations and Related Services" of this annual report for discussion of the loss of FNIC's "A" rating. As of December 31, 2021, FNIC's statutory surplus, which includes MNIC, was \$99.4 million, which included a \$17.1 million surplus infusion effective December 31, 2021, via the assignment, from FNHC to FNIC, of a surplus note receivable. The surplus note was issued by MIC in December 2019 and matures in December 2022. As of December 31, 2021, MIC's statutory surplus was \$30.8 million. MIC's December 31, 2021 surplus reflects a surplus infusion of \$4.0

million in February 2022 with an effective date as of December 31, 2021, as approved by the Florida regulator. In conjunction with the Company's November 2021 decision to re-focus on its Florida homeowners business as discussed under *Overview of Insurance Lines of Business – Non-Florida* above in "Part I, Item 1. Business, Insurance Operations and Related Services" of this Annual Report, the Company is in the process of executing an orderly runoff of MIC's business. The Company remains committed to maintaining statutory surplus in MIC that satisfies minimum regulatory requirements through the runoff period. As a result of the Company's decision to support MIC to the level of minimum regulatory capital but not to a 300% RBC level, Demotech has withdrawn its rating of MIC. The ratings of FNIC and MNIC remain in place at "S" and "A", respectively, and are independent of this action. Adjusted for the intercompany impacts of the surplus note referenced above, the combined statutory surplus of our insurance carriers is approximately \$113 million.

As of December 31, 2021, the Company has approximately \$44 million of liquidity in its holding company and non-regulated subsidiaries (collectively referred to "holding company liquidity") that is available for general corporate purposes, including supporting the capital requirements of its insurance subsidiaries. This figure was reduced by \$4 million in February 2022 as a result of the surplus infusion described above. As a result, the Company has approximately \$40 million of holding company liquidity heading into the first quarter of 2022. We expect that at least some portion of these funds will need to be infused into our insurance carriers as a result of catastrophe weather losses incurred during the first quarter of 2022. The amount of such infusion will be determined in conjunction with our first quarter 2022 accounting and reporting cycle.

Based on RBC requirements, the extent of regulatory intervention and action increases as the ratio of an insurer's statutory surplus to its ACL, as calculated under the NAIC's requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200% of the ACL amount. The second action level, the Regulatory Action Level, requires an insurer to submit a plan containing corrective actions and permits the insurance regulators to perform an examination or other analysis and issue a corrective order if statutory surplus falls below 150% of the ACL amount. The third action level, ACL, allows the regulators to rehabilitate or liquidate an insurer in addition to the aforementioned actions if statutory surplus falls below the ACL amount. The fourth action level is the Mandatory Control Level, which requires the regulators to rehabilitate or liquidate the insurer if statutory surplus falls below 70% of the ACL amount. Based upon the 2021, 2020 and 2019 statutory financial statements for FNIC, MIC and MNIC, statutory surplus exceeded the regulatory action levels established by the NAIC's RBC requirements. FNIC's ratio of statutory surplus to its ACL was 313% and 303% as of December 31, 2021 and 2020, respectively. MNIC's ratio of statutory surplus to its ACL was 1,152% and 736% as of December 31, 2021 and 2020, respectively. MIC's ratio of statutory surplus to its ACL was 305% and 348% as of December 31, 2021 and 2020, respectively.

As described above, the Company intends to maintain no less than the minimum required regulatory capital within MIC, but does not intend to maintain a 300% RBC ratio. The Company will continue to closely coordinate with all applicable state insurance departments with respect to its plan of operation throughout the runoff period.

Refer to "Part I, Item 1A., Risk Factors" for more information on how over time, additional weather-related events and actions by reinsurers, including loss limitations in reinsurance treaties and our ability to renew existing reinsurance treaties, could adversely affect the Company's ability to maintain a 300% RBC ratio in FNIC and MNIC (which is critical to maintaining a Demotech rating) and minimum required regulatory capital in MIC or FNHC's ability to contribute necessary capital. In addition, because of the valuation allowance on the Company's NOL deferred tax assets, the insurance carriers will not benefit from immediate tax benefits of any future quarterly losses they incur. As such, any surplus infusions required will be larger than they would have been if our net deferred tax assets were deemed fully realizable.

Cash Flows Discussion

We currently believe that existing cash and investment balances, when combined with anticipated cash flows, will be adequate to meet our expected liquidity needs in both the short-term and the reasonably foreseeable future, including maintaining regulatory minimum capital levels in our insurance carriers. However, our ability to maintain 300% RBC levels in FNIC and MNIC (which is critical to maintaining a Demotech rating) may be dependent on our ability to raise additional capital in the future. There can be no guarantee additional capital will be available to the Company, if needed. Future strategies and catastrophe events would require additional external financing and we may from time to time seek to obtain external financing. We cannot assure that additional sources of financing will be available to us on favorable terms, or at all, or that the terms of any such financing would not negatively impact our results of operations.

Operating Activities

Net cash provided by (used in) operating activities decreased to \$(191.2) million for the year ended December 31, 2021 compared to \$(91.9) million for the year ended December 31, 2020. This decrease primarily reflects higher reinsurance spend and lower gross written premiums, partially offset by lower expenses from losses and LAE, primarily from reinsurance recoveries.

Net cash (used in) operating activities decreased to \$(91.9) million for the year ended December 31, 2020 compared to net cash provided of \$35.3 million for the year ended December 31, 2019. This decrease primarily reflects higher expenses paid, including those related to commissions and underwriting expenses and losses and LAE, including higher net catastrophe losses.

Investing Activities

Net cash provided by (used in) investing activities was \$136.9 million for the year ended December 31, 2021, as compared to \$76.4 million for the year ended December 31, 2020. The change primarily reflects lower purchases of debt and equity investment securities of \$176.3 million for the year ended December 31, 2021, as compared to \$585.6 million for the year ended December 31, 2020, partially offset by lower sales, maturities and redemptions of our debt and equity investment securities of \$315.1 million in 2021 as compared to \$665.3 million in 2020. This drawdown of the investment portfolio was necessary to fund the operating cash outflows described above.

Net cash provided by (used in) investing activities was \$76.4 million for the year ended December 31, 2020, as compared to \$(9.0) million for the year ended December 31, 2019. The change was due to higher proceeds from sales of debt and equity investment securities of \$578.5 million the year ended December 31, 2020, as compared to \$173.4 million for the year ended December 31, 2019 and higher maturities and redemptions of debt investment securities of \$86.8 million for 2020, as compared to \$43.9 million for the year ended 2019. This was partially offset by higher purchases of debt and equity investment securities of \$585.6 million for the year ended December 31, 2020, as compared to \$234.7 million for the year ended December 31, 2019.

Financing Activities

Net cash provided by (used in) financing activities was \$35.4 million for the year ended December 31, 2021, as compared to \$(15.5) million for the year ended December 31, 2020. The change primarily reflects proceeds from issuance of long-term debt of \$19.8 million for the year ended December 31, 2021 and issuance of shares of our common stock of \$15.6 million in our 2021 public offering as compared to repurchases of \$10.4 million of FedNat Holding Company common stock and payment of dividends of \$5.1 million in 2020.

Net cash provided by (used in) financing activities was \$(15.5) million for the year ended December 31, 2020, as compared to \$42.6 million for the year ended December 31, 2019. The change was primarily due to proceeds from issuance of long-term debt of \$98.4 million for the year ended December 31, 2019 and repurchases of FedNat common stock of \$10.4 million in 2020, as compared to \$3.4 million in 2019. These changes were partially offset by payment of long-term debt of \$48.0 million for the year ended December 31, 2019.

Impact of Inflation and Changing Prices

The consolidated financial statements and related data presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the inflationary effect on the cost of paying losses and LAE.

Insurance premiums are established before we know the amount of losses and LAE and the extent to which inflation may affect such expenses. Consequently, we attempt to anticipate the future impact of inflation when establishing rate levels. While we attempt to charge adequate premiums, including the use of third-party vendor "replacement cost estimator" tools when establishing coverage limits on policies we issue, we may be limited in raising premium levels for competitive and regulatory reasons. Inflation may also affect the market value of our investment portfolio and the investment rate of return. Any future economic changes that result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred losses and LAE and thereby materially adversely affect future liability requirements.

CONTRACTUAL OBLIGATIONS

The table sets forth a summary of long-term contractual obligations as of December 31, 2021, and includes amounts that represent estimates of gross undiscounted amounts payable over time, as follows:

	Payments Due By Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
(In thousands)					
Loss and loss adjustment expense reserves (1)	\$ 738,794	\$ 435,888	\$ 221,638	\$ 44,328	\$ 36,940
Long-term debt (2)	121,000	—	—	21,000	100,000
Operating leases	7,826	1,098	2,295	2,255	2,178
Total long-term contractual obligations	<u>\$ 867,620</u>	<u>\$ 436,986</u>	<u>\$ 223,933</u>	<u>\$ 67,583</u>	<u>\$ 139,118</u>

- (1) Loss and loss adjustment expense reserves do not have contractual maturity dates; however, based on historical payment patterns, the amount presented is our estimate of the expected timing of these payments. The timing of payments is subject to significant uncertainty. We maintain a portfolio of marketable investments with varying maturities and a substantial amount of cash and cash equivalents intended to provide adequate cash flows for such payments.
- (2) Represents the principal amounts of debt only. See Note 10 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for additional information.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP"), which requires us to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results may materially differ from those estimates.

We believe our most critical accounting estimates inherent in the preparation of our financial statements are: (i) fair value measurements of our investments; (ii) accounting for investments; (iii) premium and unearned premium calculation; (iv) reinsurance contracts; (v) the amount and recoverability of deferred acquisition costs and value of business acquired; (vi) goodwill and other intangible assets; (vii) reserve for loss and losses adjustment expenses; and (viii) income taxes. The accounting estimates require the use of assumptions about certain matters that are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, our financial condition, results of operations, and cash flows would be affected.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. Alternative valuation techniques may be appropriate under the circumstances to determine the value that would be received to sell an asset or pay to transfer a liability in an orderly transaction. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not acting under duress. Our nonperformance or credit risk is considered in determining the fair value of liabilities. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange. Refer to Note 4 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for additional information.

Investments

Investments consist of debt and equity securities. Debt securities consist of securities with an initial fixed maturity of more than three months, including corporate bonds, municipal bonds and United States government bonds. Equity securities generally consist of securities that represent ownership interests in an enterprise. The Company determines the appropriate classification of investments in debt and equity securities at the acquisition date and re-evaluates the classification at each balance sheet date.

Our debt securities are classified as available-for-sale and recorded at fair value. Unrealized gains and losses during the year, net of the related tax effect applicable to available-for-sale are excluded from income and reflected in other comprehensive income (loss) as a separate component of shareholders' equity until realized. Prior to January 1, 2020, if a decline in fair value was deemed to be other-than-temporary, the investment was written down to its fair value and the amount of the write-down is recorded as an other-than-temporary impairment ("OTTI") loss on the statement of operations. As the result of the adoption of Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument* ("ASU 2016-13") beginning on January 1, 2020, we instead record an allowance for credit loss. Refer to Note 7 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for additional information regarding allowances for credit loss. Any portion of the market decline related to debt securities that is believed to arise from factors other than credit is recorded as a component of other comprehensive income (loss) rather than against income. Equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income (loss).

When we invest in certain companies, such as limited partnerships and limited liability companies, and if we determine we are not the primary beneficiary, we account for them using the equity method to determine the carrying value, which is included in other assets on our Consolidated Balance Sheets. Our maximum exposure to loss is limited to the capital we invest.

Net realized gains and losses on investments are determined in accordance with the specific identification method.

Net investment income consists primarily of interest income from debt securities, cash and cash equivalents, including any premium amortization or discount accretion and dividend income from equity securities; less expenses related to investments.

Refer to Note 5 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for additional information regarding investments.

Premiums and Unearned Premiums

We recognize premiums as revenue on a pro-rata basis over the term of an insurance policy. Reinsurance premiums written and earned are based on contract terms for excess-of-loss and quota-share contracts. Premiums are earned over the terms of the related coverage.

Unearned premiums and ceded unearned premiums represent the portion of gross premiums written and ceded premiums written, respectively, relating to the unexpired terms of such coverage.

Premium receivable balances are reported net of an allowance for estimated uncollectible premium amounts. Such allowance is based upon an ongoing review of amounts outstanding, length of collection periods, the creditworthiness of the insured and other relevant factors. Amounts deemed to be uncollectible are written off against the allowance. Refer to Note 7 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for additional information allowances for credit loss.

Reinsurance

Reinsurance is used to mitigate the exposure to losses, manage capacity and protect capital resources. Obtaining adequate catastrophe reinsurance coverage is critical to the viability of our business model. Reinsuring loss exposures does not relieve a ceding entity from its obligations to policyholders and cedants. Reinsurance recoverables (including amounts related to claims incurred but not reported) and ceded unearned premiums are reported as assets. To minimize exposure to losses from a reinsurer's inability to pay, the financial condition of such reinsurer is evaluated initially upon placement of the reinsurance and periodically thereafter. In addition to considering the financial condition of the reinsurer, the collectability of the reinsurance recoverables is evaluated (and where appropriate, whether an allowance for estimated uncollectible reinsurance recoverables is to be established) based upon a number of other factors. Such factors include the amounts outstanding, length of collection periods, disputes, any collateral or letters of credit held and other relevant factors. Refer to Note 7 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for additional information regarding allowances for credit loss.

Ceded premiums written are recorded in accordance with applicable terms of the various reinsurance contracts and ceded premiums earned are charged against revenue over the period of the various reinsurance contracts. This also generally applies to reinstatement premiums paid to a reinsurer, which arise when contractually-specified ceded loss triggers have been breached. Ceded commissions reduce commissions, brokerage and other underwriting expenses and ceded losses incurred reduce net losses and LAE incurred over the applicable periods of the various reinsurance contracts with third party reinsurers. If premiums or commissions are subject to adjustment (for example, retrospectively-rated or experience-rated), the estimated ultimate premium or commission is recognized over the period of the contract.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business and consistent with the terms of the underlying reinsurance contract.

Deferred Acquisition Costs and Value of Business Acquired

Deferred acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. We defer incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract. Such deferred acquisition costs generally include agent or broker commissions, referral fees, premium taxes, medical costs and inspection fees that would not have been incurred if the insurance contract had not been acquired or renewed. Each cost is analyzed to assess whether it is fully deferrable.

We also defer a portion of the employee total compensation and payroll-related fringe benefits directly related to time spent performing specific acquisition or renewal activities, including costs associated with the time spent on underwriting, policy issuance and processing, and sales force contract selling.

The acquisition costs are deferred and amortized over the period in which the related premiums written are earned, generally twelve months. Deferred acquisition cost balances are grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. Investment income is anticipated in assessing the recoverability of deferred acquisition costs. We assess the recoverability of deferred acquisition costs on an annual basis or more frequently if circumstances indicate impairment may have occurred.

As of December 31, 2021 and 2020, the Company had no value of business acquired ("VOBA") reflected on our consolidated balance sheets as during the year ended December 31, 2020, our VOBA balance became fully amortized. VOBA is an asset that reflects the estimated fair value of in-force contracts in an acquisition and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the business in-force at the acquisition date. VOBA is amortized over the period in which the related premiums written are earned, generally twelve months or less for property insurance business. VOBA amortization is reported within commissions and other underwriting expenses on our consolidated statements of operations.

Goodwill and Other Intangible Assets

As of December 31, 2021 and 2020, we had no goodwill reflected on our consolidated balance sheets. As of December 31, 2021, the Company had no other intangible assets reflected on our consolidated balance sheets.

Goodwill and identifiable intangible assets with indefinite lives are not amortized but are reviewed for impairment annually as of October 1 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value below its associated carrying value. Identifiable intangibles that do not have indefinite lives are amortized on a straight-line basis over their estimated useful lives.

When we perform a quantitative goodwill impairment test, the fair value of the reporting unit, which we define as consolidated FNHC, is determined and compared to its carrying value. If the carrying value of the reporting unit is greater than the reporting unit's fair value, goodwill is impaired and written down to the reporting unit's fair value; and a charge is reported in impairment of intangibles on our consolidated statements of operations. The fair value of our reporting unit is comprised of the value of in-force (i.e., existing) business and the value of new business. To determine the value of in-force and new business, we use a discounted cash flows technique that applies a discount rate reflecting the market expected, weighted-average rate of return adjusted for the risk factors associated with operations to the projected future cash flow for our reporting unit.

For identifiable intangible assets, if there is an indication of impairment, then the discounted cash flow method would be used to measure the impairment, and the carrying value would be adjusted as necessary.

Estimates of fair value are inherently uncertain and represent only management's reasonable expectation regarding future developments.

Effective as of October 1, 2021, due to the Company's plan to execute an orderly runoff of MIC's insurance operations, we believed there was an indication of impairment for our identifiable intangible assets established in conjunction with the acquisition of the Maison Companies in December 2019. Therefore, during the fourth quarter of 2021, we performed a discounted cash flow analysis to measure and record a non-cash impairment of \$1.3 million, against which there is no tax offset, due primarily to the decline in revenue forecasts and a higher discount rate, which lowered the fair value below carrying value. Refer to *Overview of Insurance Lines of Business* -

Non-Florida set forth in Part I, Item 1. Business of this Annual Report, above for additional information on the Company's plan related to MIC.

Coinciding with the preparation of the financial statements for the year ended December 31, 2020, the Company's annual goodwill impairment testing has resulted in the conclusion that the goodwill intangible asset established in conjunction with the acquisition of the Maison Companies in December 2019 was impaired. Therefore, during the fourth quarter of 2020, we recorded a non-cash impairment charge of \$11.0 million, against which there is no tax offset, representing the write-off of the full amount of our goodwill asset. The Company's impairment analysis considered the earnings and share price of the Company and comparable companies, as well as projected cash flows. Continued adverse storm activity, higher excess of loss catastrophe reinsurance costs and the continued unfavorable claims environment in the state of Florida reduced the previously modeled fair value of the Company. These impacts, along with other information relevant to the estimated fair value of the Company, including the trading price of our shares, resulted in the impairment conclusion.

Correspondingly, effective as of October 1, 2020, we believed there was an indication of impairment for our identifiable intangible assets, therefore we performed a discounted cash flow analysis to measure and record a non-cash impairment of \$0.7 million, due primarily to a higher discount rate, which lowered the fair value below carrying value.

Refer to Note 8 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information related to our goodwill and identifiable intangible assets.

Losses and Loss Adjustment Expenses

Overview

The estimation of the liability for unpaid losses and LAE is inherently difficult and subjective, especially in view of changing legal and economic environments that impact the development of loss reserves, and therefore, quantitative techniques frequently have to be supplemented by subjective considerations and managerial judgment. In addition, trends that have affected development of liabilities in the past may not necessarily occur or affect liability development to the same degree in the future.

We establish reserves on our balance sheet for unpaid losses and LAE related to its property and casualty insurance and related reinsurance contracts. As of any balance sheet date, there are claims that have not yet been reported, and some claims may not be reported for many years after the date a loss occurs. As a result of this historical pattern, the liability for unpaid losses and LAE includes significant estimates for IBNR claims. Additionally, reported claims are in various stages of the settlement process. Each claim is settled individually based upon its merits, and certain claims may take years to settle, especially if legal action is involved. As a result, the liabilities for unpaid losses and LAE include significant judgments, assumptions and estimates made by management relating to the actual ultimate losses that will arise from the claims. Due to the inherent uncertainties in the process of establishing these liabilities, the actual ultimate loss from a claim is likely to differ, perhaps materially, from the liability initially recorded.

The time period between the occurrence of a loss and the time it is settled is referred to as the "claim tail." In general, actuarial judgments for shorter-tailed lines of business generally have much less of an effect on the determination of the loss reserve amount than when those same judgments are made regarding longer-tailed lines of business. Reported losses for the shorter-tailed classes, such as property and certain marine, aviation and energy classes, generally reach the ultimate level of incurred losses in a relatively short period of time. Rather than having to rely on actuarial assumptions for many accident years, these assumptions are generally only relevant for the more recent accident years.

The process of recording quarterly and annual liabilities for unpaid losses and LAE for short-tail lines is primarily focused on maintaining an appropriate reserve level for reported claims and IBNR. Specifically, we assess the reserve adequacy of IBNR in light of such factors as the current levels of reserves for reported claims and expectations with respect to reporting lags, catastrophe events, historical data, legal developments, and economic conditions, including the effects of inflation.

Standard actuarial methodologies employed to estimate ultimate losses incorporate the inherent lag from the time claims occur to when they are reported to an insurer and if applicable, to when an insurer reports the claims to a reinsurer. Certain actuarial methodologies may be more appropriate than others in instances where this lag may not be consistent from period to period. Consequently, additional actuarial judgment is employed in the selection of methodologies to best incorporate the potential impact of this situation.

Our insurance companies provide coverage on both a claims-made and occurrence basis. Claims-made policies generally require that claims occur and be reported during the coverage period of the policy. Occurrence policies allow claims which occur during a policy's coverage period to be reported after the coverage period, and as a result, these claims can have a very long claim tail, occasionally

extending for decades. Casualty claims can have a very long claim tail, in certain situations extending for many years. In addition, casualty claims are more susceptible to litigation and the legal environment and can be significantly affected by changing contract interpretations, all of which contribute to extending the claim tail. For long-tail casualty lines of business, estimating the ultimate liabilities for unpaid losses and LAE is a more complex process and depends on a number of factors, including the line and volume of the business involved. For these reasons, our insurance companies will generally use actuarial projections in setting reserves for all casualty lines of business.

In conformity with GAAP, our insurance companies are not permitted to establish reserves for catastrophe losses that have not occurred. Therefore, losses related to a significant catastrophe, or accumulation of catastrophes, in any reporting period could have a material adverse effect on our results of operations and financial condition during that period.

We believe that the reserves for unpaid losses and LAE established are adequate as of December 31, 2021; however, additional reserves, which could have a material impact upon our financial condition, results of operations and cash flows, may be necessary in the future.

Methodologies and Assumptions

We use a variety of techniques that employ significant judgments and assumptions to establish the liabilities for unpaid losses and LAE recorded at the balance sheet date. These techniques include detailed statistical analyses of past claims reporting, settlement activity, claims frequency, internal loss experience, changes in pricing or coverages and severity data when sufficient information exists to lend statistical credibility to the analyses. More subjective techniques are used when statistical data is insufficient or unavailable. These liabilities also reflect implicit or explicit assumptions regarding the potential effects of future inflation, judicial decisions, changes in laws and recent trends in such factors, as well as a number of actuarial assumptions that vary across our reinsurance and insurance subsidiaries and across lines of business. This data is analyzed by line of business, coverage, accident year or underwriting year and reinsurance contract type, as appropriate.

Our loss reserve review processes use actuarial methods that vary by operating subsidiary and line of business and produce point estimates for each class of business. The actuarial methods used include the following methods:

- *Reported Loss Development Method:* A reported loss development pattern is calculated based on historical loss development data, and this pattern is then used to project the latest evaluation of cumulative reported losses for each accident year or underwriting year, as appropriate, to ultimate levels;
- *Paid Development Method:* A paid loss development pattern is calculated based on historical paid loss development data, and this pattern is then used to project the latest evaluation of cumulative paid losses for each accident year or underwriting year, as appropriate, to ultimate levels;
- *Expected Loss Ratio Method:* Expected loss ratios are applied to premiums earned, based on historical company experience, or historical insurance industry results when company experience is deemed not to be sufficient; and
- *Bornbuetter-Ferguson Method:* The results from the Expected Loss Ratio Method are essentially blended with either the Reported Loss Development Method or the Paid Development Method.

The primary actuarial assumptions used include the following:

- *Expected loss ratios* represent management's expectation of losses, in relation to earned premium, at the time business is written, before any actual claims experience has emerged. This expectation is a significant determinant of the estimate of loss reserves for recently written business where there is little paid or incurred loss data to consider. Expected loss ratios are generally derived from historical loss ratios adjusted for the impact of rate changes, loss cost trends and known changes in the type of risks underwritten. For certain longer-tailed reinsurance business that are typically lower frequency, high severity classes, expected loss ratios are often used for the last several accident years or underwriting years, as appropriate.
- *Rate of loss cost inflation* (or deflation) represents management's expectation of the inflation associated with the costs we may incur in the future to settle claims. Expected loss cost inflation is particularly important for longer-tailed classes.
- *Reported and paid loss emergence patterns* represent management's expectation of how losses will be reported and ultimately paid in the future based on the historical emergence patterns of reported and paid losses and are derived from past experience of our subsidiaries, modified for current trends. These emergence patterns are used to project current reported or paid loss amounts to their ultimate settlement value.

In the absence of sufficiently credible internally-derived historical information, each of the above actuarial assumptions may also incorporate data from the insurance industries as a whole, or peer companies writing substantially similar coverages. Data from external sources may be used to set expectations, as well as assumptions regarding loss frequency or severity relative to an exposure

unit or claim, among other actuarial parameters. Assumptions regarding the application or composition of peer group or industry reserving parameters require substantial judgment.

Loss Frequency and Severity

Loss frequency and severity are measures of loss activity that are considered in determining the key assumptions described above. Loss frequency is a measure of the number of claims per unit of insured exposure, and loss severity is a measure of the average size of claims. Factors affecting loss frequency include the effectiveness of loss controls and safety programs and changes in economic conditions or weather patterns. Factors affecting loss severity include changes in policy limits, retentions, rate of inflation and judicial interpretations. Another factor affecting estimates of loss frequency and severity is the loss reporting lag, which is the period of time between the occurrence of a loss and the date the loss is reported to our insurance companies. The length of the loss reporting lag affects their ability to accurately predict loss frequency (loss frequencies are more predictable for lines with short reporting lags), as well as the amount of reserves needed for IBNR. If the actual level of loss frequency and severity is higher or lower than expected, the ultimate losses will be different than management's estimates.

Prior Year Development (Redundancy)

We continually evaluate the potential for changes, both favorable and unfavorable, in their estimates of their loss and LAE liabilities and use the results of these evaluations to adjust both recorded liabilities and underwriting criteria. With respect to liabilities for unpaid losses and LAE established in prior years, these liabilities are periodically analyzed and their expected ultimate cost adjusted, where necessary, to reflect favorable or unfavorable development in loss experience and new information, including, for certain catastrophe events, revised industry estimates of the magnitude of a catastrophe. Adjustments to previously recorded liabilities for unpaid losses and LAE, both favorable and unfavorable, are reflected in our financial results in the periods in which these adjustments are made and are referred to as prior accident year reserve development. We adjusted our prior year loss and LAE reserve estimates based on current information that differed from previous assumptions made at the time such loss and LAE reserves were previously estimated.

Refer to Note 1 and Note 9 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information regarding our losses and LAE.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss, capital loss and tax-credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or expense in the period that includes the enactment date. Refer to Note 11 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information regarding our income taxes.

Recent Accounting Pronouncements

Refer to Note 2 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for a discussion of recent accounting pronouncements and their effect, if any, on our company.

Off-Balance Sheet Transactions

For the years ended December 31, 2021 and 2020, we did not have any off balance sheet transactions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our investment objective is to maximize total rate of return after federal income taxes while maintaining liquidity and minimizing risk. Our current investment policy limits investment in non-investment-grade debt securities (including high-yield bonds), and limits total investments in preferred stock, common stock and mortgage notes receivable. We also comply with applicable laws and regulations that further restrict the type, quality and concentration of our investments. In general, these laws and regulations permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, preferred and common equity securities and real estate mortgages.

Our investment policy is established by the Board of Directors' Investment Committee and is reviewed on a regular basis. Pursuant to this investment policy, as of December 31, 2021, approximately 99% of investments were in debt securities and cash and cash equivalents, which are considered to be available-for-sale and are marked-to-market. We do not use any swaps, options, futures or forward contracts to hedge or enhance our investment portfolio.

Principal cash flows and the related weighted average interest rate by expected maturity date, based upon par values, for the financial instruments sensitive to changes in interest rates, includes the following:

	2022	2023	2024	2025	2026	Thereafter	Total	Carrying Amount
	(Dollars in thousands)							
Principal amount by expected maturity:								
United States government obligations and authorities	\$ 8,115	\$ 1,750	\$ 200	\$ 2,909	\$ 5,955	\$ 23,794	\$ 42,723	\$ 42,822
Obligations of states and political subdivisions	2,300	630	855	3,000	2,590	9,175	18,550	19,278
Corporate	20,496	15,075	13,010	21,464	16,270	62,117	148,432	154,685
International	109	6,442	3,277	5,218	300	520	15,866	28,473
Collateralized mortgage obligations	2,355	10,068	4,978	19,767	14,705	27,143	79,016	82,274
Total investments	<u>\$ 33,375</u>	<u>\$ 33,965</u>	<u>\$ 22,320</u>	<u>\$ 52,358</u>	<u>\$ 39,820</u>	<u>\$ 122,749</u>	<u>\$ 304,587</u>	<u>\$ 327,532</u>
Weighted average interest rate by expected maturity:								
United States government obligations and authorities	0.88 %	2.39 %	2.50 %	1.84 %	0.87 %	1.24 %	1.22 %	
Obligations of states and political subdivisions	4.00 %	2.75 %	3.29 %	2.25 %	2.92 %	2.63 %	2.81 %	
Corporate securities	3.10 %	3.21 %	2.53 %	2.67 %	2.72 %	3.22 %	3.01 %	
International securities	2.86 %	1.91 %	2.44 %	1.94 %	2.85 %	0.62 %	2.01 %	
Collateralized mortgage obligations	3.07 %	3.25 %	3.07 %	3.87 %	3.58 %	2.34 %	3.14 %	
Total investments	2.62 %	2.92 %	2.67 %	2.98 %	2.78 %	2.59 %	2.73 %	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>PAGE</u>
Report of Independent Registered Public Accounting Firm (Ernst & Young LLP) (PCAOB ID: 42)	55
Consolidated Balance Sheets as of December 31, 2021 and 2020	58
Consolidated Statements of Operations For the Years Ended December 31, 2021, 2020 and 2019	59
Consolidated Statements of Comprehensive Income (Loss) For the Years Ended December 31, 2021, 2020 and 2019	60
Consolidated Statements of Changes in Shareholders' Equity For the Years Ended December 31, 2021, 2020 and 2019	61
Consolidated Statements of Cash Flows For the Years Ended December 31, 2021, 2020 and 2019	62
Notes to Consolidated Financial Statements	64

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
FedNat Holding Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of FedNat Holding Company and subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and the financial statement schedules listed in the index at Item 15 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 25, 2022 expressed an unqualified opinion thereon.

The Company’s Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has experienced a financial strength rating downgrade that impacts its ability to obtain sufficient reinsurance coverage to meet the requirements of their state insurance regulators and to maintain compliance with their existing debt agreements. These factors raise substantial doubt about the Company’s ability to continue as a going concern. Management's evaluation of the events and conditions and management’s plans regarding these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of incurred but not reported reserves

Description of the Matter

At December 31, 2021, the Company's reserve for losses and loss adjustment expense balance was \$738.8 million of which a significant portion is incurred but not reported reserves ("IBNR"). The carrying amount represents management's best estimate of the ultimate liability, which in turn is composed of the Company's assessment of claims pending and the development of prior years' loss liability, including liabilities based upon individual case estimates for reported losses and LAE and estimates of IBNR. As described in Note 9 of the consolidated financial statements, the establishment of loss reserves is an inherently uncertain process and there is significant uncertainty in determining management's best estimate of the ultimate liability which is used to determine the IBNR reserves. In particular, the estimate is subject to a number of variables including loss frequency and severity, payment patterns, expected loss ratios and the weighting of actuarial methods used for each accident year and line of business.

Auditing management's best estimate of IBNR was complex due to the judgmental nature of the significant assumptions used in the valuation of the estimate. The significant judgment was primarily due to the sensitivity of management's estimate to the actuarial methods applied and the assumptions used in the determination of the loss factors and ultimate costs.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the process to estimate the IBNR reserves. This included, among others, controls over the review and approval processes that management has in place for the methods and assumptions used in estimating the IBNR reserves.

To test the IBNR reserves, our procedures included among others, the involvement of our actuarial specialists to assess the selection and the weighting of actuarial methods used by management with those methods and weightings used in prior periods and those used in the industry. Additionally, to evaluate the significant assumptions used in the actuarial methods, we compared the significant assumptions, including severity, frequency, payment patterns and expected loss ratios to factors historically used. We performed a review of historical results of the development of the loss and loss adjustment expense reserves related to prior years. We also independently calculated a range of reasonable reserve estimates and compared the range of reasonable reserve estimates to management's recorded best estimate and performed a review of the historical results of the development of the estimate

Reinsurance

Description of the Matter

At December 31, 2021, the Company's reinsurance recoverable, net of allowance, was \$613.2 million. As discussed in Note 6 to the consolidated financial statements, the Company's reinsurance program provides quota share and excess of loss coverage for the risks inherent in the business written and the concentration of the Company's exposure in certain geographies. Certain of these reinsurance arrangements are complex as they contain risk limiting provisions. To qualify as reinsurance for accounting purposes, a contract must embody substantive risk transfer, which is defined as the reasonable possibility that the reinsurer could experience a significant loss on the treaty.

Auditing the reinsurance arrangements was complex due to contractual provisions in certain of the reinsurance arrangements that limit the extent or timing of the net loss that the reinsurers can experience and the judgmental nature of the significant assumptions included in the assessment to determine risk transfer.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of the controls over the reinsurance process. This included, among others, controls related to assessing risk transfer.

Our audit procedures included, among others, gaining an understanding of the terms of the reinsurance agreements with the counterparties and evaluating management's risk transfer assessment.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2015.

Charlotte, North Carolina

April 25, 2022

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	December 31,	
	2021	2020
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (amortized cost of \$324,861 and \$473,126, respectively)	\$ 327,532	\$ 488,210
Equity securities, at fair value	5,905	3,157
Total investments	333,437	491,367
Cash and cash equivalents	83,526	102,367
Prepaid reinsurance premiums	242,537	278,272
Premiums receivable, net of allowance of \$125 and \$233, respectively	41,174	50,803
Reinsurance recoverable, net of allowance of \$249 and \$65, respectively	613,203	413,026
Deferred acquisition costs, net	18,829	25,405
Current and deferred income taxes, net	30,014	35,035
Other assets	49,950	32,262
Total assets	<u>\$ 1,412,670</u>	<u>\$ 1,428,537</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Loss and loss adjustment expense reserves	\$ 738,794	\$ 540,367
Unearned premiums	342,747	366,789
Reinsurance payable and funds withheld liabilities	102,748	202,827
Long-term debt, net of deferred financing costs of \$2,195 and \$1,317, respectively	118,805	98,683
Deferred revenue	5,240	7,187
Other liabilities	44,950	54,524
Total liabilities	<u>1,353,284</u>	<u>1,270,377</u>
Commitments and contingencies (see Note 12)		
Shareholders' Equity		
Preferred stock, \$0.01 par value: 1,000,000 shares authorized	—	—
Common stock, \$0.01 par value: 50,000,000 shares authorized; 17,446,930 and 13,717,908 shares issued and outstanding, respectively	174	137
Additional paid-in capital	186,007	169,298
Accumulated other comprehensive income (loss)	(1,034)	11,386
Retained earnings (deficit)	(125,761)	(22,661)
Total shareholders' equity	<u>59,386</u>	<u>158,160</u>
Total liabilities and shareholders' equity	<u>\$ 1,412,670</u>	<u>\$ 1,428,537</u>

The accompanying notes are an integral part of the consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Year Ended December 31,		
	2021	2020	2019
Revenues:			
Net premiums earned	\$ 183,303	\$ 364,134	\$ 363,652
Net investment income	6,770	11,786	15,901
Net realized and unrealized gains (losses)	11,017	18,032	7,084
Direct written policy fees	13,051	13,970	10,200
Other income	31,408	23,941	18,124
Total revenues	245,549	431,863	414,961
Costs and expenses:			
Losses and loss adjustment expenses	232,760	376,449	273,080
Commissions and other underwriting expenses	81,180	124,288	107,189
General and administrative expenses	24,355	23,420	23,203
Interest expense	8,758	7,661	10,776
Impairment of intangibles	1,280	11,699	—
Total costs and expenses	348,333	543,517	414,248
Income (loss) before income taxes	(102,784)	(111,654)	713
Income tax expense (benefit)	316	(33,496)	(298)
Net income (loss)	<u>\$ (103,100)</u>	<u>\$ (78,158)</u>	<u>\$ 1,011</u>
Net Income (Loss) Per Common Share			
Basic	\$ (6.18)	\$ (5.64)	\$ 0.08
Diluted	(6.18)	(5.64)	0.08
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	16,675	13,846	12,977
Diluted	16,675	13,846	13,023
Dividends Declared Per Common Share			
	\$ —	\$ 0.36	\$ 0.33

The accompanying notes are an integral part of the consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended December 31,		
	2021	2020	2019
Net income (loss)	\$ (103,100)	\$ (78,158)	\$ 1,011
Change in net unrealized gains (losses) on investments, available-for-sale, net of tax	(12,420)	1,105	14,031
Comprehensive income (loss)	<u>\$ (115,520)</u>	<u>\$ (77,053)</u>	<u>\$ 15,042</u>

The accompanying notes are an integral part of the consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except per share data)

	Preferred	Common Stock		Additional	Accumulated	Retained	Total
	Stock	Issued	Amount	Paid-in	Other	Earnings	Shareholders'
		Shares		Capital	Comprehensive	(Deficit)	Equity
					Income (Loss)		
Balance as of January 1, 2019	\$ —	12,784,444	\$ 128	\$ 141,128	\$ (3,750)	\$ 77,753	\$ 215,259
Net income (loss)	—	—	—	—	—	1,011	1,011
Other comprehensive income (loss)	—	—	—	—	14,031	—	14,031
Dividends declared	—	—	—	—	—	(4,309)	(4,309)
Shares issued for acquisition	—	1,773,102	18	24,373	—	—	24,391
Shares issued under share-based compensation plans	—	94,922	1	—	—	—	1
Repurchases of common stock	—	(237,647)	(3)	—	—	(3,864)	(3,867)
Share-based compensation	—	—	—	2,176	—	—	2,176
Balance as of December 31, 2019	—	14,414,821	144	167,677	10,281	70,591	248,693
Cumulative effect of new accounting standards	—	—	—	—	—	(25)	(25)
Net income (loss)	—	—	—	—	—	(78,158)	(78,158)
Other comprehensive income (loss)	—	—	—	—	1,105	—	1,105
Dividends declared	—	—	—	—	—	(5,077)	(5,077)
Shares issued under share-based compensation plans	—	103,322	1	41	—	—	42
Repurchases of common stock	—	(800,235)	(8)	—	—	(9,992)	(10,000)
Share-based compensation	—	—	—	1,580	—	—	1,580
Balance as of December 31, 2020	—	13,717,908	137	169,298	11,386	(22,661)	158,160
Net income (loss)	—	—	—	—	—	(103,100)	(103,100)
Other comprehensive income (loss)	—	—	—	—	(12,420)	—	(12,420)
Issuance of common stock	—	3,600,650	36	15,535	—	—	15,571
Shares issued under share-based compensation plans	—	128,372	1	10	—	—	11
Share-based compensation	—	—	—	1,164	—	—	1,164
Balance as of December 31, 2021	—	17,446,930	\$ 174	\$ 186,007	\$ (1,034)	\$ (125,761)	\$ 59,386

The accompanying notes are an integral part of the consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2021	2020	2019
Cash flow from operating activities:			
Net income (loss)	\$ (103,100)	\$ (78,158)	\$ 1,011
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Net realized and unrealized (gains) losses	(11,017)	(18,032)	(7,084)
Impairment of intangibles	1,280	11,699	—
Loss (gain) on early extinguishment of debt	—	—	3,575
Amortization of investment premium or discount, net	3,645	3,740	916
Depreciation and amortization	1,916	1,904	1,477
Share-based compensation	1,164	1,580	2,176
Changes in operating assets and liabilities:			
Prepaid reinsurance premiums	35,735	(132,613)	(11,803)
Premiums receivable, net	9,629	(9,381)	(8,654)
Reinsurance recoverable, net	(200,177)	(203,443)	9,412
Deferred acquisition costs and value of business acquired, net	6,576	30,731	(7,979)
Current and deferred income taxes, net	5,016	(32,835)	(3,723)
Deferred revenue	(1,947)	331	756
Loss and loss adjustment expense reserves	198,427	216,005	11,472
Unearned premiums	(24,042)	5,919	28,365
Reinsurance payable and funds withheld liabilities	(100,079)	100,360	14,797
Other	(14,197)	10,285	602
Net cash provided by (used in) operating activities	(191,171)	(91,908)	35,316
Cash flow from investing activities:			
Proceeds from sales of equity securities	—	22,050	9,203
Proceeds from sales of debt securities	240,141	556,463	164,196
Purchases of equity securities	(2,745)	(4,727)	(6,565)
Purchases of debt securities	(173,581)	(580,876)	(228,132)
Maturities and redemptions of debt securities	74,951	86,814	43,925
Payment for acquisition, net of cash acquired	—	—	10,402
Purchases of property and equipment	(1,836)	(3,357)	(2,040)
Net cash provided by (used in) investing activities	136,930	76,367	(9,011)
Cash flow from financing activities:			
Proceeds from issuance of long-term debt, net of issuance costs	19,818	—	98,390
Payment of long-term debt and prepayment penalties	—	—	(48,000)
Issuance of common stock	15,571	—	—
Purchases of FedNat Holding Company common stock	—	(10,418)	(3,449)
Issuance of common stock for share-based awards	11	42	1
Dividends paid	—	(5,077)	(4,309)
Net cash provided by (used in) financing activities	35,400	(15,453)	42,633
Net increase (decrease) in cash and cash equivalents	(18,841)	(30,994)	68,938
Cash and cash equivalents at beginning-of-period	102,367	133,361	64,423
Cash and cash equivalents at end-of-period	\$ 83,526	\$ 102,367	\$ 133,361

The accompanying notes are an integral part of the consolidated financial statements.

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(In thousands)

	Year Ended December 31,		
	2021	2020	2019
Supplemental disclosure of cash flow information:			
Cash paid (received) during the period for interest	\$ 8,138	\$ 7,500	\$ 4,860
Cash paid (received) during the period for income taxes	(4,211)	(635)	3,504
Significant non-cash investing and financing transactions:			
Right-of-use asset	(6,693)	(7,430)	(8,096)
Lease liability	6,693	7,430	8,096

The accompanying notes are an integral part of the consolidated financial statements.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

1. ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Organization

FedNat Holding Company ("FNHC," the "Company," "we," "us," or "our") is a regional insurance holding company that controls substantially all aspects of the insurance underwriting, distribution and claims processes through our subsidiaries and contractual relationships with independent agents and general agents. We, through our wholly owned subsidiaries, are authorized to underwrite and/or place homeowners multi-peril ("homeowners"), federal flood and other lines of insurance in Florida and other states. We market, distribute and service our own and third-party insurers' products and other services through a network of independent and general agents.

FedNat Insurance Company ("FNIC"), our largest wholly owned insurance subsidiary, is licensed as an admitted carrier to write homeowners property and casualty insurance by the state's insurance departments in Florida, Louisiana, Texas, Georgia, South Carolina, Alabama and Mississippi.

Maison Insurance Company ("MIC"), an insurance subsidiary, is licensed as an admitted carrier to write homeowners property and casualty insurance as well as wind/hail-only exposures by the state's insurance departments in Louisiana, Texas and Florida. In November 2021, the Company made the decision to commence an orderly runoff of MIC's insurance operations.

Monarch National Insurance Company ("MNIC"), an insurance subsidiary, is licensed as an admitted carrier to write homeowners property and casualty insurance in Florida.

Material Distribution Relationships

Ivantage Select Agency, Inc.

The Company is a party to an insurance agency master agreement with Ivantage Select Agency, Inc. ("ISA"), an affiliate of Allstate Insurance Company ("Allstate"), pursuant to which the Company has been authorized by ISA to appoint Allstate agents to offer our FNIC homeowners insurance products to consumers in Florida. As a percentage of the total homeowners premiums we underwrote, 19.3%, 20.7% and 23.2%, were from Allstate's network of Florida agents, for the years ended December 31, 2021, 2020 and 2019, respectively.

SageSure Insurance Managers, LLC

The Company is a party to a managing general underwriting agreement with SageSure Insurance Managers, LLC ("SageSure") to facilitate growth in our FNIC homeowners business outside of Florida. As a percentage of the total homeowners premiums, 24.6%, 25.5% and 23.1% of the Company's premiums were underwritten by SageSure, for the years ended December 31, 2021, 2020, and 2019, respectively. As part of our partnership with SageSure, previously we entered into a profit share agreement, whereby we shared 50% of net profits of this line of business through June 30, 2020, as calculated per the terms of the agreement, subject to certain limitations, which included limits on the net losses that SageSure could realize. The limit was based on the amount of inception to date profits within the profit share agreement. In addition, refer to Note 6 for information regarding a fully collateralized quota-share treaty on this book of business that became effective July 1, 2020.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The consolidated financial statements include the accounts of FNHC and its wholly-owned subsidiaries and all entities in which the Company has a controlling financial interest and any variable interest entity ("VIE") of which the Company is the primary beneficiary. The Company's management believes the consolidated financial statements reflect all material adjustments, including normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows of the Company for the periods presented. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company identifies a VIE as an entity that does not have sufficient equity to finance its own activities without additional financial support or where the equity investors lack certain characteristics of a controlling financial interest. The Company assesses its contractual, ownership or other interests in a VIE to determine if the Company's interest participates in the variability the VIE was designed to absorb and pass onto variable interest holders. The Company performs an ongoing qualitative assessment of its variable interests in a VIE to determine whether the Company has a controlling financial interest and would therefore be considered the

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

primary beneficiary of the VIE. If the Company determines it is the primary beneficiary of a VIE, the Company consolidates the assets and liabilities of the VIE in its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Going Concern

The Company recently received notification from Demotech that FNIC's "A" ("Exceptional") rating has been downgraded to "S" ("Substantial"). MNIC's "A" rating was reaffirmed. The Company believes that the downgrade of FNIC's Demotech rating will adversely impact the Company's ability to obtain excess-of-loss reinsurance for coverage beginning July 1, 2022. Absent such coverage, the Company will not be in compliance with requirements communicated by the Office of Insurance Regulation of the state of Florida regarding such coverage, which could ultimately result in the Company being placed into receivership. Additionally, being placed into receivership and/or failing to obtain excess-of-loss reinsurance each represent potential defaults under our debt indentures that could result in acceleration of repayment of our debt. Such conditions raise substantial doubt regarding the Company's ability to continue as a going concern. The Company continues to explore strategic alternatives in an effort to increase its capital resources to support its insurance carriers and preserve value for the Company's stakeholders. These alternatives include raising additional capital and restructuring of our insurance carriers, as well as other reinsurance and capital options; however, there can be no assurance that we will be able to execute on all or any of the strategic alternatives, successfully raise additional capital or obtain excess-of-loss reinsurance. These financial statements do not include any adjustments relating to the recoverability and classification of assets, carrying amounts or the amount and classification of liabilities that may be required should the Company be unable to continue as a going concern.

Accounting Estimates and Assumptions

The Company prepares the accompanying consolidated financial statements in accordance with GAAP, which requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results may materially differ from those estimates.

Similar to other property and casualty insurers, the Company's liability for loss and loss adjustment expenses ("LAE") reserves, although supported by actuarial projections and other data, is ultimately based on management's reasoned expectations of future events. Although considerable variability is inherent in these estimates, the Company believes that the liability and LAE reserve is adequate. The Company reviews and evaluates its estimates and assumptions regularly and makes adjustments, reflected in current operations, as necessary, on an ongoing basis.

Business Combinations

We use the acquisition method of accounting for all business combination transactions, and accordingly, recognize the fair values of assets acquired, liabilities assumed and any non-controlling interests in our consolidated financial statements. The allocation of fair values may be subject to adjustment after the initial allocation for up to a one-year period as more information becomes available relative to the fair values as of the acquisition date. The consolidated financial statements include the results of operations of any acquired company since the acquisition date.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. Alternative valuation techniques may be appropriate under the circumstances to determine the value that would be received to sell an asset or pay to transfer a liability in an orderly transaction. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not acting under duress. Our nonperformance or credit risk is considered in determining the fair value of liabilities. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange. Refer to Note 4 below for additional information regarding fair value.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

Investments

Investments consist of debt and equity securities. Debt securities consist of securities with an initial fixed maturity of more than three months, including corporate bonds, municipal bonds and United States government bonds. Equity securities generally consist of securities that represent ownership interests in an enterprise. The Company determines the appropriate classification of investments in debt and equity securities at the acquisition date and re-evaluates the classification at each balance sheet date.

Our debt securities are classified as available-for-sale and recorded at fair value. Unrealized gains and losses during the year, net of the related tax effect applicable to available-for-sale, are excluded from income and reflected in other comprehensive income (loss) as a separate component of shareholders' equity. Prior to January 1, 2020, if a decline in fair value was deemed to be other-than-temporary, the investment was written down to its fair value and the amount of the write-down is recorded as an other-than-temporary impairment ("OTTI") loss on the statement of operations. As the result of the adoption of Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument* ("ASU 2016-13") beginning on January 1, 2020, we instead record an allowance for credit loss. Refer to Note 7 below for additional information regarding allowances for credit loss. Any portion of the market decline related to debt securities that is believed to arise from factors other than credit is recorded as a component of other comprehensive income (loss) rather than against income. Equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income (loss).

When we invest in certain companies, such as limited partnerships and limited liability companies, and if we determine we are not the primary beneficiary, we account for them using the equity method to determine the carrying value, which is included in other assets on our Consolidated Balance Sheets. Our maximum exposure to loss is limited to the capital we invest.

Net realized gains and losses on investments are determined in accordance with the specific identification method.

Net investment income consists primarily of interest income from debt securities, cash and cash equivalents, including any premium amortization or discount accretion and dividend income from equity securities, less expenses related to investments.

Refer to Note 5 below for additional information regarding investments.

Cash and Cash Equivalents

Cash and cash equivalents consist of all deposit or deposit in transit balances with a bank that are available for withdrawal. The Company considers all highly liquid investments with an original maturity of three months or less at the date of the purchase to be cash equivalents.

Premiums and Unearned Premiums

The Company recognizes premiums as revenue on a pro-rata basis over the term of the insurance policy.

Unearned premiums represent the portion of gross premiums written, related to the unexpired terms of such coverage.

Premium receivable balances, which include any outstanding receivable from the SageSure profit sharing agreement, are reported net of an allowance for estimated uncollectible premium amounts. Such allowance is based upon an ongoing review of amounts outstanding, length of collection periods, the creditworthiness of the insured and other relevant factors. Amounts deemed to be uncollectible are written off against the allowance. Refer to Note 7 below for additional information regarding allowances for credit loss.

Reinsurance

Reinsurance is used to mitigate the exposure to losses, manage capacity and protect capital resources. Reinsuring loss exposures does not relieve a ceding entity from its obligations to policyholders and cedants. Reinsurance recoverables (including amounts related to claims incurred but not reported) and ceded unearned premiums are reported as assets. To minimize exposure to losses from a reinsurer's inability to pay, the financial condition of such reinsurer is evaluated initially upon placement of the reinsurance and periodically thereafter. In addition to considering the financial condition of the reinsurer, the collectability of the reinsurance recoverables is evaluated (and where appropriate, whether an allowance for estimated uncollectible reinsurance recoverables is to be

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

established) based upon a number of other factors. Such factors include the amounts outstanding, length of collection periods, disputes, any collateral or letters of credit held and other relevant factors. To the extent that an allowance for uncollectible reinsurance recoverable is established, amounts deemed to be uncollectible are written off against the allowance for estimated uncollectible reinsurance recoverables. Refer to Note 7 below for additional information regarding allowances for credit loss.

Ceded premiums written are recorded in accordance with applicable terms of the various reinsurance contracts and ceded premiums earned are charged against revenue over the period of the various reinsurance contracts. This also generally applies to reinstatement premiums paid to a reinsurer, which arise when contractually-specified ceded loss triggers have been breached.

Ceded commissions reduce commissions and other underwriting expenses and ceded losses incurred reduce net losses and LAE incurred over the applicable periods of the various reinsurance contracts with third party reinsurers. If premiums or commissions are subject to adjustment (for example, retrospectively-rated or experience-rated), the Company records adjustments to the premiums or ceding commission in the period that changes in the estimated losses are determined.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business and consistent with the terms of the underlying reinsurance contract. Reinsurance payable and funds withheld liabilities represents the unpaid reinsurance premiums or reinstatement premiums due to reinsurers, or in the case of certain reinsurance agreements amounts withheld as collateral by us.

Refer to Note 6 below for additional information regarding reinsurance.

Deferred Acquisition Costs and Value of Business Acquired

Deferred acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. The Company defers incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract. Such deferred acquisition costs generally include agent or broker commissions, referral fees, premium taxes, medical costs and inspection fees that would not have been incurred if the insurance contract had not been acquired or renewed. Each cost is analyzed to assess whether it is fully deferrable.

The Company also defers a portion of the employee total compensation and payroll-related fringe benefits directly related to time spent performing specific acquisition or renewal activities, including costs associated with the time spent on underwriting, policy issuance and processing, and sales force contract selling.

The acquisition costs are deferred and amortized over the period in which the related premiums written are earned, generally twelve months for homeowners policies. Deferred acquisition cost balances are grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. Investment income is anticipated in assessing the recoverability of deferred acquisition costs. The Company assesses the recoverability of deferred acquisition costs on an annual basis or more frequently if circumstances indicate impairment may have occurred.

As of December 31, 2021 and 2020, we had no value of business acquired ("VOBA") reflected on our consolidated balance sheets as during the year ended December 31, 2020, our VOBA balance became fully amortized. VOBA is an asset that reflects the estimated fair value of in-force contracts in an acquisition and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the business in-force at the acquisition date. VOBA is amortized over the period in which the related premiums written are earned, generally twelve months or less for property insurance business. VOBA amortization is reported within commissions and other underwriting expenses on our consolidated statements of operations.

Goodwill

As of December 31, 2021 and 2020, we had no goodwill reflected on our consolidated balance sheets. We recognize the excess of the purchase price, plus the fair value of any non-controlling interest in the acquiree, over the fair value of identifiable net assets acquired at the acquisition date as goodwill. Goodwill is not amortized but is reviewed for impairment annually as of October 1 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We perform a quantitative goodwill impairment test where the fair value of the reporting unit is determined and compared to the carrying value of the reporting unit. If the fair value of the reporting unit is greater than the reporting unit's carrying value, then the carrying value of the reporting unit is deemed to be recoverable. If the carrying value of the reporting unit is greater than the reporting unit's fair value, goodwill is impaired and written down to the reporting unit's fair value; and a charge is reported in

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

impairment of intangibles on our consolidated statements of operations. Refer to Note 8 below for additional information regarding goodwill.

Other Assets and Other Liabilities

Other assets consist primarily of property and equipment owned, right-of-use assets for our long-term leases, embedded derivative instruments, identifiable intangible assets, receivables resulting from sales of securities that had not yet settled as of the balance sheet date and prepaid expenses. Other liabilities consist primarily of premiums collected in advance, operating lease liabilities, commissions and premium taxes payable, accrued interest expense on long-term debt, employee benefit liabilities, payables resulting from purchases of securities that had not yet settled as of the balance sheet date and other accrued expenses.

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Depreciation is calculated using a straight-line method over the estimated useful lives, ranging from 3 to 15 years. Repairs and maintenance are charged to expense as incurred.

The Company accounts for internal-use software development costs in accordance with accounting guidelines which state that software costs, including internal payroll costs, incurred in connection with the development or acquisition of software for internal use is charged to expense as incurred until the project enters the application development phase. Costs incurred in the application development phase are capitalized and are depreciated using the straight-line method over an estimated useful life of 3 years, beginning when the software is ready for use.

When we enter into contracts containing embedded derivative instruments that possess economic characteristics not clearly and closely related to the economic characteristics of the host, and a separate instrument with the same terms would qualify as a derivative instrument, we bifurcate the embedded derivative from the host for measurement purposes. The embedded derivative is carried at fair value on our consolidated balance sheets and changes in fair value are recognized in net realized and unrealized gain (loss) on our consolidated statements of operations as they occur. The fair value of the embedded derivative is measured based upon the best estimates of current settlement values, using present value of projected cash flows.

As of December 31, 2021, we had no other intangible assets reflected on our consolidated balance sheets. We recognize the estimated fair value of identifiable intangibles such as trade names and non-compete agreements acquired through a business combination at the acquisition date. Identifiable intangible assets are amortized on a straight-line basis over their identified useful life, if applicable. The carrying values of identifiable intangible assets are reviewed at least annually for indicators of impairment in value that are other-than-temporary, including unexpected or adverse changes in the following: the economic or competitive environments in which the company operates; profitability analysis; cash flow analysis; and the fair value of the relevant business operation. If there is an indication of impairment, then the discounted cash flow method would be used to measure the impairment, and the carrying value would be adjusted as necessary and reported in impairment of intangibles on our consolidated statements of operations. Refer to Note 8 below for additional information regarding identifiable intangible assets.

Direct Written Policy Fees

Policy fees represent a non-refundable application fee for insurance coverage. These policy fees are deferred over the related policy term in a manner consistent with how the related premiums are earned.

Other Income

Other income represents brokerage, commission related income from the Company's agency operations, fees generated from the exited personal automobile line of business. Brokerage income is recognized over the term of the reinsurance period, typically one year. Commission income from agency operations are recognized up-front upon policy inception.

Losses and Loss Adjustment Expenses

The reserves for losses and LAE represent management's best estimate of the ultimate cost of all reported and unreported losses incurred through the balance sheet date. Such liabilities are determined based upon the Company's assessment of claims pending and the development of prior years' loss liability, including liabilities based upon individual case estimates for reported losses and LAE and estimates of such amounts that are incurred but not yet reported ("IBNR"). Changes in the estimated liability are charged or credited to operations as the losses and LAE are settled.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

The estimates of the liability for loss and LAE reserves are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, the Company reviews historical data and consider various factors, including known and anticipated legal developments, inflation and economic conditions. As experience develops and other data become available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for loss and LAE reserves. Adjustments are reflected in the results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

Refer to Note 9 below for additional information regarding reserves for losses and LAE.

Long-Term Debt, Net of Deferred Financing Costs

The Company records long-term debt, net in the consolidated balance sheets at carrying value.

The Company incurs specific incremental costs, other than those paid to lenders, in connection with the issuance of the Company's debt instruments. These deferred financing costs include loan origination costs, issue costs and other direct costs payable to third parties and are recorded as a direct deduction from the carrying value of the associated debt liability in the consolidated balance sheets, when the debt liability is recorded. The Company amortizes the deferred financing costs as interest expense over the term of the related debt using the effective interest method in the consolidated statements of operations.

Refer to Note 10 below for additional information regarding long-term debt.

Income Taxes

The Company applies the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss, capital loss and tax-credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or expense in the period that includes the enactment date. The Company will establish a valuation allowance if management determines, based on available information, that it is more likely than not that deferred income tax assets will not be realized. Significant judgment is required in determining whether valuation allowances should be established and the amount of such allowances.

The Company's management makes assumptions, estimates and judgments, which are subject to change, in accounting for income taxes. The Company's management also considers events and transactions on an on-going basis and the laws enacted as of the Company's reporting date.

Refer to Note 11 below for further information regarding income taxes, including a valuation allowance that has been established against the Company's deferred tax assets.

Contingencies and Commitments

Contingencies arising from environmental remediation costs, regulatory judgments, claims, assessments, guarantees, litigation, recourse reserves, fines, penalties and other sources are recorded when deemed probable and reasonably estimable.

Share-Based Compensation

We expense the fair value of stock awards included in our stock incentive compensation plans. The Company grants awards and amortizes them on a straight-line over the vesting term using the straight-line basis for service awards and over successive one-year requisite service periods for performance based awards. For all restricted stock awards ("RSAs"), excluding grants based on relative total shareholder return ("TSR"), the fair value is determined based on the closing market price on the date of grant. For grants based on TSR, grant date fair value is determined using a Monte Carlo simulation and, unlike the performance condition awards, the expense is not reversed if the performance condition is not met. Non-employee directors are treated as employees for accounting purposes. The non-cash share-based compensation expense is reflected in commissions and other underwriting and general and administrative expense on our Consolidated Statements of Operations and is recognized as an increase to additional paid-in capital on our Consolidated Balance Sheets.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

Basic and Diluted Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares, while diluted net income (loss) per share is computed by dividing net income available to common shareholders by the weighted average number of such common shares and dilutive share equivalents result from the assumed conversion of convertible long-term debt (if not antidilutive, the associated interest expense reflected in net income (loss) available to common shareholders, would be excluded as well), exercise of employee stock options and vesting of restricted common stock and are calculated using the treasury stock method. Common stock equivalents are not included in diluted earnings per share when their inclusion is antidilutive.

Recently Issued Accounting Pronouncements, Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The update superseded the prior lease guidance in Topic 840, *Leases* and lessees were required to recognize for all leases, with the exception of short-term leases, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. Additionally, lessees are required to recognize a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company adopted the guidance effective January 1, 2019, by reflecting a \$6.1 million right-of-use asset, after-tax, and \$6.1 million lease liability, after-tax, on our consolidated balance sheets for our leases in existence as of that date. All of the Company's leases were classified as operating leases and we elected the practical expedient, therefore no adjustment to comparative prior periods presented have been made. The provisions of this ASU did not have an impact on our pattern of lease expense recognition on our consolidated statements of operations. Refer to Note 12 below for additional information regarding leases.

In June 2016, the FASB issued ASU 2016-13, which significantly changes the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The update requires entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as currently performed under the other-than-temporary impairment ("OTTI") model. The update also requires enhanced disclosures for financial assets measured at amortized cost and available-for-sale debt securities to help the financial statement users better understand significant judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The Company adopted the guidance effective January 1, 2020, by reflecting a cumulative effect adjustment of less than \$0.1 million, after-tax, which decreased retained earnings (deficit), held-to-maturity debt securities and reinsurance recoverable. Refer to Note 7 for additional information regarding allowances for credit loss.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminated the requirement to perform Step 2 of the goodwill impairment test in favor of only applying a quantitative test (referred to in previous guidance as Step 1). As part of the quantitative test, the fair value of the reporting unit is compared with its carrying value, and an impairment charge is recognized when the carrying value exceeds the reporting unit's fair value. An entity still has the option to first perform a qualitative assessment of an individual reporting unit to determine if the quantitative assessment is necessary. The Company adopted the guidance effective January 1, 2020. Refer to Note 8 for information regarding our goodwill impairment assessment.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. The Company adopted the guidance effective January 1, 2020, which did not have any impact on the Company's consolidated financial condition or results of operations.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, which removes certain exceptions to the general principles in ASC Topic 740. The guidance also clarifies and amends existing guidance to improve consistent application. The Company adopted the guidance effective January 1, 2021, which did not have a material impact on the Company's consolidated financial condition or results of operations.

Recently Issued Accounting Pronouncements, Not Yet Adopted

In January 2020, the FASB issued ASU 2020-1, *Accounting for Equity Securities and Equity Investments*, which clarifies the interaction between accounting standards related to equity securities (Topic 321), equity method investments (Topic 323), and certain derivatives (Topic 815). The update clarifies that an entity should consider observable transactions that require it to either apply or discontinue the

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The update is effective for interim and annual reporting periods beginning after December 15, 2021, with early adoption permitted. The Company is in the early stage of evaluating the impact that the update will have on the Company's consolidated financial position or results of operations.

In August 2020, the FASB issued ASU 2020-6, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-6"), which simplifies an issuer's accounting for convertible instruments by eliminating two of the three models in the current guidance that requires separate accounting for certain embedded conversion features. The new guidance simplifies the settlement assessment that entities are required to perform to determine whether a contract qualifies for equity classification. ASU 2020-6 requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and include the effect of potential share settlement (if the effect is more dilutive) for instruments that may be settled in cash or shares, except for certain liability-classified share-based payment awards. This new guidance requires disclosures about events that occur during the reporting period and cause conversion contingencies to be met and about the fair value of convertible debt at the instrument level, among other things. ASU 2020-6 is effective for interim and annual reporting periods beginning after December 15, 2021, with early adoption permitted. The Company is in the early stage of evaluating the impact that the update will have on the Company's consolidated financial position or results of operations.

3. ACQUISITION

On December 2, 2019, the Company completed its acquisition of the insurance operations of 1347 Property Insurance Holdings, Inc. ("PIH"). Specifically, the Company purchased from PIH all of the outstanding equity of MIC, Maison Managers, Inc., and ClaimCor LLC (collectively, the "Maison Companies"). The Maison Companies provide multi-peril and wind/hail only coverage to personal residential dwellings and manufactured/mobile homes in Louisiana, Texas and Florida. The acquisition was intended to increase geographic diversification of our book of business outside Florida and generate additional business with operating synergies and general and administrative expense savings.

The purchase price was \$51.0 million, which includes \$25.5 million in cash and shares of the Company's common stock equal to \$25.5 million, which amounted to 1,773,102 shares of the Company's common stock. The number of shares was determined by the closing price of 20 trading days immediately preceding the closing date, December 2, 2019. The resale of these shares was registered and are subject to a standstill agreement. We recognized the fair value of the shares as of the acquisition date, net of issuance costs, by increasing shareholders' equity by \$24.4 million.

In addition to the purchase price, PIH received a five-year right of first refusal to provide reinsurance of up to 7.5% of any layer in FNHC's catastrophe reinsurance program. PIH also agreed to a non-compete for five years following the closing with respect to residential property insurance in Alabama, Florida, Georgia, Louisiana, South Carolina and Texas.

Subsequent to the effective acquisition date, the revenues and net income of the business acquired were \$4.4 million and \$1.4 million, respectively, for the year ended December 31, 2019. We recognized \$1.3 million of acquisition-related costs, pre-tax, for the twelve months ended December 31, 2019. These costs are included in the general and administrative expenses line item of the consolidated statement of operations. We also capitalized \$0.5 million in application development costs to property and equipment included in the other asset line item on the consolidated balance sheet.

Refer to Note 8 below for information regarding goodwill and identifiable intangible assets, which were zero as of December 31, 2021.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

4. FAIR VALUE

Fair Value Disclosures of Financial Instruments

The Company accounts for financial instruments at fair value or the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs are based on market data from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. All assets and liabilities that are recorded at fair value are classified and disclosed in one of the following three categories:

- **Level 1** — Quoted market prices (unadjusted) for identical assets or liabilities in active markets is defined as a market where transactions for the financial statement occur with sufficient frequency and volume to provide pricing information on an ongoing basis, or observable inputs;
- **Level 2** — Quoted market prices for similar assets or liabilities and valuations, using models or other valuation techniques using observable market data. Significant other observable that can be corroborated by observable market data; and
- **Level 3** — Instruments that use non-binding broker quotes or model driven valuations that do not have observable market data or those that are estimated based on an ownership interest to which a proportionate share of net assets is attributed.

If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

The Company's financial instruments measured at fair value on a recurring basis and the level of the fair value hierarchy of inputs used consisted of the following:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt securities - available-for-sale, at fair value:				
United States government obligations and authorities	\$ 41,125	\$ 49,567	\$ —	\$ 90,692
Obligations of states and political subdivisions	—	19,278	—	19,278
Corporate securities	—	188,980	—	188,980
International securities	901	27,681	—	28,582
Debt securities, at fair value	42,026	285,506	—	327,532
Equity securities, at fair value	1,879	4,026	—	5,905
Total investments, at fair value	\$ 43,905	\$ 289,532	\$ —	\$ 333,437
Other assets - embedded derivative, at fair value	\$ —	\$ —	\$ 10,725	\$ 10,725

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt securities - available-for-sale, at fair value:				
United States government obligations and authorities	\$ 38,511	\$ 133,264	\$ —	\$ 171,775
Obligations of states and political subdivisions	—	22,264	—	22,264
Corporate securities	—	266,528	—	266,528
International securities	—	27,643	—	27,643
Debt securities, at fair value	38,511	449,699	—	488,210
Equity securities, at fair value	1,881	1,276	—	3,157
Total investments, at fair value	\$ 40,392	\$ 450,975	\$ —	\$ 491,367

We measure the fair value of our securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the security, and we consistently apply the valuation methodology to measure the security's fair value. Our fair value measurement is based on a market approach that utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. We review the third party pricing methodologies on a quarterly basis and validate the fair value prices to a separate independent data service and ensure there are no material differences. Additionally, market indicators, industry and economic events are monitored.

During the first six months of 2021, we purchased additional reinsurance limit for our 2020-2021 excess of loss catastrophe reinsurance program, which we determined had an embedded derivative. As of December 31, 2021, this embedded derivative is carried at \$10.7 million included in other assets on our consolidated balance sheets. For the year ended December 31, 2021, the Company recognized \$9.4 million in realized and unrealized gain (loss) related to this item on our consolidated statements of operations. Also, there is no contractual maturity date. There is no collateral posted for this embedded derivative; however, the related contract is with excess-of-loss reinsurers that have an S&P A rating or are collateralized.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

A summary of the significant valuation techniques and market inputs for each financial instrument carried at fair value includes the following:

- ***United States Government Obligations and Authorities*** - In determining the fair value for United States government securities in Level 1, the Company uses quoted prices (unadjusted) in active markets for identical or similar assets. In determining the fair value for United States government securities in Level 2, the Company uses the market approach utilizing primary valuation inputs including reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.
- ***Obligations of States and Political Subdivisions*** - In determining the fair value for state and municipal securities, the Company uses the market approach utilizing primary valuation inputs including reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.
- ***Corporate and International Securities*** - In determining the fair value for corporate securities the Company uses the market approach utilizing primary valuation inputs including reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads (for investment grade securities), observations of equity and credit default swap curves (for high-yield corporates), reference data and industry and economic events.
- ***Equity Securities*** - In determining the fair value for equity securities in Level 1, the Company uses quoted prices (unadjusted) in active markets for identical or similar assets. In determining the fair value for equity securities in Level 2, the Company uses the market approach utilizing primary valuation inputs including reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.
- ***Other Assets Embedded Derivative*** - In determining the fair value of the embedded derivative in Level 3, the Company uses the best estimates of current settlement values, using present value of projected cash flows. The assumptions, at each valuation date, are those we view to be appropriate for a hypothetical market participant and include assumptions for the non-performance risk, which is added to the discount rates used in determining the fair value from the net cash flows and reflects the credit risk of either our counter-party for our assets or us for our liabilities of not fulfilling the obligations of an underlying amounts due to us or amounts we owe. Changes in the fair value of this embedded derivative results primarily from changes in market conditions or the credit risk associated with us or our counterparties.

We did not have securities trading in less liquid or illiquid markets with limited or no pricing information, therefore we did not use unobservable inputs to measure fair value as of December 31, 2021 and 2020. Additionally, we did not have any assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020, and we noted no significant changes in our valuation methodologies between those periods.

Our long-term debt is a financial instrument and we disclose its fair value in Note 10. The fair value of long-term debt is based on quoted market prices. The inputs used to measure the fair value of long-term debt are classified as Level 2 within the fair value hierarchy.

There were no changes to the Company's valuation methodology and the Company is not aware of any events or circumstances that would have a significant adverse effect on the carrying value of its assets and liabilities measured at fair value as of December 31, 2021 and 2020. There were no transfers between the fair value hierarchy levels during the years ended December 31, 2021, 2020 and 2019.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

5. INVESTMENTS

Unrealized Gains and Losses

The difference between amortized cost or cost and estimated fair value and gross unrealized gains and losses, by major investment category, consisted of the following:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2021				
Debt securities - available-for-sale:				
United States government obligations and authorities	\$ 90,750	\$ 625	\$ 683	\$ 90,692
Obligations of states and political subdivisions	19,031	391	144	19,278
Corporate	186,489	4,413	1,922	188,980
International	28,591	212	221	28,582
	<u>\$ 324,861</u>	<u>\$ 5,641</u>	<u>\$ 2,970</u>	<u>\$ 327,532</u>
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2020				
Debt securities - available-for-sale:				
United States government obligations and authorities	\$ 169,947	\$ 1,866	\$ 38	\$ 171,775
Obligations of states and political subdivisions	21,560	704	—	22,264
Corporate	254,618	11,989	79	266,528
International	27,001	659	17	27,643
	<u>\$ 473,126</u>	<u>\$ 15,218</u>	<u>\$ 134</u>	<u>\$ 488,210</u>

Net Realized and Unrealized Gains and Losses

The Company calculates the gain or loss realized on the sale of investments by comparing the sales price (fair value) to the cost or amortized cost of the security sold. Net realized gains and losses on investments are determined in accordance with the specific identification method.

Net realized and unrealized gains (losses) recognized in earnings, by major investment category, consisted of the following:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Gross realized and unrealized gains:			
Debt securities	\$ 3,426	\$ 20,470	\$ 2,829
Equity securities	35	8,587	5,928
Total gross realized and unrealized gains	3,461	29,057	8,757
Gross realized and unrealized losses:			
Debt securities	(1,837)	(2,879)	(664)
Equity securities	(32)	(8,146)	(1,009)
Total gross realized and unrealized losses	(1,869)	(11,025)	(1,673)
Net realized and unrealized gains (losses) on investments	\$ 1,592	\$ 18,032	\$ 7,084

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

The above line item, net realized and unrealized gains (losses) on investments, includes the following equity securities gains (losses) recognized in earnings:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Net gains (losses) on equity securities:			
Realized	\$ —	\$ 4,555	\$ 803
Unrealized	3	(4,114)	4,116
	<u>3</u>	<u>441</u>	<u>4,919</u>
Less:			
Net realized and unrealized gains (losses) on securities sold	<u>—</u>	<u>309</u>	<u>672</u>
Net unrealized gains (losses) still held as of the end-of-period	<u>\$ 3</u>	<u>\$ 132</u>	<u>\$ 4,247</u>

In addition, for the twelve months ended December 31, 2021, the Company recognized \$9.4 million in realized and unrealized embedded derivative gains. Refer to Note 4 above for information regarding the embedded derivative.

Contractual Maturity

Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

Amortized cost and estimated fair value of debt securities, by contractual maturity, consisted of the following:

	December 31, 2021	
	Amortized	
	Cost	Fair Value
	(In thousands)	
Securities with Maturity Dates		
Debt securities, available-for-sale:		
One year or less	\$ 27,550	\$ 28,094
Over one through five years	85,585	86,559
Over five through ten years	118,136	118,352
Over ten years	93,590	94,527
Total	<u>\$ 324,861</u>	<u>\$ 327,532</u>

Net Investment Income

Net investment income consisted of the following:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Interest income	\$ 6,600	\$ 11,563	\$ 15,605
Dividends income	170	223	296
Net investment income	<u>\$ 6,770</u>	<u>\$ 11,786</u>	<u>\$ 15,901</u>

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

Aging of Gross Unrealized Losses

Gross unrealized losses and related fair values for debt securities, grouped by duration of time in a continuous unrealized loss position, consisted of the following:

Less than 12 months		12 months or longer		Total	
Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses

(In thousands)

December 31, 2021

Debt securities - available-for-sale:

United States government obligations and authorities	\$ 46,038	\$ 672	\$ 881	\$ 11	\$ 46,919	\$ 683
Obligations of states and political subdivisions	7,322	144	—	—	7,322	144
Corporate	86,423	1,875	860	47	87,283	1,922
International	15,345	221	—	—	15,345	221
	<u>\$ 155,128</u>	<u>\$ 2,912</u>	<u>\$ 1,741</u>	<u>\$ 58</u>	<u>\$ 156,869</u>	<u>\$ 2,970</u>

Less than 12 months		12 months or longer		Total	
Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses

(In thousands)

December 31, 2020

Debt securities - available-for-sale:

United States government obligations and authorities	\$ 25,521	\$ 38	\$ —	\$ —	\$ 25,521	\$ 38
Corporate	7,989	79	—	—	7,989	79
International	2,175	16	132	1	2,307	17
	<u>\$ 35,685</u>	<u>\$ 133</u>	<u>\$ 132</u>	<u>\$ 1</u>	<u>\$ 35,817</u>	<u>\$ 134</u>

As of December 31, 2021, the Company held a total of 351 debt securities that were in an unrealized loss position, of which 5 securities were in an unrealized loss position continuously for 12 months or more. As of December 31, 2020, the Company held a total of 47 debt securities that were in an unrealized loss position, of which 2 securities were in an unrealized loss position continuously for 12 months or more. The unrealized losses associated with these securities consisted primarily of losses related to corporate securities. The Company did not have any OTTI losses on its available-for-sale securities for the years ended December 31, 2021, 2020 and 2019, respectively. Refer to Note 7 below for information regarding the assessment of allowances for credit losses.

Collateral Deposits

Cash and cash equivalents and investments, the majority of which were debt securities, with fair values of \$9.3 million and \$11.5 million were deposited with governmental authorities and into custodial bank accounts as required by law or contractual obligations, as of December 31, 2021 and 2020, respectively.

Reclassification of Held-to-Maturity Securities to Available-for-Sale

The Company sold held-to-maturity securities with a carrying value of \$70 thousand and realized a loss of less than \$1 thousand during the second quarter of 2020 due to credit concerns for certain securities. The Company, as of the date of the aforementioned sales, reclassified its remaining held-to-maturity securities to available-for-sale. The held-to-maturity securities transferred had an amortized cost of \$4.2 million and fair value of \$4.3 million and resulted in \$58 thousand of unrealized gains, pre-tax, recognized in other comprehensive income (loss) in the year ended December 31, 2020.

6. REINSURANCE

Overview

Reinsurance is used to mitigate the exposure to losses, manage capacity and protect capital resources. The Company reinsures (cedes) a portion of written premiums on an excess of loss or a quota-share basis in order to limit the Company's loss exposure. To the extent that reinsuring companies are unable to meet their obligations assumed under these reinsurance agreements, the Company remains primarily liable to its policyholders.

The Company is selective in choosing reinsurers and considers numerous factors, the most important of which is the financial stability of the reinsurer or capital specifically pledged to uphold the contract, its history of responding to claims and its overall reputation. In an effort to minimize the Company's exposure to the insolvency of a reinsurer, the Company evaluates the acceptability and review the financial condition of the reinsurer at least annually with the assistance of the Company's reinsurance broker.

Significant Reinsurance Contracts

2020-2021 Catastrophe Excess of Loss Reinsurance Program

The Company's excess of loss catastrophe reinsurance program for 2020-2021 (the "2020-2021 Program"), which covers the Company and its wholly-owned insurance subsidiaries, FNIC, MIC and MNIC became effective July 1, 2020 through June 30, 2021. FNIC, MIC and MNIC are collectively referred to herein as the "carriers". The 2020-2021 Program provides up to approximately \$1.3 billion of single-event reinsurance coverage in excess of up to a \$31 million retention for catastrophic losses, including hurricanes, and aggregate coverage up to \$1.9 billion, at an approximate total cost of \$306.1 million, subject to adjustments based on actual exposure or premium of policies at different points in time in the coming months. The Company will retain 100% of the first \$25 million retention on each event plus up to an additional \$6 million in retention on the first event by retaining an approximate 9.1% co-participation of the next \$70 million of limit after the first \$25 million. More specifically, the 2020-2021 Program includes up to approximately \$1.3 billion in aggregate private reinsurance for coverage in all states in which the Company operates, of which up to approximately \$650 million is limited to any one event, plus an additional \$650 million of reinsurance provided by the Florida Hurricane Catastrophe Fund ("FHCF"), that responds on both a per occurrence and in the aggregate basis, and which coverage is exclusive to the state of Florida.

The private layers of the 2020-2021 Program, covering both Florida and non-Florida exposures have prepaid automatic reinstatement protection, which affords the carriers additional coverage for subsequent events. The private reinsurance market continued to harden this year due to a number of factors, including issues unique to the U.S. coastal catastrophe reinsurance marketplace generally and the Florida market specifically. These factors resulted in more restrictive terms by some of our individual reinsurers. The change in terms from the prior year's program includes some portion of the program having a single aggregate retention for our carriers taken as a whole, versus each carrier's own individual retention, plus some portions of the program not "cascading", which provides less broad coverage for multiple event scenarios generating gaps in coverage that need to be filled with additional post renewal reinsurance protection or be retained net by the Company. As of December 31, 2021, the 2020-2021 Program was placed with reinsurers with an A.M. Best Company or Standard & Poor's rating of "A-" or better, or that have fully collateralized their maximum potential obligations in dedicated trusts. For the purpose of debt covenant compliance, if any reinsurer on the 2020-2021 Program is not collateralized or has a rating lower than "A-" by A.M. Best Company or Standard & Poor's then the Company treats that reinsurer's participation as if it was part of the Company's net retention.

The total 2020-2021 Program cost includes approximately \$258.3 million for private reinsurance for the carriers' exposure described above, including prepaid automatic reinstatement premium protection, along with approximately \$47.8 million payable to the FHCF. The combination of private and FHCF reinsurance treaties affords the carriers up to approximately \$1.9 billion of aggregate coverage within Florida and \$1.3 billion in states outside Florida with a maximum single event coverage totaling up to approximately \$1.3 billion within Florida and approximately \$650 million outside Florida, exclusive of retentions.

Each carrier shares the combined program cost in proportion to its contribution to the total expected loss in each reinsurance layer. Each carrier's reinsurance recoveries will be based on that carrier's contributing share of a given event's total loss and each carrier will be responsible for its portion of the 2020-2021 Program's \$25 million per event retention (\$31 million for the first event only) based on a specific allocation formula. Both FNIC and MNIC increased their FHCF participation to 90% for the 2020 hurricane season, and MIC maintained its FHCF participation at 90%.

In addition, the Company purchased subsequent event reinsurance coverage that has a lower retention than the first event. Under the 2020-2021 Program, FNIC's non-Florida book of business as written by SageSure has excess of loss reinsurance treaties which afford

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

this specific book of business additional protection through an additional \$16 million of coverage for a second event, which applies to hurricane losses only. This additional reinsurance coverage is specific to FNIC's non-Florida business and does not afford coverage to MIC's non-Florida business. The result is a retention of approximately \$18 million for FNIC's book with SageSure for the first event and approximately \$2 million for the second event, although these retentions may be reduced after taking into account the quota-share reinsurance agreement that FNIC has with Anchor Re, Inc. ("Anchor Re"). Furthermore, for Florida only losses, the carriers purchased second and third event coverage of 71.5% of \$15 million excess of \$10 million that reduces the second and third event retention for the carriers, from \$25 million to \$14.3 million per event, on a combined basis, which could be reduced further by an additional 28.5% placed on a parametric basis with an Excess and Surplus lines carrier that will provide coverage for the second and third Florida hurricane loss, if the first event loss criteria has been satisfied to the carriers after the inception of treaty. The amount of recovery with the parametric product is based on the magnitude of the hurricane and the proximity of the individual insured risk to the hurricane path. This coverage terminated on May 31, 2021.

Furthermore, on September 3, 2020, the Company secured \$39.2 million of reinsurance limit at an approximate cost of \$11.2 million. This limit is available for Hurricane Delta and all subsequent events that occur during the remainder of the 2020-2021 treaty year. In addition, on October 13, 2020, the Company secured 50% of \$10 million excess of \$8 million of reinsurance limit at an approximate cost of \$875 thousand to lower its retention and further protect FNIC's non-Florida book of business written by SageSure. This limit was available for any named storm event during the remainder of 2020. On November 4, 2020, the Company secured an additional \$13.5 million of reinsurance limit at an approximate cost of \$2.0 million. This limit was available for any subsequent events that occurred for the remainder of 2020, except for Hurricane Eta.

Effective January 1, 2021, the Company entered into an aggregate excess of loss agreement on its MIC book of business through the end of the calendar year. This new agreement provides reinsurance coverage on non-named storms, of 65% of \$15 million excess of \$10 million with a \$0.85 million occurrence deductible and a \$4.15 million occurrence limit at an approximate cost of \$2.3 million.

Subsequent to a significant loss event in February 2021, the Company purchased \$50 million of additional reinsurance limit to provide further protection for any future events through May 31, 2021. The additional protection was secured in two layers for an approximate cost of \$13 million with the lowest layer responding at a retention level of \$10 million. This additional limit contained overlapping coverage on certain portions of this purchase, resulting in the determination that the additional coverage contained an embedded derivative. While the economic substance is similar to as a typical reinsurance recovery, the embedded derivative is carried at fair value on our consolidated balance sheets and changes in fair value are recognized in net realized and unrealized gain (loss) on our consolidated statements of operations as they occur. Refer to Notes 2 and 3 for further information.

Lastly, the Company secured additional reinsurance limit of 50% of \$70 million excess of \$25 million, at an approximate cost of \$2.8 million, which were recognized as ceded premium over the period from June 1, 2021 through June 30, 2021. This limit is available for events occurring during this period for all carriers and all states.

The carriers' cost and amounts of reinsurance are based on current analysis of exposure to catastrophic risk. Most of the data is subjected to exposure level analysis at various dates through December 31, 2020. This analysis of the carriers' exposure levels in relation to the total exposures to the FHCF and excess of loss treaties may produce changes in retentions, limits and reinsurance premiums in total, and by carrier, as a result of increases or decreases in the carriers' exposure levels.

2021-2022 Catastrophe Excess of Loss Reinsurance Program

The Company's excess of loss catastrophe reinsurance program for 2021-2022 (the "2021-2022 Program"), which covers the Company and its wholly-owned insurance subsidiaries, FNIC, MIC and MNIC became effective July 1, 2021. The 2021-2022 Program provides the carriers up to approximately \$1.4 billion of single event reinsurance coverage in excess of up to a \$18.25 million pre-tax retention for certain catastrophic losses, including hurricanes, and aggregate coverage up to \$2.25 billion, at an approximate total cost of \$274.2 million, subject to adjustments based on actual exposure or premium of policies at different points in time in the coming months.

Due to non-Florida exposures becoming a larger portion of the overall book of business, the Company broadened its approach to its reinsurance purchases for this treaty year by separating the program into two reinsurance towers. The first tower includes all exposures for FNIC Florida, MIC in all states and MNIC and includes ground up first event limit protection up to approximately \$982 million ("Primary Tower"), subject to a maximum first-event retention of \$10 million. The second tower provides ground up first event limit up to \$450 million for all FNIC's non-Florida business produced by its managing general underwriter partner ("FNIC SageSure Tower"), subject to a first-event retention of \$8.25 million. The \$18.25 million combined towers maximum retention is a reduction in the first event retention of approximately 41% compared to up to \$31 million in last year's program. The combination of these

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

separate towers provides the Company with an increase in aggregate catastrophe reinsurance protection of approximately \$345 million compared to the previous treaty year original purchase. More specifically, the 2021-2022 Program includes up to approximately \$2.25 billion in aggregate reinsurance across all states in which the Company operates, including \$504 million of reinsurance provided by the Florida Hurricane Catastrophe Fund ("FHCF"). Up to approximately \$972 million is available for a first event within Florida, including \$468 million of private coverage plus the FHCF coverage. Up to approximately \$910 million of coverage is available for a first event outside of Florida, including the \$468 million of private coverage from the Primary Tower, which is available to cover catastrophe losses in MIC's book of business located in Louisiana and Texas. FHCF coverage responds on both a per occurrence and aggregate basis and is exclusive to the state of Florida. Additionally, the 2021-2022 Program provides \$831 million of private reinsurance across the combined towers for second and subsequent events, subject to individual retentions within each tower and the aggregate limit. All layers above a \$30 million attachment point have prepaid automatic reinstatement protection, which affords the carriers additional coverage for subsequent events without additional cost.

Most of the privately placed layers of the 2021-2022 Program are effective July 1, 2021, with certain agreements effective for June 2021. The portion of the 2021-2022 Program placed with private reinsurers is with partners that as of December 31, 2021 had an A.M. Best Company or Standard & Poor's rating of "A-" or better, or that have fully collateralized their maximum potential obligations in dedicated trusts. For the purpose of debt covenant compliance, if any reinsurer on the 2021-2022 Program is not collateralized or has a rating lower than "A-" by A.M. Best Company or Standard & Poor's then the Company treats that reinsurer's participation as if it was part of the Company's net retention.

The private reinsurance market continued to harden this year due to a number of factors, including the elevated number of catastrophic events impacting U.S. coastal areas in recent years. These factors have resulted in more restrictive terms for the upcoming reinsurance treaty year. The change in terms includes a further reduction in the availability of cascading coverage, which automatically "drops-down" coverage for subsequent events and prevents gaps in reinsurance protection when multiple events occur during the same treaty year. In addition, there was limited open market capacity available for lower layer attachment points on an "all perils" basis. As a result, a vast majority of the first layer for the Primary Tower (\$20 million excess of \$10 million), which includes one automatic reinstatement, covers "all perils" only through November 30, 2021, after which coverage includes only named storms such as tropical depressions, tropical storms and hurricanes, and excludes tornado or hail events. The first layer in the FNIC SageSure Tower (\$22 million excess of \$8 million) provides both per occurrence and aggregate protection and was placed with Anchor Re, an affiliate of SageSure (the non-affiliated managing general underwriter that writes FNIC's non-Florida property business) on a fully-collateralized basis. In addition, 40% of the reinstatement premium protection (\$6 million) for the layer that attaches above \$30 million of the FNIC SageSure Tower provides protection on an "all perils" basis whereas the remaining 60% (\$12 million) provides protection following only a hurricane.

As indicated above, the carriers' combined 2021-2022 Program is estimated to cost \$274.2 million, consisting of \$204.8 million for the Primary Tower and \$69.4 million for FNIC SageSure Tower after consideration of 19% downward premium adjustment resulting from the September 30, 2021 exposure adjustment, driven by our exposure management initiatives. This amount includes approximately \$237.9 million for private reinsurance for the carriers' exposure described above, including prepaid automatic premium reinstatement protection, along with approximately \$36.3 million, within the Primary Tower, payable to the FHCF. All carriers maintained their 90% FHCF participation for the upcoming wind season. In the Primary Tower, each carrier will share the combined cost in proportion to its contribution to the total expected loss in each reinsurance layer. Each carrier's reinsurance recoveries will be based on that carrier's contributing share of a given event's total loss and each carrier will be responsible for its portion of the 2021-2022 Program's per event retention based on a specific allocation formula.

In addition to the coverage stated above, under the FNIC SageSure Tower, the Company purchased additional protection that lowers the second event named-storm retention, inclusive of co-participation, to approximately \$9.75 million, with certain limitations as described below. For a third event, the named storm retention would be approximately \$17.3 million. More specifically, this additional coverage consists of 75% of \$27 million of coverage for a second event and 47% of \$27 million of coverage for a third event, which applies to named storm losses only. These retentions may be reduced after taking into account the 80% quota-share agreement that was in place with Anchor Re up through December 31, 2021, which is discussed further below in "*FNIC Homeowners non-Florida*". Whether such catastrophe losses can be ceded into this treaty will be dependent on capacity to do so pursuant to the loss caps in that quota-share treaty.

As discussed above, the lower layers of each tower of the 2021-2022 reinsurance program exclude severe convective storm coverage (tornado and hail) after December 1, 2021, resulting in approximately \$30 million of single event exposure to the Company under each tower, subject to potential coverage under certain quota-share reinsurance treaties.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

The carriers' cost and amounts of reinsurance are based on current analysis of exposure to catastrophic risk. The data is subjected to exposure level analysis at various dates through December 31, 2021. This analysis of the carriers' exposure levels in relation to the total exposures to the FHCF and excess of loss treaties may produce changes in retentions, limits and reinsurance premiums in total, and by carrier, as a result of increases or decreases in the carriers' exposure levels.

Quota-Share Reinsurance Programs

FNIC Homeowners Florida

On July 1, 2018, FNIC renewed the quota-share treaty on its Florida homeowners book of business, on an in-force, new and renewal basis, excluding named storms, which was initially set at a 2% cession, and is subject to certain limitations. In addition, this quota-share allowed FNIC to prospectively increase or decrease the cession percentage up to three times during the term of the agreement. Effective October 1, 2018, FNIC elected to increase the cession percentage from 2% to 10% on an in-force, new and renewal basis. The treaty expired on July 1, 2019 on a cut-off bases, meaning that the reinsurer will not be liable (under this agreement) for losses as a result of occurrences taking place after the date of termination, and the unearned premium previously ceded was returned to FNIC.

On July 1, 2019, FNIC renewed the quota-share treaty on its Florida homeowners book of business, on an in-force, new and renewal bases, excluding named storms, which was set at a 10% cession and is subject to certain limitations. In addition, this quota-share allows FNIC the flexibility to prospectively increase or decrease the cession percentage up to three times during the term of the agreement. The treaty expired on July 1, 2020 on a cut-off basis, meaning that the reinsurer will not be liable (under this agreement) for losses as a result of occurrences taking place after the date of termination, and the unearned premium previously ceded was returned to FNIC.

On July 1, 2020, FNIC renewed its quota-share treaty, which was initially set at 10%, on its Florida homeowners book of business, on an in-force, new and renewal basis, excluding named storms and subject to certain limitations. Effective October 1, 2020, this treaty increases the cession percentage from 10% to 20% on an in-force, new and renewal basis.

On November 15, 2020, FNIC entered into a 10% quota-share reinsurance treaty through November 15, 2021 on its Florida homeowners book of business on an in-force, new and renewal basis. This treaty excludes all catastrophe losses and provides coverage only on attritional losses and is subject to certain limitations.

On December 31, 2020, FNIC entered into a 10% quota-share reinsurance treaty through December 31, 2021 on its Florida homeowners book of business on an in-force, new and renewal basis. This treaty excludes named storms and is subject to certain limitations.

On July 1, 2021, FNIC renewed its 20% quota-share treaty on its Florida homeowners book of business, on an in-force, new and renewal basis, excluding named storms and subject to certain limitations. In addition, this quota-share allows FNIC the flexibility to prospectively increase (we are currently at the maximum) or decrease the cession percentage up to three times during the term of the agreement.

On November 15, 2021, FNIC renewed its 10% quota-share treaty through November 15, 2022 on its Florida homeowners book of business on an in-force, new and renewal basis. This treaty excludes all catastrophe losses and provides coverage only on attritional losses and is subject to certain limitations.

On December 31, 2021, FNIC entered into a new 7.5% quota-share reinsurance treaty through December 31, 2022 on its Florida homeowners book of business on a new and renewal basis. This treaty excludes named storms and is subject to certain limitations. FNIC elected to runoff the expiring 10% participation through the policies natural expirations.

FNIC Homeowners non-Florida

On July 1, 2020, FNIC entered into a quota-share treaty on its non-Florida homeowners book of business with Anchor Re, an Arizona captive reinsurance entity that is an affiliate of SageSure. The treaty provided 50% quota-share reinsurance protection on claims incurred subsequent to July 1, 2020 on in-force, new and renewal business through June 30, 2021, subject to certain limitations, which include limits on the net losses that Anchor Re can realize during the treaty year. The treaty arrangement was fully collateralized through Anchor Re. The financial economics of this treaty substantially mirror the 50% profit-sharing arrangement that was previously in place. Thus, this treaty was not expected to have any impact on the pre-tax operating results of the Company, though the components of the combined ratio will be affected by the ceding of premiums, claims and commissions. On November 3, 2020, FNIC and Anchor Re agreed to increase the cession percentage in this treaty from 50% to 80%, effective December 1, 2020 on in-force, new and renewal basis.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

Effective January 31, 2021, the Company terminated its existing 80% quota-share reinsurance treaty with Anchor Re and commuted the agreement. In April 2021, the Company received \$7.2 million from Anchor Re as settlement of the commutation. Immediately after the commutation, the Company entered into an 80% quota-share treaty with Anchor Re on February 1, 2021 on an in-force, new and renewal basis, which covers the thirteen-month period through February 28, 2022, subject to certain limitations, which include limits on the net losses that Anchor Re can realize during the treaty year.

Effective December 31, 2021, the Company terminated its existing 80% quota-share reinsurance treaty with Anchor Re and commuted the agreement. Immediately after the commutation, the Company entered into a 100% quota-share treaty with Anchor Re on December 31, 2021 on an in-force, new and renewal basis, which covers the six month period through June 30, 2022, subject to certain limitations which include limits on the net losses that Anchor Re can realize during the treaty year. The new treaty excludes catastrophe losses, involves a funded trust and is fully collateralized through Anchor Re. The Company recorded a pre-tax loss of \$2.5 million in the fourth quarter of 2021 related to the settlement of the managing general underwriting and profit share agreements with SageSure through December 31, 2021.

Associated Trust Agreements

Certain reinsurance agreements require FNIC to secure the credit, regulatory and business risk. Fully funded trust agreements securing these risks totaled less than \$0.1 million as of December 31, 2021 and 2020.

Reinsurance Recoverable, Net

Amounts recoverable from reinsurers are recognized in a manner consistent with the claims liabilities associated with the reinsurance placement and presented on the consolidated balance sheet as reinsurance recoverable. Reinsurance recoverable, net consisted of the following:

	December 31,	
	2021	2020
	(In thousands)	
Reinsurance recoverable on paid losses	\$ 59,096	\$ 54,898
Reinsurance recoverable on unpaid losses	554,356	358,193
Allowance for credit loss	(249)	(65)
Reinsurance recoverable, net	<u>\$ 613,203</u>	<u>\$ 413,026</u>

As of December 31, 2021 and 2020, the Company had reinsurance recoverable of \$504.8 million (as a result of Hurricanes Ida, Irma, Laura, April 2021 Storms and Hurricane Sally) and \$304.3 million (as a result of Hurricanes Irma, Laura, Sally, Michael and Delta). Hurricane Ida made landfall in Louisiana on August 29, 2021 as a Category 4 hurricane impacting Louisiana and other states. April 2021 Storms were a collection of severe weather events impacting Texas, Florida, Louisiana and other states over a six-day period starting approximately April 10, 2021.

Refer to Note 7 below for information regarding the assessment and amounts of allowances for credit losses.

Net Premiums Written and Net Premiums Earned

Net premiums written and net premiums earned consisted of the following:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Net Premiums Written			
Direct	\$ 684,777	\$ 726,885	\$ 610,608
Ceded	(501,070)	(490,262)	(232,729)
	<u>\$ 183,707</u>	<u>\$ 236,623</u>	<u>\$ 377,879</u>
Net Premiums Earned			
Direct	\$ 708,820	\$ 720,967	\$ 582,334
Ceded	(525,517)	(356,833)	(218,682)
	<u>\$ 183,303</u>	<u>\$ 364,134</u>	<u>\$ 363,652</u>

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

7. ALLOWANCES FOR CREDIT LOSS

Overview

There is significant risk and judgment involved in determining estimates of our allowances for credit loss, which reduce the amortized cost of an asset to produce an estimate of the net amount that will be collected over the asset's contractual life. Longer time horizons generally present more uncertainty in expected cash flow. We evaluate the expected credit loss of assets on an individual basis, except in cases where assets collectively share similar risk characteristics where we pool them together. We evaluate and estimate our allowances for credit loss by considering reasonable, relevant and supportable available information.

Activity in the allowances for credit loss, by asset line item on the consolidated balance sheet, is summarized as follows:

	Debt Securities Held-to- Maturity	Premiums Receivable	Reinsurance Recoverable, Net	Total
	(In thousands)			
Balance as of December 31, 2019	\$ —	\$ 159	\$ —	\$ 159
Cumulative effect of new accounting standard (1)	1	—	32	33
Credit loss expense (recovery) (2)	(1)	74	33	106
Balance as of December 31, 2020	—	233	65	298
Credit loss expense (recovery) (2)	—	(108)	184	76
Balance as of December 31, 2021	\$ —	\$ 125	\$ 249	\$ 374

(1) Refer to Note 2 above about our adoption of ASU 2016-13 on January 1, 2020.

(2) Reflected in commissions and other underwriting expenses on the consolidated statements of comprehensive income (loss).

Accrued investment income is included in other assets on the consolidated balance sheet. We immediately write-off accrued investment income if it becomes uncollectible, therefore we do not measure or record an allowance for credit losses.

Investments

Our investment policy is established by the Board of Directors' Investment Committee and is reviewed on a regular basis. This policy currently limits investment in non-investment-grade debt securities (including high-yield bonds), and limits total investments in preferred stock, common stock and mortgage notes receivable. We also comply with applicable laws and regulations that further restrict the type, quality and concentration of our investments. We do not use any swaps, options, futures or forward contracts to hedge or enhance our investment portfolio.

Our investment portfolio has inherent risks because it contains volatility associated with market pricing and interest rate sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates or credit worthiness. The effects of market volatility, declining economic conditions, such as a U.S. or global economic slowdown, whether due to COVID-19, or other factors, could adversely impact the credit quality of securities in our portfolio and may have unforeseen consequences on the liquidity and financial stability of the issuers of securities we hold.

Our debt securities portfolio includes securities that:

- Are explicitly guaranteed by a sovereign entity that can print its own currency;
- The currency is routinely held by central banks, used in international commerce and commonly viewed as a reserve currency; and
- Have experienced a consistent high credit rating by rating agencies and a long history with no credit losses.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

We believe if these governments were to technically default it is reasonable to assume an expectation of immaterial losses. Refer to Note 5 above for the balances of these sovereign debt securities, which are reported in the following investment categories:

- United States government obligations and authorities;
- Obligations of states and political subdivisions; and
- International.

For our debt securities, available-for-sale, the fact that a security's fair value is below its amortized cost is not a decisive indicator of credit loss. In many cases, a security's fair value may decline due to factors that are unrelated to the issuer's ability to pay. For this reason, we consider the extent to which fair value is below amortized cost in determining whether a credit-related loss exists. The Company also considers the credit quality rating of the security, with a special emphasis on securities downgraded below investment grade. A comparison is made between the present value of expected future cash flows for a security and its amortized cost. If the present value of future expected cash flows is less than amortized cost, a credit loss is presumed to exist and an allowance for credit loss is established. Management may conclude that a qualitative analysis is sufficient to support its conclusion that the present value of the expected cash flows equals or exceeds a security's amortized cost. As a result of this review, management concluded that there were no credit-related impairments of our available-for-sale securities as of December 31, 2021 and 2020. Management does not have any current intent to sell available-for-sale securities in an unrealized loss position, and it is not "more likely than not" that the Company will be required to sell these securities before a recovery in their value to their amortized cost basis occurs.

Our equity investments are measured at fair value through net income (loss), therefore they do not require an allowance for credit loss.

Premiums Receivable

We do have collectability risk, but our homeowners policy terms are one year or less and our policyholders are dispersed throughout the southeast United States, although the majority of our policyholders are located in Florida.

We write-off premiums receivable if the individual policy becomes uncollectible. Because collectively our premiums receivable share similar risk characteristics, we pool them to measure our valuation allowance for credit losses using an aging method approach. This method applies historical loss rates to levels of delinquency for our policy terms that are one year or less. Based upon historical collectability, adjusted for current and future economic conditions, we have measured and recorded our valuation allowances for premiums receivable.

The aging of our premiums receivable and associated allowance for credit loss was as follows:

	Current	Days Past Due				Total
		1-29	30-59	60-89	90 plus	
December 31, 2021	(In thousands)					
Amortized cost	\$ 39,287	\$ 1,670	\$ 233	\$ 16	\$ 93	\$ 41,299
Allowance for credit loss	—	(15)	(12)	(5)	(93)	(125)
Net	\$ 39,287	\$ 1,655	\$ 221	\$ 11	\$ —	\$ 41,174

	Current	Days Past Due				Total
		1-29	30-59	60-89	90 plus	
December 31, 2020	(In thousands)					
Amortized cost	\$ 46,376	\$ 4,253	\$ 159	\$ 94	\$ 154	\$ 51,036
Allowance for credit loss	—	(43)	(8)	(28)	(154)	(233)
Net	\$ 46,376	\$ 4,210	\$ 151	\$ 66	\$ —	\$ 50,803

Reinsurance Recoverable

Refer to Note 6 above for details of our efforts to minimize our exposure to losses from a reinsurer's inability to pay.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

We measure and record our valuation allowances for credit losses on our reinsurance recoverables asset by multiplying the probability the asset would default within a given timeframe (“PD”) by the percentage of the asset not expected to be collected upon default, or loss given default (“LGD”) and multiplying the result by the amortized cost of the asset. We use market observable data for our PD and LGD assumptions, and in cases where we are unable to observe LGD, we assume it is 100%.

8. GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

The changes in carrying amount of goodwill were as follows:

	Gross Goodwill as of Beginning- of-Year	Accumulated Impairment as of Beginning- of-Year	Acquisition Accounting Adjustments	Impairment	Net Goodwill as of End- of-Year
			(In thousands)		

For the year ended December 31,:

2020	\$ 10,997	\$ —	\$ —	\$ (10,997)	\$ —
2021	10,997	(10,997)	—	—	—

Related to our annual quantitative goodwill impairment assessment performed on October 1, our reporting unit is defined as consolidated FNHC. The fair value of the reporting unit, which we consider a Level 3 fair value estimate, is comprised of the value of in-force (i.e., existing) business and the value of new business. Specifically, new business is representative of cash flows and profitability associated with policies or contracts we expect to issue in the future, reflecting our forecasts of volume and product mix over a 10-year period. To determine the value of in-force and new business, we use a discounted cash flows technique that applies a discount rate reflecting the market expected, weighted-average rate of return adjusted for the risk factors associated with our operations to the projected future cash flow for our reporting unit.

Coinciding with the preparation of the financial statements for the year ended December 31, 2020, the Company’s annual goodwill impairment testing resulted in the conclusion that the goodwill intangible asset established in conjunction with the acquisition of the Maison Companies in December 2019 was impaired. Therefore, during the fourth quarter of 2020, we recorded a non-cash impairment charge of \$11.0 million, against which there is no tax offset, representing the write-off of the full amount of our goodwill asset. The Company’s impairment analysis considered the earnings and share price of the Company and comparable companies, as well as projected cash flows. Continued adverse storm activity, higher excess of loss catastrophe reinsurance costs and the continued unfavorable claims environment in the state of Florida reduced the previously modeled fair value of the Company. These impacts, along with other information relevant to the estimated fair value of the Company, including the trading price of our shares, resulted in the impairment conclusion.

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

	December 31, 2021		December 31, 2020		Weighted- Average- Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
					(In thousands)
Trade name (1)	\$ —	\$ —	\$ 1,100	\$ —	0
Non-compete agreements (2)	300	300	300	162	2
Insurance licenses (3)	—	—	180	—	0
Total	\$ 300	\$ 300	\$ 1,580	\$ 162	

- (1) This intangible had an indefinite useful life. We recorded impairment of \$1.1 million in the year ended December 31, 2021, due primarily to the lowering of revenue forecasts. as a result of the to the Company's plan to execute an orderly runoff of

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

MIC's insurance operations, and a higher discount rate, which lowered the fair value. We recorded impairment of \$0.7 million in the year ended December 31, 2020, due primarily to a higher discount rate, which lowered the fair value.

- (2) Became fully amortized during the year ended December 31, 2021.
- (3) This intangible had an indefinite useful life. We recorded impairment of \$180 thousand for the year ended December 31, 2021, due primarily to the decision to runoff the insurance operations of the Maison Companies, which lowered the fair value. We recorded impairment of \$2 thousand for the year ended December 31, 2020, due primarily to a higher discount rate, which lowered the fair value.

9. LOSS AND LOSS ADJUSTMENT RESERVES

The liability for loss and LAE reserves is determined on an individual-case basis for all claims reported. The liability also includes amounts for unallocated expenses, anticipated future claim development and IBNR.

Activity in the liability for loss and LAE reserves is summarized as follows:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Gross reserves, beginning-of-period	\$ 540,367	\$ 324,362	\$ 296,230
Less: reinsurance recoverable (1)	(358,128)	(164,429)	(166,396)
Net reserves, beginning-of-period	182,239	159,933	129,834
Net reserves from the Maison Companies acquisition	—	—	11,825
Incurring loss, net of reinsurance, related to:			
Current year	226,537	358,952	262,118
Prior year loss development (redundancy) (2)	6,305	18,367	13,460
Ceded losses subject to offsetting experience account adjustments (3)	(68)	(816)	(2,489)
Prior years	6,237	17,551	10,971
Amortization of acquisition fair value adjustment	(14)	(54)	(9)
Total incurred loss and LAE, net of reinsurance	232,760	376,449	273,080
Paid loss, net of reinsurance, related to:			
Current year	105,017	253,344	173,313
Prior years	125,295	100,799	81,493
Total paid loss and LAE, net of reinsurance	230,312	354,143	254,806
Net reserves, end-of-period	184,687	182,239	159,933
Plus: reinsurance recoverable (1)	554,107	358,128	164,429
Gross reserves, end-of-period	\$ 738,794	\$ 540,367	\$ 324,362

- (1) Reinsurance recoverable in this table includes only ceded loss and LAE reserves.
- (2) Reflects loss development from prior accident years impacting pre-tax net income. Excludes losses ceded under retrospective reinsurance treaties to the extent there is an offsetting experience account adjustment.
- (3) Reflects losses ceded under retrospective reinsurance treaties to the extent there is an offsetting experience account adjustment, such that there is no impact on pre-tax net income (loss).

The establishment of loss reserves is an inherently uncertain process and changes in loss reserve estimates are expected as such estimates are subject to the outcome of future events. The factors influencing changes in claim costs are often difficult to isolate or quantify and developments in paid and incurred losses from historical trends are frequently subject to multiple interpretations. Changes in estimates, or differences between estimates and amounts ultimately paid, are reflected in the operating results of the period during which such adjustments are made.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

During the year ended December 31, 2021, the Company experienced \$6.3 million of net unfavorable loss and LAE reserve development on prior accident years, primarily in its homeowners line of business as a result of higher than expected catastrophe loss development from accident year 2020.

During the year ended December 31, 2020, the Company experienced \$18.4 million of net unfavorable loss and LAE reserve development on prior accident years, primarily in its commercial general liability lines of business as a result of higher than expected late reported claims across a number of accident years during 2020.

During the year ended December 31, 2019, the Company experienced \$13.5 million of net unfavorable loss and LAE reserve development on prior accident years, primarily in its personal automobile and commercial line of business. The development in commercial general liability was driven by late reported claims as well as large losses that drove up the overall severity metrics. Additionally, the unfavorable automobile development primarily related to 2017 accident year from our auto programs in the states of Georgia and Texas, and was driven by claims reopening and higher severity.

The Company entered into 30% and 10% retrospectively-rated Florida-only property quota-share treaties, which ended on July 1, 2016 and 2017, respectively. These agreements included a profit share (experience account) provision, under which the Company will receive ceded premium adjustments at the end of the treaty to the extent there is a positive balance in the experience account. This experience account is based on paid losses rather than incurred losses. Due to the retrospectively-rated nature of this treaty, when the experience account is positive we cede losses under these treaties as the claims are paid with an equal and offsetting adjustment to ceded premiums (in recognition of the related change to the experience account receivable), with no impact on net income. Conversely, when the experience account is negative, the Company cedes losses on an incurred basis with no offsetting adjustment to ceded premiums, which impacts net income. Loss development can be either favorable or unfavorable regardless of whether the experience account is in a positive or negative position. Effective February 28, 2021, the Company commuted the 30% agreement and subsequently received \$11.2 million as settlement.

AOB is a legal construct that allows a third party to step into the shoes of the insured and is then paid directly by an insurance company for services rendered on behalf of the insured for a covered loss. Absent an AOB, the insured would pay the third party and those costs would be reimbursed by the insurance company to the insured. AOB is commonly used when a homeowner experiences a water loss, for example a leaky pipe, an overflow from a sink, or a damaged appliance, and contacts a contractor or water remediation company. Misuse of this legal construct has led to contractors over inflating costs of claims and/or submitting improper claims, causing insurance companies to have to either pay the overinflated claim, fight the claim in court, or both. In all cases, AOB claims cost the insurance company, on average, more than five times the cost to settle non-AOB claims, which has been a primary driver the increase to our overall loss and loss adjustment in comparison to historical severity averages.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

The following tables provide incurred losses and allocated LAE ("ALAE") and cumulative paid losses and ALAE, net of reinsurance, for the prior 10 accident years, and the total of gross IBNR reserves plus expected gross development on reported claims and the cumulative number of reported claims (in thousands, except number of reported claims), as of the most recent reporting period, by the Company's significant lines of business, which are homeowners, commercial general liability and automobile.

Accident Year	Homeowners Incurred Losses and ALAE, Net of Reinsurance										IBNR & Expected	Cumulative
	For the Years Ended December 31,										Development on	Number of
	(Unaudited)										Reported Claims	Reported Claims (1)
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021	2021
2012	\$ 23,032	\$ 23,301	\$ 24,186	\$ 24,468	\$ 25,889	\$ 26,356	\$ 26,836	\$ 26,951	\$ 26,984	\$ 26,935	\$ 27	2,692
2013		43,807	42,021	35,834	35,859	37,185	37,880	37,978	38,088	38,141	28	3,443
2014			64,312	63,300	61,770	62,206	61,817	62,043	62,535	62,533	488	7,656
2015				99,497	92,411	95,129	94,760	94,703	96,144	96,189	1,203	13,228
2016					171,264	162,043	158,764	157,880	156,316	156,493	2,180	23,996
2017						202,844	192,769	188,548	179,327	178,890	48,811	67,453
2018							210,158	213,128	216,570	218,267	19,174	38,289
2019								257,644	261,541	260,089	10,861	22,774
2020									342,119	349,456	125,767	71,508
2021										227,685	302,033	23,296
									Total	\$ 1,614,678		

(1) The cumulative number of reported claims is measured by individual claimant at a coverage level.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

Homeowners Cumulative Paid Losses and ALAE, Net of Reinsurance

For the Years Ended December 31,

Accident Year	(Unaudited)									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	\$ 13,693	\$ 20,728	\$ 23,120	\$ 23,923	\$ 25,186	\$ 26,113	\$ 26,777	\$ 26,861	\$ 26,901	\$ 26,909
2013		19,986	31,606	33,867	35,123	35,803	37,473	37,688	37,915	37,952
2014			37,033	53,831	57,891	59,722	60,555	61,441	61,692	62,039
2015				52,214	79,359	86,647	90,415	92,327	93,405	94,281
2016					102,556	142,716	148,274	152,258	153,997	155,152
2017						135,589	176,580	179,327	178,013	179,102
2018							141,173	194,160	206,133	212,935
2019								157,768	236,090	252,608
2020									236,197	330,656
2021										105,969
										<u>\$ 1,457,603</u>
All outstanding liabilities for unpaid claims and ALAE prior to 2012, net of reinsurance										68
Total outstanding liabilities for unpaid claims and ALAE, net of reinsurance										<u>\$ 157,143</u>

The following table provides supplementary information about the average annual percentage payout of incurred losses and ALAE, net of reinsurance, for homeowners policies, as of December 31, 2021:

Average Annual Payout of Losses and ALAE, Net of Reinsurance

(Unaudited)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Homeowners	61.9 %	26.5 %	5.1 %	2.2 %	1.3 %	1.5 %	0.9 %	0.5 %	0.1 %	— %

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

Commercial General Liability Incurred Losses and ALAE, Net of Reinsurance											IBNR & Expected Development on	Cumulative Number of
For the Years Ended December 31,											Reported Claims	Reported Claims
(Unaudited)												
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021	2021
2012	\$ 5,279	\$ 4,952	\$ 4,801	\$ 4,700	\$ 4,658	\$ 4,346	\$ 4,509	\$ 5,109	\$ 6,431	\$ 6,430	\$ 926	854
2013		7,095	5,069	5,221	5,502	5,704	5,580	5,984	7,588	7,588	913	967
2014			7,475	7,709	6,384	6,620	6,348	6,697	9,028	9,027	694	1,012
2015				8,082	7,008	6,020	5,377	7,947	9,141	9,141	1,597	966
2016					10,727	5,809	6,561	8,502	12,267	11,903	4,525	922
2017						8,289	7,853	6,558	8,519	8,518	2,675	642
2018							6,553	6,233	7,280	7,276	2,801	456
2019								1,604	2,535	2,487	944	79
2020									37	68	—	8
2021										17	—	4
									Total	\$ 62,455		

Commercial General Liability Cumulative Paid Losses and ALAE, Net of Reinsurance												
For the Years Ended December 31,												
(Unaudited)												
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 871	\$ 1,714	\$ 2,632	\$ 3,342	\$ 3,686	\$ 3,841	\$ 4,098	\$ 4,521	\$ 4,790	\$ 5,047		
2013		882	2,233	3,366	3,867	4,606	5,033	5,467	5,847	6,112		
2014			717	2,593	3,855	4,375	5,130	6,270	6,901	7,316		
2015				798	2,296	3,249	3,827	5,866	6,566	6,840		
2016					1,515	3,657	5,088	6,606	8,382	8,841		
2017						1,592	2,478	3,293	4,225	4,643		
2018							963	1,554	2,604	2,928		
2019								147	424	598		
2020									5	52		
2021										2		
									Total	\$ 42,379		
All outstanding liabilities for unpaid claims and ALAE prior to 2012, net of reinsurance												3,561
Total outstanding liabilities for unpaid claims and ALAE, net of reinsurance											\$	23,637

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

The following table provides supplementary information about the average annual percentage payout of incurred losses and ALAE, net of reinsurance, for commercial general liability policies, as of December 31, 2021:

Average Annual Payout of Losses and ALAE, Net of Reinsurance										
(Unaudited)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Commercial general liability	10.9 %	13.9 %	11.3 %	7.7 %	10.5 %	6.0 %	4.5 %	4.8 %	3.5 %	5.4 %

Automobile Incurred Losses and ALAE, Net of Reinsurance											IBNR & Expected Development on Reported Claims	Cumulative Number of Reported Claims
For the Years Ended December 31,												
(Unaudited)												
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021	2021
2012	\$ 1,735	\$ 1,741	\$ 1,717	\$ 1,424	\$ 1,455	\$ 1,491	\$ 1,448	\$ 1,444	\$ 1,448	\$ 1,447	\$ 4	824
2013		1,517	1,863	1,826	1,829	2,161	2,123	2,127	2,127	2,128	6	3,472
2014			2,038	3,213	3,551	4,315	4,379	4,417	4,413	4,410	4	6,021
2015				3,045	2,882	2,781	2,878	2,915	2,944	2,945	10	6,561
2016					13,414	20,205	24,346	25,918	25,923	25,930	34	76,660
2017						20,411	22,472	24,579	24,669	24,253	169	61,751
2018							3,513	4,623	4,439	4,062	104	10,937
2019								(3)	—	—	2	103
2020									—	—	—	6
2021										—	—	6
									Total	<u>\$ 65,175</u>		

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

Automobile Cumulative Paid Losses and ALAE, Net of Reinsurance

For the Years Ended December 31,

Accident Year	(Unaudited)									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	\$ 867	\$ 1,293	\$ 1,333	\$ 1,384	\$ 1,393	\$ 1,430	\$ 1,444	\$ 1,447	\$ 1,449	\$ 1,449
2013		907	1,609	1,906	2,069	2,109	2,112	2,116	2,116	2,116
2014			1,455	3,120	3,678	4,122	4,291	4,383	4,396	4,396
2015				1,393	2,293	2,670	2,807	2,890	2,897	2,897
2016					8,084	17,258	23,053	25,582	26,132	26,294
2017						12,821	20,762	23,860	24,468	24,599
2018							2,331	3,626	3,137	3,076
2019								(5)	—	—
2020									—	—
2021										—
									Total	\$ 64,827
All outstanding liabilities for unpaid claims and ALAE prior to 2012, net of reinsurance										20
Total outstanding liabilities for unpaid claims and ALAE, net of reinsurance										<u><u>\$ 368</u></u>

The following table provides supplementary information about the average annual percentage payout of incurred losses and ALAE, net of reinsurance, for automobile policies, as of December 31, 2021:

Average Annual Payout of Losses and ALAE, Net of Reinsurance

(Unaudited)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Automobile	66.8 %	37.1 %	(14.0)%	6.9 %	1.9 %	0.9 %	0.3 %	— %	0.1 %	— %

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

The reconciliation of the net incurred and paid development tables to the liability for unpaid losses and LAE in the consolidated balance sheets is as follows:

	December 31,	
	2021	2020
	(In thousands)	
Liabilities for unpaid losses and ALAE:		
Homeowners	\$ 157,143	\$ 149,314
Commercial general liability	23,637	28,328
Automobile	368	1,388
Flood	—	—
Total liabilities for unpaid losses and ALAE, net of reinsurance	<u>181,148</u>	<u>179,030</u>
Reinsurance recoverables:		
Homeowners	553,689	353,741
Commercial general liability	—	—
Automobile	352	1,424
Flood	66	2,963
Total reinsurance recoverables	<u>554,107</u>	<u>358,128</u>
Unallocated loss adjustment expenses	3,539	3,209
Gross liability for unpaid losses and LAE	<u><u>\$ 738,794</u></u>	<u><u>\$ 540,367</u></u>

Management establishes a liability on an aggregate basis to provide for the estimated IBNR. The estimates of the liability for loss and LAE reserves are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, we review historical data and consider various factors, including known and anticipated legal developments, inflation and economic conditions. As experience develops and other data become available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for loss and LAE reserves. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

Various actuarial methods are utilized to determine the reserves that are booked to our financial statements. Weightings of tests and methods at a detailed level may change from evaluation to evaluation based on a number of observations, measures and time elements. On an overall basis, changes to methods and/or assumptions underlying reserve estimations and selections as of December 31, 2021 and 2020, were not considered material, except for our commercial general liability line of business during 2020. For this line of business, we updated our actuarial assumptions to reflect the new, emerging trend relating to the increased level of new claims being reported related to construction defects, as the new development patterns are different than the historical patterns.

IBNR reserves are established for the quarter and year-end based on a quarterly reserve analysis by our actuarial staff. Various standard actuarial tests are applied to subsets of the business at a line of business and coverage basis. Included in the analyses are the following:

- *Reported Loss Development Method:* A reported loss development pattern is calculated based on historical loss development data, and this pattern is then used to project the latest evaluation of cumulative reported losses for each accident year or underwriting year, as appropriate, to ultimate levels;
- *Paid Development Method:* A paid loss development pattern is calculated based on historical paid loss development data, and this pattern is then used to project the latest evaluation of cumulative paid losses for each accident year or underwriting year, as appropriate, to ultimate levels;
- *Expected Loss Ratio Method:* Expected loss ratios are applied to premiums earned, based on historical company experience, or historical insurance industry results when company experience is deemed not to be sufficient; and
- *Bornbuetter-Ferguson Method:* The results from the Expected Loss Ratio Method are essentially blended with either the Reported Loss Development Method or the Paid Development Method.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

10. LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31,	
	2021	2020
	(In thousands)	
Senior unsecured fixed rate notes, due March 15, 2029, net of deferred financing costs of \$1,170 and \$1,317, respectively	\$ 98,830	\$ 98,683
Convertible senior unsecured fixed rate notes, due April 19, 2026, net of deferred financing costs of \$1,025	19,975	—
Total long-term debt, net	\$ 118,805	\$ 98,683

As of December 31, 2021, the Company's estimated annual aggregate amount of debt maturities (assuming the holders of the convertible debt do not convert into shares of the Company's common stock) includes the following:

For the Years Ending December 31,	Aggregate Debt Maturities
	(In thousands)
2022	\$ —
2023	—
2024	—
2025	—
2026	21,000
Thereafter	100,000
Total debt maturities	121,000
Less: deferred financing costs	2,195
Total debt maturities, net	\$ 118,805

Convertible Senior Unsecured Notes due 2026

On April 20, 2021, the Company closed an offering and issued \$21.0 million in aggregate principal amount of Convertible Senior Unsecured Notes due 2026 (the "2026 Notes") pursuant to an indenture dated as of April 19, 2021 (the "2021 Indenture"). This offering is part of an authorization by the Company's Board of Directors to offer and issue from time to time up to \$35.0 million of 2026 Notes under the 2021 Indenture. The 2026 Notes are not redeemable at the option of the Company, mature on April 19, 2026 and bear interest at a fixed rate of 5.0% per year, payable semi-annually in cash.

The 2026 Notes are convertible into shares of the Company's common stock at an initial conversion rate of 166.6667 shares per \$1,000 principal amount of 2026 Notes, which is equivalent to an initial conversion price of \$6.00 per share of our common stock, an approximately 33% premium to the closing price of the Company's common stock on April 19, 2021. The conversion rate is subject to adjustment upon the occurrence of certain pro rata capital events, such as stock splits or dividends. The 2026 Notes are convertible at the option of the holder at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2026 Notes.

If a change in control of the Company, as defined in the 2021 Indenture, occurs, the holders of the 2026 Notes will have the right to require the Company to purchase all or a portion of their 2026 Notes at a price in cash equal to 101% of the principal amount thereof, plus any accrued but unpaid interest to, but excluding, the date of purchase.

The 2026 Notes are senior unsecured obligations of the Company and rank equally with the Senior Unsecured Notes due 2029 ("2029 Notes") and other future senior unsecured indebtedness of the Company. The 2021 Indenture includes customary covenants and events of default. Among other things, the covenants restrict the ability of the Company and its subsidiaries to incur additional indebtedness or make restricted payments, including dividends, require the Company to maintain certain levels of reinsurance coverage

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

while the 2026 Notes remain outstanding, and maintain certain financial covenants. These covenants are subject to important exceptions and qualifications set forth in the 2021 Indenture. Principal and interest on the 2026 Notes are subject to acceleration in the event of certain events of default, including a downgrade in the credit rating on the 2026 Notes down to the level of 'BB-', being placed into receivership, failing to renew our excess-of-loss catastrophe reinsurance coverage, and certain bankruptcy-related events. The 2026 notes are currently rated 'BBB,' which is four notches higher than 'BB-.'

The 2026 Notes fair value as of December 31, 2021 was \$22.1 million. Refer to Note 4 for additional information.

Senior Unsecured Notes due 2029

On March 5, 2019, the Company completed a private placement offering and issued \$100.0 million in principal amount of Senior Unsecured Fixed Rate Notes due 2029 (the "2029 Notes"), pursuant to an indenture dated as of March 5, 2029 (the "2019 Indenture"). The 2029 Notes mature on March 15, 2029 and at issuance bore interest at the annual fixed rate of 7.5% per year, payable semi-annually in arrears, subject to increases in the interest rate payable in the event of a downgrade below "BBB-" in the credit rating assigned to the 2029 Notes. In connection with the amendment of the indenture covenants to increase the maximum debt-to-capital ratio applicable to the incurrence of debt to 60% and decreasing the maximum debt-to-capital ratio applicable to restricted payments, including cash dividends on our common stock, to 20%, the interest rate was increased by 0.25% to 7.75% per annum beginning March 15, 2021. The 2029 Notes are not convertible or exchangeable for any equity securities, other securities or assets of the Company or any subsidiary. A portion of the cash from the offering was used to redeem all \$45.0 million of the Company's Senior Unsecured Fixed Rate Notes Due 2022 and the Company's Senior Notes Due 2027. We recognized \$3.6 million as interest expense in our consolidated statements of operations for the year ended 2019, for prepayment fees, including the write-off unamortized debt issuance costs on the repayment.

The Company may redeem the 2029 Notes under certain circumstances as set forth in the 2019 Indenture. Prior to March 15, 2024, the Company may redeem the 2029 Notes, in whole or in part, at a redemption price equal to 100.00% of the principal amount of the 2029 Notes to be redeemed, plus the "Applicable Premium," plus accrued and unpaid interest on such 2029 Notes, if any, on any applicable redemption date, the greater of (1) 1.0% of the then-outstanding principal amount and (2) the excess (if any) of: (A) the present value at such redemption date of (i) the applicable redemption price at March 15, 2024 (excluding any accrued but unpaid interest), plus (ii) all required interest payments due through March 15, 2024 (excluding accrued but unpaid interest), computed using a discount rate equal to the Treasury Rate (as defined in the 2019 Indenture) on such redemption date plus 50 basis points; over (B) the then-outstanding principal amount.

On and after March 15, 2024, the Company may redeem the 2029 Notes, in whole or in part, at 103.750% in 2024, 101.875% in 2025, and 100% in 2026 and thereafter, together with any accrued and unpaid interest being redeemed to but excluding the date of redemption.

If a change in control of the Company, as defined in the 2019 Indenture, occurs, the holders of the Notes will have the right to require the Company to purchase all or a portion of their 2029 Notes at a price in cash equal to 101% of the principal amount thereof, plus any accrued but unpaid interest.

The 2029 Notes are senior unsecured obligations of the Company and will rank equally with all of the Company's other future senior unsecured indebtedness. The 2019 Indenture includes customary covenants and events of default. Among other things, the covenants restrict the ability of the Company and its subsidiaries to incur additional indebtedness or make restricted payments, including dividends, and under certain circumstances, the Company is required to maintain certain levels of reinsurance coverage while the 2029 Notes remain outstanding, and maintain certain other financial covenants. These covenants are subject to important exceptions and qualifications set forth in the 2019 Indenture. Principal and interest on the 2029 Notes are subject to acceleration in the event of certain events of default, including a downgrade in the credit rating on the 2029 Notes down to the level of 'BB-', being placed into receivership, failing to renew our excess-of-loss catastrophe reinsurance coverage, and certain bankruptcy-related events. The 2029 notes are currently rated 'BBB,' which is four notches higher than 'BB-.' The Company's debt to capital ratio exceeds 60%, therefore the Company is precluded from incurring additional debt (other than an incremental \$10 million that is allowable under the Indenture), repurchasing shares of our common stock or paying common stock dividends. No acceleration of the related debt is mandated due to the fact that catastrophic weather events drove the ratio over 60% rather than specific actions taken by the Company. The Company's actual debt to capital ratio as of December 31, 2021 was approximately 66.7%.

The 2029 Notes fair values as of December 31, 2021 and December 31, 2020 was \$106.5 million and \$99.7 million, respectively. Refer to Note 4 for additional information.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

11. INCOME TAXES

The components of income tax expense (benefit) include the following:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Federal:			
Current	\$ 258	\$ (29,449)	\$ (982)
Deferred	198	(3,494)	567
Federal income tax expense (benefit)	456	(32,943)	(415)
State:			
Current	—	(403)	241
Deferred	(140)	(150)	(124)
State income tax expense (benefit)	(140)	(553)	117
Total income tax expense (benefit)	<u>\$ 316</u>	<u>\$ (33,496)</u>	<u>\$ (298)</u>

The actual income tax expense (benefit) differs from the “expected” income tax expense (benefit) (computed by applying the combined applicable effective federal and state tax rates to income before income tax expense) as follows:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Computed expected tax expense provision, at federal rate	\$ (21,585)	\$ (23,447)	\$ 150
State tax, net of federal tax benefit	(137)	(3,157)	(122)
Tax-exempt interest	(2)	(5)	(3)
Income subject to dividends-received deduction	(21)	(26)	(34)
Goodwill impairment	—	2,309	—
Return to provision	(2,036)	(3,407)	(307)
Executive compensation	30	41	230
Meals and entertainment	—	13	43
Uncertain tax position	—	(179)	(203)
Rate difference on NOL carryback	98	(8,785)	(113)
Change in valuation allowance	23,436	2,968	—
Other	533	179	61
Total income tax expense (benefit)	<u>\$ 316</u>	<u>\$ (33,496)</u>	<u>\$ (298)</u>

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law on March 27, 2020 and expires with tax years ending December 31, 2020. The CARES Act contains several relief provisions for corporations and lifts certain deduction limitations originally imposed by the U.S. Tax Cuts and Jobs Act of 2017 (the “Tax Act”) signed into law on December 22, 2017. The CARES Act, among other things, includes temporary changes regarding the prior and future utilization of net operating losses (“NOL”), temporary changes to the prior and future limitations on interest deductions, temporary suspension of certain payment requirements for the employer portion of Social Security taxes and the creation of certain refundable employee retention credits. The Company availed itself of the net operating loss provisions of the CARES Act and carried back 2019 and 2020 taxable loss to prior tax years. The Company is carrying forward the NOL generated in the current year.

Our effective income tax rate is the ratio of income tax expense (benefit) over our income (loss) before income taxes. For the years ended December 31, 2021, 2020 and 2019, the effective income tax rate was (0.3)%, 30.0% and (41.8)%, respectively. Differences in the effective tax and the statutory Federal income tax rate of 21% in 2021, 2020 and 2019, are driven by state income taxes and anticipated annual permanent differences, including estimates for tax-exempt interest, dividends received deduction, executive compensation as well as the NOL provision and change in the valuation allowance in the current year.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

The application of GAAP requires us to evaluate the recoverability of our net deferred income tax assets, including those associated with net operating loss ("NOL") carryforwards, and establish a valuation allowance, if necessary, to reduce our deferred income tax asset to an amount that is more likely than not to be realizable. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, we consider many factors, including: the nature and character of the deferred income tax assets and liabilities; taxable income in prior carryback years, if any; future reversals of existing temporary differences; the length of time carryovers can be utilized; and any tax planning strategies we would employ to avoid a tax benefit from expiring unused. Realization is never assured and based on available information, including the financial performance of the Company during the second quarter of 2021, we determined that it was more likely than not that the net deferred income tax asset would not be realized. Therefore, during 2021, we increased the income tax valuation allowance by \$27.5 million.

As of December 31, 2021, we had NOL carryforwards for Federal tax purposes of \$88.8 million expiring between 2037 and 2041 and \$12.7 million that do not expire. As of December 31, 2021, we had NOL carryforwards for state tax purposes of \$127.7 million expiring between 2037 and 2041 and \$20.8 million that do not expire. The amount and timing of realizing these NOL carryforwards depend on future taxable income and limitations imposed by tax laws.

The Company has a valuation allowance of \$30.5 million and \$3.0 million on its deferred income tax asset as of December 31, 2021 and 2020, respectively.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense (benefit) in the consolidated statements of operations and statements of comprehensive income (loss). A reconciliation of these uncertain tax positions was as follows:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Balance at January 1	\$ 203	\$ 382	\$ 585
Increases/(decreases) for uncertain tax positions taken during the prior years	—	(179)	(203)
Balance at December 31	<u>\$ 203</u>	<u>\$ 203</u>	<u>\$ 382</u>

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax asset (liability), net include the following:

	As of December 31,	
	2021	2020
	(In thousands)	
Deferred income tax assets:		
Unearned premiums	\$ 5,419	\$ 5,611
Unpaid losses and loss adjustment expenses	3,416	581
Accrued expenses	307	236
Net operating loss carryforwards	27,780	5,350
Share-based compensation	149	232
Depreciation and amortization	771	412
Lease liability	1,623	1,783
Other	45	69
Gross deferred income tax assets	39,510	14,274
Valuation allowance	(30,481)	(2,968)
Total deferred income tax assets	9,029	11,306
Deferred income tax liabilities:		
Deferred acquisition costs and other	(3,926)	(6,387)
Unrealized gains on investment securities	(608)	(2,865)
Embedded derivative	(2,601)	—
Lease asset	(1,623)	(1,783)
Other	(271)	(213)
Total deferred income tax liabilities	(9,029)	(11,248)
Deferred income tax asset (liability), net	\$ —	\$ 58

The deferred income tax asset (liability), net along with income tax receivable, net is included in current and deferred income taxes, net on our Consolidated Balance Sheets.

The Company files a federal income tax return and various state and local tax returns. The Company's consolidated federal and state income tax returns for 2014, 2015 and 2017 - 2020 are open for review by the Internal Revenue Service and other state taxing authorities.

12. COMMITMENTS AND CONTINGENCIES

Litigation and Legal Proceedings

In the ordinary course of business, the Company is involved in various legal proceedings, specifically claims litigation. The Company's insurance subsidiaries participate in most of these proceedings by either defending third-party claims brought against insureds or litigating first-party coverage claims. The Company accounts for such activity through the establishment of loss and LAE reserves. The Company's management believes that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, is immaterial to the Company's consolidated financial statements. The Company is also occasionally involved in other legal and regulatory proceedings, some of which may assert claims for substantial amounts, making the Company party to individual actions in which extra contractual damages, punitive damages or penalties, such as claims alleging bad faith in the handling of insurance claims, are sought.

The Company reviews the outstanding matters, if any, on a quarterly basis. The Company accrues for estimated losses and contingent obligations in the consolidated financial statements if and when the obligation or potential loss from any litigation, legal proceeding or claim is considered probable and the amount of the potential exposure is reasonably estimable. The Company records such probable and estimable losses, through the establishment of legal expense reserves. As events evolve, facts concerning litigation and contingencies become known and as additional information becomes available, the Company's management reassesses its potential

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

liabilities related to pending claims and litigation and may revise its previous estimates and make appropriate adjustment to the financial statements. Estimates that require judgment are subject to change and are based on management's assessment, including the advice of legal counsel, the expected outcome of litigation and legal proceedings or other dispute resolution proceedings or the expected resolution of contingencies. The Company's management believes that the Company's accruals for probable and estimable losses are reasonable and that the amounts accrued do not have a material effect on the Company's consolidated financial statements.

Regarding the matter involving the Co-Existence Agreement effective as of August 30, 2013 with Federated Mutual Insurance Company ("Mutual") and the related arbitration (please see Note 9 of our 2018 Form 10-K for more information), the Company and Mutual have exchanged releases and all remaining pending proceedings have been resolved by an agreed order entered by the U.S. District Court for the Northern District of Illinois on November 22, 2019.

Assessment Related Activity

The Company operates in a regulatory environment where certain entities and organizations have the authority to require us to participate in assessments. Currently these entities and organizations include: Florida Insurance Guaranty Association ("FIGA"), Citizens Property Insurance Corporation ("Citizens"), FHCF, Georgia Insurers Insolvency Pool ("GIIP"), Special Insurance Fraud Fund ("SIIF"), Fair Access to Insurance Requirements Plan ("FAIRP"), Property Insurance Association of Louisiana ("PIAL"), South Carolina Property & Casualty Insurance Guaranty Association ("SCPCIGA"), Texas Property and Casualty Insurance Guaranty Association ("TPCIGA"), Texas Windstorm Insurance Association ("TWIA"), Alabama Insurance Guaranty Association ("AIGA"), and Alabama Insurance Underwriters Association ("AIUA"). As a direct premium writer, we are required to participate in certain insurer solvency associations under the applicable laws in the states which we do business. One form of assessment requires us to collect the assessment from our policyholders and then remit the collected amounts to the assessing entity, which does not have any impact on our financial results. We are also subject to assessments that require us to pay the full amount of the assessment to the assessing entity and then we are permitted to make rate filings to allow us to recoup the amount of the assessment from our policyholders over time.

In connection with its automobile line of business, which is currently winding down, FNIC is also required to participate in an insurance apportionment plan under Florida law, which is referred to as a JUA Plan. The JUA Plan provides for the equitable apportionment of any profits realized, or losses and expenses incurred, among participating automobile insurers. In the event of an underwriting deficit incurred by the JUA Plan, which is not recovered through the policyholders in the JUA Plan, such deficit shall be recovered from the companies participating in the JUA Plan in the proportion that the net direct written premiums of each such member during the preceding calendar year bear to the aggregate net direct premiums written in this state by all members of the JUA Plan. There were no material assessments by the JUA Plan as of December 31, 2021. Future assessments by the JUA and the JUA Plan are indeterminable at this time.

Leases

The Company is committed under various operating lease agreements for office space. FNHC and its subsidiaries lease certain facilities, furniture and equipment under long-term lease agreements. Rental expense for the years ended December 31, 2021, 2020 and 2019 was \$1.1 million, \$1.1 million and \$1.0 million, respectively.

Future minimum lease payments under these agreements are as follows:

Year Ended December 31,	Aggregate Minimum Lease Payments
	(In thousands)
2022	\$ 1,098
2023	1,131
2024	1,164
2025	1,115
2026	1,140
Thereafter	2,178
Total	<u>\$ 7,826</u>

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

The right-of-use asset is reflected in other assets and the lease liability is reflected in other liabilities on our consolidated balance sheets. Lease expense, net of sublease income is reflected in general and administrative expenses on our consolidated statements of operations.

Additional information related to our operating lease agreement for office space consisted of the following:

	December 31,	
	2021	2020
	(In thousands)	
Right-of-use asset	\$ 6,693	\$ 7,430
Accrued rent	(482)	(259)
Right-of-use asset, net	<u>\$ 6,211</u>	<u>\$ 7,171</u>
Lease liability	\$ 6,693	\$ 7,430
Weighted average discount rate	4.70 %	4.70 %
Weighted average remaining years of lease term	6.7	7.7

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Lease expense	\$ 1,118	\$ 1,118	\$ 1,046
Sublease income	(479)	(466)	(229)
Lease expense, net	<u>\$ 639</u>	<u>\$ 652</u>	<u>\$ 817</u>
Net cash provided by (used in) operating activities	\$ (587)	\$ (555)	\$ (573)

The interest rates implicit in our leases were not known, therefore the weighted-average discount rate above was determined by what FedNat would have had to pay to borrow the lease payments in a similar economic environment that existed at inception of our leases while considering our general credit and the theoretical collateral of the office space. In the event of a change to lease term, the Company would re-evaluate all inputs and assumptions, including the discount rate.

13. SHAREHOLDERS' EQUITY

Common Stock Repurchases

The Company has previously repurchased shares of its common stock in open market transactions complying with Rules 10b-18 and 10b5-1 under the Exchange Act. These repurchases were based on assessments of the Company's capital needs at the time, the market prices of the Company's common stock, and general market conditions. The amount and timing of such repurchases were subject to market conditions, applicable legal requirements and other factors. At the present time, the Company is prohibited from undertaking any share repurchases under the terms of its senior note indenture.

In December 2018, the Company's Board of Directors authorized an additional share repurchase program under which the Company may repurchase up to \$10.0 million of its outstanding shares of common stock through December 31, 2019. During the year ended December 31, 2019, the Company repurchased 237,647 shares of its common stock at a total cost of \$3.9 million, which is an average price per share of \$16.27. The unused portion of this authorization expired on December 31, 2019.

In December 2019, the Company's Board of Directors authorized a new share repurchase program under which the Company may repurchase up to \$10 million of its outstanding shares of common stock from January 1, 2020 through December 31, 2020. In March 2020, the Company's Board of Directors authorized an additional \$10.0 million increase to the share repurchase program. This increased authorization allowed the Company to purchase up to \$20 million of shares outstanding through December 31, 2020.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

During the year ended December 31, 2020, the Company repurchased 800,235 shares of its common stock at a total cost of \$10.0 million, which is an average price per share of \$12.50. The unused portion of this authorization expired on December 31, 2020.

Securities Offerings

In June 2018, the Company filed with the Securities and Exchange Commission (“SEC”) on Form S-3, a shelf registration statement enabling the Company to offer and sell, from time to time, up to an aggregate of \$150.0 million of securities. On March 15, 2021, the Company closed on an underwritten public offering of 3,500,000 shares of its common stock at a price of \$4.75 per share for gross proceeds of \$16.6 million. The offering generated net proceeds to the Company of approximately \$15.1 million, after deducting the underwriter's discount and offering expenses payable by the Company. In April 2021, the Company sold an additional 100,650 shares upon partial exercise of the underwriter's allotment option and received net proceeds of \$0.4 million.

Stock Compensation Plan

In June 2018, the Company filed with the SEC on Form S-8, a registration statement registering 800,000 shares of common stock reserved for issuance under the Company’s 2018 Omnibus Incentive Compensation Plan (the “2018 Plan”). The 2018 Plan, which was approved by the Company’s shareholders at the 2018 annual meeting is an equity compensation plan that may be used for our employees, non-employee directors, consultants and advisors.

Share-Based Compensation Expense

Share-based compensation arrangements include the following:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Restricted stock	\$ 1,079	\$ 1,409	\$ 1,841
Performance stock	85	171	335
Total share-based compensation expense	<u>\$ 1,164</u>	<u>\$ 1,580</u>	<u>\$ 2,176</u>
Recognized tax benefit	\$ —	\$ 634	\$ 534
Intrinsic value of options exercised	2	110	2
Fair value of restricted stock vested	1,700	1,659	1,977

The intrinsic value of options exercised represents the difference between the stock option exercise price and the weighted-average closing stock price of FNHC common stock on the exercise dates, as reported on the NASDAQ Global Market.

The unamortized share-based compensation expense is \$2.5 million as of December 31, 2021, which will be recognized over the remaining weighted average vesting period of approximately 1.73 years.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

Stock Option Awards

A summary of the Company's stock option activity includes the following:

	Number of Shares	Weighted Average Option Exercise Price
Outstanding at January 1, 2019	39,017	\$ 3.80
Granted	—	—
Exercised	(167)	2.45
Cancelled	—	—
Outstanding at December 31, 2019	38,850	3.80
Granted	—	—
Exercised	(13,433)	3.16
Cancelled	—	—
Outstanding at December 31, 2020	25,417	4.01
Granted	—	—
Exercised	(4,085)	2.45
Cancelled	(1,500)	3.10
Outstanding at December 31, 2021	19,832	\$ 4.40

Stock options outstanding and exercisable in a select price range is as follows:

Options Outstanding and Exercisable				
Weighted Average				
Remaining				
Range of Exercise Price	Shares Outstanding and Exercisable	Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$4.40	19,832	0.26	\$4.40	—

Restricted Stock Awards

The Company recognizes share-based compensation expense for all RSAs held by the Company's directors, executives and other key employees. For all RSA awards, excluding grants based on total relative shareholder return ("TSR"), the accounting charge is measured at the grant date as the fair value of FNHC common stock and expensed as non-cash compensation over the vesting term using the straight-line basis for service awards and over successive one-year requisite service periods for performance-based awards. Our expense for our performance awards depends on achievement of specified results; therefore the ultimate expense can range from 0% to 250% of target. Our TSR-based cliff vesting awards contain performance criteria which are tied to the achievement of certain market conditions. The TSR grant date fair value was determined using a Monte Carlo simulation and, unlike the performance condition awards, the expense is not reversed if the performance condition is not met. This value is recognized as expense over the requisite service period using the straight-line recognition method.

During the years ended December 31, 2021 and 2020, the Board of Directors granted 171,576 and 210,272 RSAs, respectively, vesting over three or five years, to the Company's directors, executives and other key employees. The RSA grants include performance-based RSAs, which reflect the number of shares that would vest based on achieving the "Target" level of performance (as opposed to "Threshold" or "Maximum" performance levels). The actual number of performance-based RSAs that will vest depend on the Company's achievement of specified performance criteria in the future.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

RSA activity includes the following:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2019	262,334	\$ 18.78
Granted	140,156	18.03
Vested	(94,755)	20.87
Cancelled	(52,390)	17.66
Outstanding at December 31, 2019	255,345	17.82
Granted	210,272	11.82
Vested	(89,889)	18.46
Cancelled	—	—
Outstanding at December 31, 2020	375,728	14.32
Granted	171,576	4.63
Vested	(124,287)	13.68
Cancelled	(79,334)	13.16
Outstanding at December 31, 2021	343,683	\$ 9.98

The weighted average grant date fair value is measured using the closing price of FNHC common stock on the grant date, as reported on the NASDAQ Global Market.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) associated with debt securities - available-for-sale consisted of the following:

	Year Ended December 31,					
	2021			2020		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
	(In thousands)					
Accumulated other comprehensive income (loss), beginning-of-period	\$ 15,086	\$ (3,700)	\$ 11,386	\$ 13,621	\$ (3,340)	\$ 10,281
Other comprehensive income (loss) due to debt securities - held to maturity reclassified to available-for-sale	—	—	—	(58)	14	(44)
Other comprehensive income (loss) before reclassification	(10,826)	—	(10,826)	19,114	(4,688)	14,426
Reclassification adjustment for realized losses (gains) included in net income	(1,589)	(5)	(1,594)	(17,591)	4,314	(13,277)
	(12,415)	(5)	(12,420)	1,523	(374)	1,149
Accumulated other comprehensive income (loss), end-of-period	\$ 2,671	\$ (3,705)	\$ (1,034)	\$ 15,086	\$ (3,700)	\$ 11,386

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

14. EMPLOYEE BENEFIT PLAN

The Company sponsors a profit sharing plan under Section 401(K) of the Internal Revenue Code, which is a defined contribution plan that allows employees to defer compensation through contributions to the 401(K) Plan. This plan covers substantially all employees who meet specified service requirements and includes a 100% match up to the first 6% of an employee's salary, not to exceed statutory limits. Additionally, the Company may make additional profit-sharing contributions.

For the years ended December 31, 2021, 2020 and 2019, the Company made no additional profit-sharing contribution.

The Company's total contributions to the 401(K) Plan were \$1.3 million, \$1.2 million and \$0.9 million for the years ended December 31, 2021, 2020 and 2019, respectively.

15. RELATED PARTY TRANSACTIONS

Related to an equity method investment in Southeast Catastrophe Consulting Company, LLC, based in Mobile, Alabama, the Company recognized total costs and expenses, primarily in losses and LAE expenses, in the consolidated statements of operations, of \$3.6 million, \$2.2 million, \$0.3 million for the years ended December 31, 2021, 2020 and 2019, respectively.

16. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period, including vested restricted stock awards during the period. Diluted EPS is computed by dividing net income (loss) by the weighted average number of shares outstanding, noted above, adjusted for the dilutive effect of stock options and unvested restricted stock awards. Dilutive securities are common stock equivalents that are freely exercisable into common stock at less than market prices or otherwise dilute earnings if converted. The net effect of common stock equivalents is based on the incremental common stock that would be issued upon the assumed conversion of convertible long-term debt (if not antidilutive, the associated interest expense reflected in net income (loss) available to common shareholders, would be excluded as well), exercise of common stock options and the vesting of RSAs using the treasury stock method. Common stock equivalents are not included in diluted earnings per share when their inclusion is antidilutive.

The following table presents the calculation of basic and diluted EPS:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands, except per share data)		
Net income (loss) attributable to FedNat Holding Company shareholders	\$ (103,100)	\$ (78,158)	\$ 1,011
Weighted average number of common shares outstanding - basic	16,675	13,846	12,977
Net income (loss) per common share - basic	<u>(\$6.18)</u>	<u>(\$5.64)</u>	<u>\$0.08</u>
Weighted average number of common shares outstanding - basic	16,675	13,846	12,977
Dilutive effect of convertible debt	—	—	—
Dilutive effect of stock compensation plans	—	—	46
Weighted average number of common shares outstanding - diluted	<u>16,675</u>	<u>13,846</u>	<u>13,023</u>
Net income (loss) per common share - diluted	<u>\$ (6.18)</u>	<u>\$ (5.64)</u>	<u>\$ 0.08</u>
Dividends per share	<u>\$ —</u>	<u>\$ 0.36</u>	<u>\$ 0.33</u>

For the year ended December 31, 2021, we excluded (in thousands) dilutive shares of 2,460 from our weighted average number of common shares outstanding - diluted above because their inclusion, as well as retaining the associated interest expense of \$0.7 million currently reflected in net income (loss) available to common shareholders for the EPS numerator, would have been antidilutive.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2021

17. STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

The Company's insurance companies are subject to regulations and standards of the Florida Office of Insurance Regulation (the "OIR") and Louisiana Department of Insurance (the "LDI"). These standards require that insurance companies prepare statutory-basis financial statements in accordance with the NAIC Accounting Practices and Procedures Manual. The Company did not use any prescribed or permitted statutory accounting practices that differed from the NAIC's statutory accounting practices as of December 31, 2021.

The Company's insurance companies are required to report their risk-based capital ("RBC") each December 31. Failure to maintain an adequate RBC could subject the Company to regulatory action and could restrict the payment of dividends. As of December 31, 2021, the RBC levels of the Company's insurance companies did not subject them to any regulatory action.

Additionally, Florida Statutes require the Company's Florida domiciled insurance companies to maintain specified levels of statutory capital and restrict the timing and amount of dividends and other distributions that may be paid to the parent company. These standards require dividends to be paid only from statutory unassigned surplus. The maximum dividend that may be paid by the Company's insurance companies to their parent company, without prior regulatory approval is limited to the lesser of statutory net income from operations of the preceding calendar year, not including realized capital gains, plus a 2 year carryforward or 10% of statutory unassigned surplus as of the preceding year end. A dividend may also be taken without prior regulatory approval if (a) the dividend is equal to or less than the greater of (i) 10% of the insurer's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains; or (ii) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year; (b) the insurer will have surplus as to policyholders equal to or exceeding 115 percent of the minimum required statutory surplus as to policyholders after the dividend or distribution is made; and (c) the insurer has filed notice with the OIR at least 10 business days prior to the dividend payment or distribution, or such shorter period of time as approved by the OIR on a case-by-case basis. These dividends are referred to as "ordinary dividends." However, if a dividend, together with other dividends paid within the preceding 12 months, exceeds this statutory limit or is paid from sources other than earned surplus, the entire dividend is generally considered an "extraordinary dividend" and must receive prior regulatory approval before such dividend can be paid.

With respect to the Company's Louisiana domiciled insurer, Louisiana law restricts a domestic insurer from declaring and paying any dividends to its stockholders unless its capital is fully paid in cash and is unimpaired and it has a surplus beyond its capital stock and the initial minimum surplus required and all other liabilities equal to fifteen percent of its capital stock, provided that this restriction shall not apply when an insurer's paid-in capital and surplus exceeds the minimum required by Louisiana law by one hundred percent or more. No extraordinary dividend or other extraordinary distribution to its shareholders may be made until 30 days after the commissioner of insurance has received notice of the declaration thereof and has not within that period disapproved the payment, or has approved the payment within the thirty-day period. An extraordinary dividend or distribution includes any dividend or distribution of cash or other property, whose fair market value together with that of other dividends or distributions made within the preceding twelve months exceeds the lesser of (a) 10% percent of the insurer's surplus as regards policyholders as of the 31st day of December next preceding; or (b) the net income, not including realized capital gains, for the twelve-month period ending the 31st day of December next preceding, but shall not include pro rata distributions of any class of the insurer's own securities. In determining whether a dividend or distribution is extraordinary, an insurer may carry forward net income from the previous two calendar years that has not already been paid out as dividends. This carryforward shall be computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and immediately preceding calendar years. Notwithstanding the foregoing, an insurer may declare an extraordinary dividend or distribution which is conditional upon regulatory approval. and the declaration shall confer no rights upon shareholders until either the payment is approved or has not been disapproved within the 30-day period referred to above. As noted above, authorization to issue dividends from the insurance companies is based on achieving certain financial results and regulatory approvals. Due to the Company's financial results, we have neither applied for regulatory approval nor are we authorized to issue dividends from the insurance carriers at this time.

As of December 31, 2021 and 2020, on a combined statutory basis, the capital and surplus of the Company's insurance companies was \$113.1 million and \$145.2 million, respectively. Combined statutory operational results of the Company's insurance companies was a net loss of \$124.6 million, net loss of \$57.5 million and net loss of \$36.8 million for the years ended December 31, 2021, 2020 and 2019, respectively. Statutory capital and surplus exceeds amounts necessary to satisfy regulatory requirements.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
FedNat Holding Company

Opinion on Internal Control Over Financial Reporting

We have audited FedNat Holding Company and subsidiaries' internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, FedNat Holding Company and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and the financial statement schedules and our report dated April 25, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Charlotte, North Carolina
April 25, 2022

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 that we file or submit under 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 and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2021.

We believe the consolidated financial statements included in this Form 10-K fairly represent in all material respects the financial condition, results of operations and cash flows of the Company for the periods presented.

Management's Report on Internal Control over Financial Reporting

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Our independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report, Ernst & Young LLP, has issued an attestation report on the effectiveness of our internal control over financial reporting which appears in Part II, Item 8, "Financial Statements and Supplementary Data" included in this Annual Report.

Changes in Internal Control over Financial Reporting

To remediate the identified material weakness disclosed in our 2020 Form 10-K, we implemented additional reconciliation procedures and enhanced and strengthened our documentation and review procedures relating to unique, new, changing or unusual transactions. There were no other changes in our internal control over financial reporting that occurred during the year ended December 31, 2021 that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness

Our management and our audit committee do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control gaps and instances of fraud have been detected. These inherent limitations include the realities that judgments and decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated herein by reference to the applicable information in the Proxy Statement for our 2022 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the applicable information in the Proxy Statement for our 2022 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated herein by reference to the applicable information in our Proxy Statement for our 2022 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated herein by reference to the applicable information in the Proxy Statement for the 2022 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference to the applicable information in the Proxy Statement for the 2022 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report.

(1) Financial Statements

The following consolidated financial statements of the Company and the reports of our independent registered public accounting firm thereon are filed with this report:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2021 and 2020

Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019.

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2021, 2020 and 2019.

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2021, 2020 and 2019.

Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019.

Notes to Consolidated Financial Statements for the years ended December 31, 2021, 2020 and 2019.

(2) Financial Statement Schedules.

The following are included herein under Item 8, Financial Statements and Supplementary Data:

Schedule II, Condensed Financial Information of Registrant

Schedule V, Valuation and Qualifying Accounts

Schedule VI, Supplemental Information Concerning Insurance Operations

(3) Exhibits.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
3.1	Second Restated Articles of Incorporation, as amended, of FedNat Holding Company	10-Q	3.1	August 9, 2021	
3.2	Second Amended and Restated Bylaws of FedNat Holding Company	10-Q	3.2	November 7, 2018	
4.1	Description of Registrant's Securities				X
4.2	Form of Senior Indenture	S-3 File No. 333-257983	4.2	July 16, 2021	
4.3	Form of Subordinated Indenture	S-3 File No. 333-257983	4.3	July 16, 2021	
4.4	Indenture dated March 5, 2019 between FedNat Holding Company and The Bank of New York Mellon, as Trustee, Paying Agent, and Registrar	8-K	4.1	March 6, 2019	
4.5	First Supplemental Indenture by and between FedNat Holding Company and The Bank of New York Mellon, as trustee	8-K	4.1	March 5, 2020	
4.6	Second Supplemental Indenture dated April 19, 2021 between FedNat Holding Company and The Bank of New York Mellon, as Trustee	8-K	4.1	April 21, 2021	
4.7	Indenture dated April 19, 2021 between FedNat Holding Company and The Bank of New York Mellon, as Trustee, Paying Agent, and Registrar	8-K	4.2	April 21, 2021	
4.8	Form of Convertible Senior Unsecured Note due 2026 of FedNat Holding Company	8-K	4.3	April 21, 2021	
4.9	Form of Registration Rights Agreement dated April 19, 2021 between FedNat Holding Company and the Purchasers of Convertible Senior Unsecured Notes due 2026	8-K	10.1	April 21, 2021	
4.1	Form of 7.50% Senior Unsecured Note due 2029 of FedNat Holding Company	S-4	4.5	January 16, 2020	
10.1*	Excess Catastrophe Reinsurance Contract effective March 2, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers	10-Q	10.1	May 6, 2021	
10.2*	Excess Catastrophe Reinsurance Contract effective March 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers	10-Q	10.2	May 6, 2021	
10.3*	Excess Catastrophe Reinsurance Contract effective March 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers*	10-Q	10.3	May 6, 2021	
10.4*	Excess Catastrophe Reinsurance Contract effective March 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers	10-Q	10.4	May 6, 2021	
10.5*	Property Aggregate Excess of Loss Reinsurance Contract effective January 1, 2021 by and between Maison Insurance Company and subscribing reinsurers	10-Q	10.5	May 6, 2021	
10.6*	Property Aggregate Excess of Loss Reinsurance Contract effective January 1, 2021 by and between Maison Insurance Company and subscribing reinsurers	10-Q	10.6	May 6, 2021	

10.7*	<u>Property Aggregate Excess of Loss Reinsurance Contract effective January 1, 2021 by and between Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.7	May 6, 2021
10.8*	<u>Property Aggregate Excess of Loss Reinsurance Contract effective January 1, 2021 by and between Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.8	May 6, 2021
10.9*	<u>First-Third Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.1	November 9, 2021
10.10*	<u>Main Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.2	November 9, 2021
10.11*	<u>Main Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.3	November 9, 2021
10.12*	<u>Third-Fourth Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.4	November 9, 2021
10.13*	<u>Cascading Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.5	November 9, 2021
10.14*	<u>Fourth-Fifth Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.6	November 9, 2021
10.15*	<u>Second-Fifth Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.7	November 9, 2021
10.16*	<u>Third and Fifth Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.8	November 9, 2021
10.17*	<u>Main Sixth Layer Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.9	November 9, 2021
10.18*	<u>Fourth-Fifth Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.10	November 9, 2021
10.19*	<u>Second Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.11	November 9, 2021
10.20*	<u>Third Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.12	November 9, 2021

10.21*	<u>Private Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.13	November 9, 2021
10.22*	<u>Main Sixth Layer Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.14	November 9, 2021
10.23*	<u>Private Sixth Layer Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.15	November 9, 2021
10.24*	<u>Main Top Layer Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.16	November 9, 2021
10.25*	<u>Excess Catastrophe Reinsurance Contract effective July 1, 2021, by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.17	November 9, 2021
10.26*	<u>Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.18	November 9, 2021
10.27*	<u>Sixth Layer Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.19	November 9, 2021
10.28*	<u>Sixth Layer Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.20	November 9, 2021
10.29*	<u>First Excess Catastrophe Reinsurance Contract effective June 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.21	November 9, 2021
10.30*	<u>Private Top Layer Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.22	November 9, 2021
10.31*	<u>Top Layer Excess Catastrophe Reinsurance Contract effective July 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.23	November 9, 2021
10.32*	<u>Main Non-Florida Property Catastrophe Excess of Loss Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.24	November 9, 2021
10.33*	<u>First-Third Non-Florida Property Catastrophe Excess of Loss Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.25	November 9, 2021
10.34*	<u>Private Non-Florida Property Catastrophe Excess of Loss Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.26	November 9, 2021

10.35*	<u>Main Non-Florida Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.27	November 9, 2021
10.36*	<u>Main Fourth Layer Non-Florida Property Catastrophe Excess of Loss Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.28	November 9, 2021
10.37*	<u>Main Fourth Layer Non-Florida Property Catastrophe Excess of Loss Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.29	November 9, 2021
10.38*	<u>Main Fourth Layer Non-Florida Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.30	November 9, 2021
10.39*	<u>First Non-Florida Property Catastrophe Excess of Loss Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.31	November 9, 2021
10.40*	<u>Non-Florida Property Catastrophe Excess of Loss Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.32	November 9, 2021
10.41*	<u>Non-Florida Reinstatement Premium Protection Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.33	November 9, 2021
10.42*	<u>Non-Florida Second Event Property Catastrophe Excess of Loss Reinsurance Contract effective July 1, 2021 by and between FedNat Insurance Company and subscribing reinsurers</u>	10-Q	10.34	November 9, 2021
10.43*	<u>Net Quota Share Reinsurance Agreement effective July 1, 2021 by and between FedNat Insurance Company and Swiss Reinsurance America Corporation</u>	10-Q	10.35	November 9, 2021
10.44*	<u>Excess Catastrophe Reinsurance One-Month Extension Contract effective June 1, 2021 by and among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers</u>	10-Q	10.36	November 9, 2021
10.45*	<u>Commutation Agreement dated April 22, 2021 between FedNat Holding Company and SageSure Anchor Re, Inc.</u>	10-Q	10.2	August 9, 2021
10.46*	<u>Administrator Agreement, effective July 1, 2013, between Federated National Insurance Company and SageSure Insurance Managers LLC, as amended</u>	10-K	10.9	March 6, 2020
10.46.A*	<u>Sixth Amendment, entered into November 4, 2020, to Administrator Agreement, effective July 1, 2013, between Federated National Insurance Company and SageSure Insurance Managers LLC, as amended</u>	10-K	10.34.A	March 29, 2021
10.47	<u>Administrative Services Agreement dated November 1, 2015 between FedNat Underwriters Inc. and SageSure Insurance Managers LLC</u>	10-K	10.10	March 6, 2020
10.48.A	<u>Insurance Agency Master Agreement dated February 4, 2013 between Ivantage Select Agency, Inc. and Federated National Underwriters, Inc.</u>	10-Q	10.5	November 6, 2013
10.48.B	<u>First Amendment to Insurance Agency Master Agreement dated February 12, 2013 between Ivantage Select Agency, Inc. and Federated National Underwriters, Inc.</u>	10-Q	10.6	November 6, 2013
10.48.C	<u>Second Amendment to Insurance Agency Master Agreement dated February 12, 2013 between Ivantage Select Agency, Inc. and Federated National Underwriters, Inc.</u>	10-Q	10.6	May 11, 2015
10.48.D*	<u>Third Amendment to Insurance Agency Master Agreement dated August 10, 2018 between Ivantage Select Agency, Inc. and FedNat Underwriters, Inc.</u>	10-K	10.14	March 6, 2020

10.49+	Confidential Information, Non-Solicitation and Non-Competition Agreement dated as of April 17, 2017 between the Company and Ronald Jordan	10-Q	10.3	May 10, 2017	
10.50+	2018 Omnibus Incentive Compensation Plan	DEF 14A	Annex B	April 13, 2018	
10.51+	Form of Restricted Stock Grant Summary of the Company (Time-Based Vesting)	8-K	99.2	January 14, 2019	
10.52+	Form of Restricted Stock Grant Summary Agreement of the Company (Performance-Based Vesting)	8-K	99.3	January 14, 2019	
10.53+	Form of Indemnification Agreement between the Company and its directors and executive officers	10-K	10.14	March 17, 2008	
10.54+	Form of Amended and Restated Non-Competition, Non-Disclosure and Non-Solicitation Agreement between the Company and certain employees of the Company	8-K	10.1	August 7, 2013	
10.55+	Second Amended and Restated Employment Agreement dated January 18, 2012 between the Company and Michael H. Braun	8-K	10.1	January 20, 2012	
10.56+	Amendment to Employment Agreement and Restrictive Covenant Agreement effective as of March 17, 2015 between Monarch Delaware Holdings LLC and Michael H. Braun	10-Q	10.3	May 11, 2015	
10.57+	Non-Competition, Non-Disclosure and Non-Solicitation Agreement effective as of March 17, 2015 between Monarch Delaware Holdings LLC and Michael H. Braun	10-Q	10.4	May 11, 2015	
10.58.A+	Employment Agreement dated January 8, 2019 between the Company and Ronald A. Jordan	8-K	99.1	January 14, 2019	
10.58.B+	First Amendment dated November 4, 2020 to Employment Agreement dated January 8, 2019 between the Company and Ronald A. Jordan	10-K	10.47.B	March 29, 2021	
10.59	Standstill Agreement dated December 2, 2019 between FedNat Holding Company and 1347 Property Insurance Holdings, Inc.	8-K	10.2	December 2, 2019	
10.60	Reinsurance Capacity Right of First Refusal Agreement dated December 2, 2019 between FedNat Holding Company and 1347 Property Insurance Holdings, Inc.	8-K	10.3	December 2, 2019	
10.61	Investment Advisory Agreement dated December 2, 2019 between Fundamental Global Advisors LLC and FedNat Holding Company	8-K	10.4	December 2, 2019	
10.62	Consent Order dated August 7, 2019 among the Florida Office of Insurance Regulation, FedNat Holding Company, 1347 Property Insurance Holdings, Inc., and Maison Insurance Company.	8-K	10.1	August 13, 2019	
10.63	Consent Agreement dated August 9, 2019 among the Louisiana Department of Insurance, FedNat Holding Company and Maison Insurance Company.	8-K	10.2	August 13, 2019	
10.64	Consent Order dated April 21, 2022 among FedNat Insurance Company, Maison Insurance Company, Monarch National Insurance Company and the Florida Office of Insurance Regulation				X
21.1	Subsidiaries of the Company				X
23.1	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act				X
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act				X
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act				X
101.INS**	Inline XBRL Instance Document.				X
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.				X

101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	X
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document.	X
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	X
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	X

+ Indicates a Management Compensation Plan or Arrangement

* Portions of this exhibit have been omitted from this exhibit in accordance with and as permitted by Item 601(b)(10)(iv) of Regulation S-K.

** In accordance with Rule 406T of Regulation S-T, these interactive data files are deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Index to Financial Statement Schedules

PAGE

Schedule II Condensed Financial Information of Registrant	118
Schedule V Valuation and Qualifying Accounts	122
Schedule VI Supplemental Information Concerning Insurance Operations	123

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K report to be signed on its behalf by the undersigned, thereto duly authorized.

FEDNAT HOLDING COMPANY

By: /s/ Michael H. Braun
Michael H. Braun, Chief Executive Officer
(Principal Executive Officer)

Date: April 25, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Michael H. Braun</u> Michael H. Braun	Chief Executive Officer, President and Director (Principal Executive Officer)	April 25, 2022
<u>/s/ Ronald A. Jordan</u> Ronald A. Jordan	Chief Financial Officer (Principal Financial Officer)	April 25, 2022
<u>/s/ Erick A. Fernandez</u> Erick A. Fernandez	Chief Accounting Officer (Principal Accounting Officer)	April 25, 2022
<u>/s/ Bruce F. Simberg</u> Bruce F. Simberg	Chairman of the Board and Director	April 25, 2022
<u>/s/ Jenifer G. Kimbrough</u> Jenifer G. Kimbrough	Director	April 25, 2022
<u>/s/ Thomas A. Rogers</u> Thomas A. Rogers	Director	April 25, 2022
<u>/s/ Roberta N. Young</u> Roberta N. Young	Director	April 25, 2022
<u>/s/ David W. Michelson</u> David W. Michelson	Director	April 25, 2022
<u>/s/ David K. Patterson</u> David K. Patterson	Director	April 25, 2022

Schedule II – Condensed Financial Information of Registrant
Condensed Balance Sheets
FEDNAT HOLDING COMPANY (Parent Company Only)
December 31, 2021 and 2020

	December 31,	
	2021	2020
	(In thousands)	
ASSETS		
Investments in subsidiaries (1)	\$ 237,872	\$ 225,568
Investment securities, available-for-sale, at fair value	151	20,646
Equity securities, at fair value	2,049	1,881
Cash and cash equivalents	4,632	18,170
Deferred income taxes, net	—	868
Income taxes receivable	5,142	7,969
Note receivable and accrued interest to subsidiary (1)	—	19,517
Right-of-use assets	6,441	7,108
Other assets	1,719	1,991
Total assets	<u>\$ 258,006</u>	<u>\$ 303,718</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Due to subsidiaries, net (1)	\$ 68,349	\$ 31,686
Long-term debt	118,805	98,683
Lease liabilities	6,441	7,108
Other liabilities	5,025	8,081
Total liabilities	<u>198,620</u>	<u>145,558</u>
Shareholders' Equity		
Preferred stock	—	—
Common stock	174	137
Additional paid-in capital	186,007	169,298
Accumulated other comprehensive income (loss)	(1,034)	11,386
Retained earnings (deficit)	(125,761)	(22,661)
Total shareholders' equity	<u>59,386</u>	<u>158,160</u>
Total liabilities and shareholders' equity	<u>\$ 258,006</u>	<u>\$ 303,718</u>

(1) Eliminated in consolidation.

The accompanying note is an integral part of the condensed financial statements.

Schedule II – Condensed Financial Information of Registrant (Continued)

Condensed Statements of Earnings

FEDNAT HOLDING COMPANY (Parent Company Only)

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Revenues:			
Management fees (1)	\$ 2,667	\$ 2,660	\$ 2,160
Interest from subsidiaries (1)	1,515	1,410	107
Net investment income	378	477	1,757
Net realized and unrealized investment gains (losses)	506	972	448
Equity in income (loss) of consolidated subsidiaries	(81,924)	(94,363)	20,909
Total revenue	(76,858)	(88,844)	25,381
Costs and expenses:			
General and administrative expenses	17,168	15,149	13,892
Interest expense	8,758	7,661	10,776
Total costs and expenses	25,926	22,810	24,668
Income (loss) before income taxes	(102,784)	(111,654)	713
Income tax expense (benefit)	316	(33,496)	(298)
Net income (loss)	<u>\$ (103,100)</u>	<u>\$ (78,158)</u>	<u>\$ 1,011</u>

(1) Eliminated in consolidation.

The accompanying note is an integral part of the condensed financial statements.

Schedule II – Condensed Financial Information of Registrant (Continued)
Condensed Statements of Cash Flows

FEDNAT HOLDING COMPANY (Parent Company Only)

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Cash flow from operating activities:			
Net income (loss)	\$ (103,100)	\$ (78,158)	\$ 1,011
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Net realized and unrealized investment (gains) losses	(506)	(972)	(448)
Equity in undistributed income (loss) of consolidated subsidiaries (1)	81,924	94,363	(20,909)
Amortization of investment premium or discount, depreciation and amortization	555	430	369
Loss (gain) on early extinguishment of debt	—	—	3,575
Share-based compensation	581	790	1,050
Changes in operating assets and liabilities:			
Note receivable and accrued interest to subsidiary (1)	(1,515)	(1,410)	(107)
Income taxes, net	3,730	6,900	(5,379)
Due to subsidiaries, net (1)	40,254	(21,891)	3,044
Other, net	755	4,974	1,105
Net cash provided by (used in) operating activities	22,678	5,026	(16,689)
Cash flow from investing activities:			
Capital contributions to consolidated subsidiaries (1)	(65,271)	(11,000)	—
Sales, maturities and redemptions of investments securities	8,458	31,300	11,276
Purchases of investment securities	(14,768)	(25,089)	(15,617)
Payment for acquisition	—	—	(25,566)
Issuance of note receivable to subsidiary (1)	—	—	(18,000)
Purchases of property and equipment	(35)	(21)	(289)
Net cash provided by (used in) investing activities	(71,616)	(4,810)	(48,196)
Cash flow from financing activities:			
Proceeds from issuance of long-term debt, net of issuance costs	19,818	—	98,390
Payment of long-term debt and prepayment penalties	—	—	(48,000)
Issuance of common stock	15,571	—	—
Issuance of common stock for share-based awards	11	42	1
Purchases of FedNat Holding Company common stock	—	(10,418)	(3,449)
Dividends from consolidated subsidiaries	—	12,376	39,174
Dividends paid	—	(5,077)	(4,309)
Net cash provided by (used in) financing activities	35,400	(3,077)	81,807
Net increase (decrease) in cash and cash equivalents	(13,538)	(2,861)	16,922
Cash and cash equivalents at beginning of period	18,170	21,031	4,109
Cash and cash equivalents at end of period	\$ 4,632	\$ 18,170	\$ 21,031

(1) Eliminated in consolidation.

The accompanying note is an integral part of the condensed financial statements.

Schedule II – Condensed Financial Information of Registrant (Continued)

Note to Condensed Financial Statements

FEDNAT HOLDING COMPANY (Parent Company Only)

(1) ORGANIZATION AND BASIS OF PRESENTATION

FedNat Holding Company (“FNHC”), the Parent Company, is an insurance holding company that controls substantially all steps in the insurance underwriting, distribution and claims processes through our subsidiaries and our contractual relationships with our independent agents and general agents.

The accompanying condensed financial statements include the activity of the Parent Company and on an equity basis, its consolidated subsidiaries. Accordingly, these condensed financial statements have been presented for the parent company only. These condensed financial statements should be read in conjunction with the consolidated financial statements and related notes of FNHC and subsidiaries set forth in Part II, Item 8 Financial Statements and Supplemental Data of this Annual Report.

In applying the equity method to our consolidated subsidiaries, we record the investment at cost and subsequently adjust for additional capital contributions, distributions and proportionate share of earnings or losses.

Schedule V – Valuation and Qualifying Accounts
FEDNAT HOLDING COMPANY AND SUBSIDIARIES

Year	Description	Balance at January 1,	Charged to Costs and Expenses	Deductions	Balance at December 31,
(in thousands)					
2021	Allowance for uncollectible reinsurance recoverable	\$ 65	\$ 184	\$ —	\$ 249
	Allowance for uncollectible premiums receivable	\$ 233		\$ (108)	\$ 125
2020	Allowance for uncollectible reinsurance recoverable	\$ —	\$ 65	\$ —	\$ 65
	Allowance for uncollectible premiums receivable	\$ 159	\$ 74	\$ —	\$ 233
2019	Allowance for uncollectible reinsurance recoverable	\$ —	\$ —	\$ —	\$ —
	Allowance for uncollectible premiums receivable	\$ 77	\$ 82	\$ —	\$ 159

Schedule VI – Supplemental Information Concerning Insurance Operations
FEDNAT HOLDING COMPANY AND SUBSIDIARIES

Year	Line of Business	December 31,			Year Ended December 31,						
		Loss and			Claim and Claim						
		Loss			Adjustment Expenses						
		Deferred	Adjustment	Unearned	Earned	Net	Incurred Related to		Amortization	Paid Claims	Net
		Acquisition	Expense	Premiums	Premiums	Investment	Current	Prior	of Deferred	and Claim	Premiums
		Cost	Reserves	Premiums	Premiums	Income	Year	Year	Acquisition	Adjustment	Written
									Costs	Expenses	
(In thousands)											
2021	Property and Casualty Insurance	\$ 18,829	\$ 738,794	\$ 342,747	\$ 183,303	\$ 6,770	\$ 226,523	\$ 6,237	\$ 124,374	\$ 230,312	\$ 183,707
2020	Property and Casualty Insurance	\$ 25,405	\$ 540,367	\$ 366,789	\$ 364,134	\$ 11,786	\$ 358,898	\$ 17,551	\$ 121,524	\$ 354,143	\$ 236,623
2019	Property and Casualty Insurance	\$ 56,136	\$ 324,362	\$ 360,870	\$ 363,652	\$ 15,901	\$ 262,109	\$ 10,971	\$ 96,885	\$ 254,806	\$ 377,879