UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2022

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	**65-0248866**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
14050 N.W. 14th Street, Suite 180, Sunrise, FL	**33323**
(Address of principal executive offices)	(Zip Code)

800-293-2532

(Registrant's telephone number, including area code)

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	FNHC	Nasdaq Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 growth company" in Rule 12b-2 of the Exchange Act.:

Large Accelerated Filer ☐	Accelerated Filer ☑	Non-accelerated Filer ☐	Smaller reporting company ☑
			Emerging growth company ☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of May 2, 2022, the registrant had 17,519,237 shares of common stock outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

FEDNAT HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)
(Unaudited)

	March 31, 2022	December 31, 2021
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (amortized cost of $269,100 and $324,861, respectively)	$ 270,217	$ 327,532
Equity securities, at fair value	5,348	5,905
Total investments	275,565	333,437
Cash and cash equivalents	87,358	83,526
Prepaid reinsurance premiums	162,463	242,537
Premiums receivable, net of allowance of $133 and $125, respectively	33,089	41,174
Reinsurance recoverable, net of allowance of $109 and $249, respectively	581,921	613,203
Deferred acquisition costs, net	16,438	18,829
Current and deferred income taxes, net	13,446	30,014
Other assets	31,681	49,950
Total assets	$ 1,201,961	$ 1,412,670
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Loss and loss adjustment expense reserves	$ 661,595	$ 738,794
Unearned premiums	316,312	342,747
Reinsurance payable and funds withheld liabilities	46,535	102,748
Long-term debt, net of deferred financing costs of $2,094 and $2,195, respectively	118,906	118,805
Deferred revenue	4,162	5,240
Other liabilities	40,312	44,950
Total liabilities	1,187,822	1,353,284
Commitments and contingencies (see Note 10)		
Shareholders' Equity		
Preferred stock, $0.01 par value: 1,000,000 shares authorized	—	—
Common stock, $0.01 par value: 50,000,000 shares authorized; 17,519,237 and 17,446,930 issued and outstanding, respectively	175	174
Additional paid-in capital	186,202	186,007
Accumulated other comprehensive income (loss)	(2,563)	(1,034)
Retained earnings (deficit)	(169,675)	(125,761)
Total shareholders' equity	14,139	59,386
Total liabilities and shareholders' equity	$ 1,201,961	$ 1,412,670

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

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Revenues:		
Net premiums earned	$ 45,985	$ 39,745
Net investment income	1,264	1,674
Net realized and unrealized gains (losses)	(15,053)	92
Direct written policy fees	2,613	3,315
Other income	7,426	7,922
Total revenues	42,235	52,748
Costs and expenses:		
Losses and loss adjustment expenses	58,783	48,016
Commissions and other underwriting expenses	19,107	21,031
General and administrative expenses	6,997	6,066
Interest expense	2,300	1,926
Total costs and expenses	87,187	77,039
Income (loss) before income taxes	(44,952)	(24,291)
Income tax expense (benefit)	(1,038)	(4,910)
Net income (loss)	$ (43,914)	$ (19,381)
Net Income (Loss) Per Common Share		
Basic	$ (2.51)	$ (1.35)
Diluted	(2.51)	(1.35)
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	17,462	14,395
Diluted	17,462	14,395
Dividends Declared Per Common Share	$ —	$ —

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

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

	Three Months Ended March 31,	
	2022	2021
Net income (loss)	$ (43,914)	$ (19,381)
Change in net unrealized gains (losses) on investments, available-for-sale, net of tax	(1,529)	(7,200)
Comprehensive income (loss)	$ (45,443)	$ (26,581)

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

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

	Preferred Stock	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance as of January 1, 2022	$ —	17,446,930	$ 174	$ 186,007	$ (1,034)	$ (125,761)	$ 59,386
Net income (loss)	—	—	—	—	—	(43,914)	(43,914)
Other comprehensive income (loss)	—	—	—	—	(1,529)	—	(1,529)
Shares issued under share-based compensation plans	—	72,307	1	(1)	—	—	—
Share-based compensation	—	—	—	196	—	—	196
Balance as of March 31, 2022	$ —	17,519,237	$ 175	$ 186,202	$ (2,563)	$ (169,675)	$ 14,139

	Preferred Stock	Common Stock Issued Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance as of January 1, 2021	$ —	13,717,908	$ 137	$ 169,298	$ 11,386	$ (22,661)	$ 158,160
Net income (loss)	—	—	—	—	—	(19,381)	(19,381)
Other comprehensive income (loss)	—	—	—	—	(7,200)	—	(7,200)
Issuance of common stock	—	3,500,000	35	15,087	—	—	15,122
Shares issued under share-based compensation plans	—	95,553	1	—	—	—	1
Share-based compensation	—	—	—	407	—	—	407
Balance as of March 31, 2021	$ —	17,313,461	$ 173	$ 184,792	$ 4,186	$ (42,042)	$ 147,109

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

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cash flow from operating activities:		
Net income (loss)	$ (43,914)	$ (19,381)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net realized and unrealized (gains) losses	15,053	(92)
Amortization of investment premium or discount, net	510	1,256
Depreciation and amortization	413	460
Share-based compensation	196	407
Changes in operating assets and liabilities:		
Prepaid reinsurance premiums	80,074	61,204
Premiums receivable, net	8,085	10,041
Reinsurance recoverable, net	31,282	(51,038)
Deferred acquisition costs, net	2,391	1,429
Current and deferred income taxes, net	16,592	(1,291)
Deferred revenue	(1,078)	(278)
Loss and loss adjustment expense reserves	(77,199)	(53,654)
Unearned premiums	(26,435)	(4,794)
Reinsurance payable and funds withheld liabilities	(56,213)	(50,561)
Other	13,219	(3,853)
Net cash provided by (used in) operating activities	(37,024)	(110,145)
Cash flow from investing activities:		
Proceeds from sales of debt securities	56,161	87,007
Purchases of debt securities	(27,385)	(56,148)
Maturities and redemptions of debt securities	12,130	31,383
Purchases of property and equipment	(50)	(174)
Net cash provided by (used in) investing activities	40,856	62,068
Cash flow from financing activities:		
Issuance of common stock	—	15,403
Issuance of common stock for share-based awards	—	1
Net cash provided by (used in) financing activities	—	15,404
Net increase (decrease) in cash and cash equivalents	3,832	(32,673)
Cash and cash equivalents at beginning-of-period	83,526	102,367
Cash and cash equivalents at end-of-period	$ 87,358	$ 69,694

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

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

	Three Months Ended March 31,	
	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for interest	$ 3,875	$ 3,750
Cash paid (received) during the period for income taxes	(17,782)	(3,618)
Significant non-cash investing and financing transactions:		
Right-of-use asset	(6,497)	(7,250)
Lease liability	6,497	7,250

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

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 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, 17.4% and 19.6% were from Allstate's network of Florida agents, for the three months ended March 31, 2022 and 2021, respectively.

SageSure Insurance Managers, LLC
The Company is a party to a managing general underwriting agreement with SageSure Insurance Managers, LLC ("SageSure") to facilitate our FNIC homeowners business outside of Florida. As a percentage of the total homeowners premiums, 11.7% and 24.5% of the Company's premiums were underwritten by SageSure, for the three months ended March 31, 2022 and 2021, 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 5 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 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

Our significant accounting policies were described in Note 2 of our 2021 Form 10-K. There have been no significant changes in our significant accounting policies for the three months ended March 31, 2022.

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. In addition, in May 2022, Egan Jones' rating on the Company's outstanding senior notes expired such that our notes are not currently rated. The lack of a rating, if not remediated within 30 days from receipt of notice as provided in the note indentures, has the potential to result in an Event of Default under the note indentures. Such conditions raise substantial doubt regarding the Company's ability to continue as a going concern. After exploring strategic alternatives in an effort to increase its capital resources to support its insurance carriers and preserve value for the Company's stakeholders, the Company developed an action plan, which has been submitted to the Office of Insurance Regulation of the state of Florida ("OIR"). A portion of the action plan has been approved by the OIR, and consists of the mid-term cancellation, effective June 29, 2022, of approximately 68,200 Florida policies currently in force on FNIC, MNIC and MIC, as requested by the Company. Furthermore, the Company has ceased writing new business from May 16, 2022 through June 30, 2022. Additional portions of the plan continue to be subject to approval by the OIR and regulatory authorities in other states, including mid-term cancellations in non-Florida states, as well as reinsurance and capital raising 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. However, due to the need to refund approximately $126.0 million of unearned premiums to policyholders impacted by the mid-term cancellations, the Company will need to liquidate a substantial portion of its portfolio of fixed income securities. Because management can no longer assert that it has the intent and ability to hold such securities to a forecasted recovery of their fair value, the Company recognized an impairment loss of $12.6 million. Total shareholders' equity was not impacted by such charge; however, the Company's net loss for three months ended March 31, 2022 worsened and other comprehensive income improved by $12.6 million in offsetting amounts. Aside from the impacts previously discussed, the Company has not yet completed an analysis to determine the impact of the action plan on the financial statements including assessing the recoverability of deferred acquisition costs, as a result of the aforementioned refund of unearned premiums to policyholders.

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.

Recently Issued Accounting Pronouncements, Adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 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 Company adopted the guidance effective January 1, 2022, which did not have any impact on the Company's consolidated financial condition, results of operations, or disclosures.

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. The Company adopted the guidance effective January 1, 2022, which did not have any impact on the Company's consolidated financial condition or results of operations.

3. 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:

	March 31, 2022			
	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	$ 41,304	$ —	$ 82,429
Obligations of states and political subdivisions	(1)	15,579	—	15,578
Corporate securities	—	149,608	—	149,608
International securities	—	22,602	—	22,602
Debt securities, at fair value	41,124	229,093	—	270,217
Equity securities, at fair value	1,652	3,696	—	5,348
Total investments, at fair value	$ 42,776	$ 232,789	$ —	$ 275,565
Other assets - embedded derivative, at fair value	$ —	$ —	$ 10,448	$ 10,448

	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

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.

As of March 31, 2022, we have an embedded derivative, associated with a reinsurance limit for our 2020-2021 excess of loss catastrophe reinsurance program, carried at $10.4 million included in other assets on our consolidated balance sheets. There is no contractual maturity date and 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.

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 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 March 31, 2022 and December 31, 2021. Additionally, we did not have any assets or liabilities measured at fair value on a nonrecurring basis as of March 31, 2022 or December 31, 2021, 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 8. 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 March 31, 2022 and December 31, 2021. There were no transfers between the fair value hierarchy levels during the three months ended March 31, 2022 and 2021.

4. 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)			
March 31, 2022				
Debt securities - available-for-sale:				
United States government obligations and authorities	$ 82,328	$ 101	$ —	$ 82,429
Obligations of states and political subdivisions	15,547	31	—	15,578
Corporate	148,648	960	—	149,608
International	22,577	25	—	22,602
	$ 269,100	$ 1,117	$ —	$ 270,217

	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
	$ 324,861	$ 5,641	$ 2,970	$ 327,532

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:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	(In thousands)	
Gross realized and unrealized gains:		
Debt securities	$ 185	$ 864
Equity securities	—	1
Total gross realized and unrealized gains	185	865
Gross realized and unrealized losses:		
Debt securities	(14,681)	(720)
Equity securities	(557)	(53)
Total gross realized and unrealized losses	(15,238)	(773)
Net realized and unrealized gains (losses) on investments	$ (15,053)	$ 92

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	(In thousands)	
Net gains (losses) on equity securities:		
Realized	$ —	$ —
Unrealized	(557)	(52)
	(557)	(52)
Less:		
Net realized and unrealized gains (losses) on securities sold	—	—
Net unrealized gains (losses) still held as of the end-of-period	$ (557)	$ (52)

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:

	March 31, 2022	
Securities with Maturity Dates	**Amortized Cost**	**Fair Value**
	(In thousands)	
Debt securities, available-for-sale:		
One year or less	$ 21,657	$ 21,720
Over one through five years	63,760	63,966
Over five through ten years	104,947	105,536
Over ten years	78,737	78,995
Total	$ 269,100	$ 270,217

Net Investment Income

Net investment income consisted of the following:

	Three Months Ended March 31,	
	2022	2021
	(In thousands)	
Interest income	$ 1,214	$ 1,650
Dividends income	50	24
Net investment income	$ 1,264	$ 1,674

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
	$ 155,128	$ 2,912	$ 1,741	$ 58	$ 156,869	$ 2,970

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. The unrealized losses associated with these securities consisted primarily of losses related to corporate securities. Refer to Note 6 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 $11.4 million and $9.3 million, were deposited with governmental authorities and into custodial bank accounts as required by law or contractual obligations, as of March 31, 2022 and December 31, 2021, respectively.

5. 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 $305.9 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 March 31, 2022, 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. Refer to "Part I, Item 1A., Risk Factors" of our 2021 Form 10-K for more information.

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 $47.6 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 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 current 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 $274.1 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 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 March 31, 2022 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. Refer to "Part I, Item 1A., Risk Factors" of our 2021 Form 10-K for more information.

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 current and 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, 66% of the reinstatement premium protection ($12 million) for the layer that attaches above $30 million of the FNIC SageSure Tower provides protection on an "all perils" basis whereas the remaining 34% ($6 million) provides protection following only a hurricane.

As indicated above, the carriers' combined 2021-2022 Program is estimated to cost $274.1 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 $36.2 million, within the Primary Tower, payable to the FHCF. All carriers maintained their 90% FHCF participation for the 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*".

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.

The carriers' cost and amounts of reinsurance are based on current analysis of exposure to catastrophic risk. The data was 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, 2020, FNIC renewed its quota-share treaty with Swiss Re, 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 increased 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.

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 March 31, 2022 and December 31, 2021.

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:

	March 31, 2022	December 31, 2021
	(In thousands)	
Reinsurance recoverable on paid losses	$ 100,499	$ 59,096
Reinsurance recoverable on unpaid losses	481,531	554,356
Allowance for credit loss	(109)	(249)
Reinsurance recoverable, net	$ 581,921	$ 613,203

As of March 31, 2022, and December 31, 2021, the Company had reinsurance recoverable of $480.0 million (as a result of Hurricanes Ida, Laura, Irma, Sally as well as April 2021 Storms) and $504.8 million (as a result of Hurricanes Ida, Irma, Laura, April 2021 Storms and Hurricane Sally), respectively. 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 6 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:

	Three Months Ended March 31,	
	2022	2021
	(In thousands)	
Net Premiums Written		
Direct	$ 137,892	$ 174,207
Ceded	(38,269)	(78,149)
	$ 99,623	$ 96,058
Net Premiums Earned		
Direct	$ 164,328	$ 179,002
Ceded	(118,343)	(139,257)
	$ 45,985	$ 39,745

6. 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:

	Premiums Receivable	Reinsurance Recoverable, Net	Total
		(In thousands)	
Balance as of December 31, 2021	$ 125	$ 249	$ 374
Credit loss expense (recovery) (1)	8	(140)	(132)
Balance as of March 31, 2022	$ 133	$ 109	$ 242

(1) 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.

We believe if these governments were to technically default it is reasonable to assume an expectation of immaterial losses. Refer to Note 4 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 March 31, 2022 and December 31, 2021. 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:

		Days Past Due				
	Current	1-29	30-59	60-89	90 plus	Total
March 31, 2022	(In thousands)					
Amortized cost	$ 31,001	$ 1,914	$ 168	$ 63	$ 76	$ 33,222
Allowance for credit loss	—	(21)	(15)	(21)	(76)	(133)
Net	$ 31,001	$ 1,893	$ 153	$ 42	$ —	$ 33,089

		Days Past Due				
	Current	1-29	30-59	60-89	90 plus	Total
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

Reinsurance Recoverable

Refer to Note 5 above for details of our efforts to minimize our exposure to losses from a reinsurer's inability to pay.

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%.

7. 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 incurred but not reported ("IBNR").

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

	Three Months Ended March 31,	
	2022	**2021**
	(In thousands)	
Gross reserves, beginning-of-period	$ 738,794	$ 540,367
Less: reinsurance recoverable (1)	(554,107)	(358,128)
Net reserves, beginning-of-period	184,687	182,239
Incurred loss, net of reinsurance, related to:		
Current year	55,312	47,493
Prior year loss development (redundancy) (2)	3,472	624
Ceded losses subject to offsetting experience account adjustments (3)	—	(96)
Prior years	3,472	528
Amortization of acquisition fair value adjustment	(1)	(5)
Total incurred loss and LAE, net of reinsurance	58,783	48,016
Paid loss, net of reinsurance, related to:		
Current year	4,407	24,669
Prior years	58,890	46,813
Total paid loss and LAE, net of reinsurance	63,297	71,482
Net reserves, end-of-period	180,173	158,773
Plus: reinsurance recoverable (1)	481,422	327,940
Gross reserves, end-of-period	$ 661,595	$ 486,713

(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.

During the three months ended March 31, 2022, the Company experienced $3.5 million of net unfavorable loss and LAE reserve development from its homeowners line of business primarily driven by increased losses from Hurricane Laura.

During the three months ended March 31, 2021, the Company experienced $0.6 million of unfavorable loss and LAE reserve development on prior accident years, primarily in its non-Florida homeowners line of business as a result of higher than expected development from accident year 2020.

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.

8. LONG-TERM DEBT

In May 2022, Egan Jones' rating on the Company's outstanding senior notes expired such that our notes are not currently rated. The lack of a rating, if not remediated within 30 days from receipt of notice as provided in the note indentures, has the potential to result in an Event of Default under the note indentures. The Company intends to use its best efforts to secure such a rating as soon as reasonably practicable. If the Company fails to secure such a rating, such condition, represents a potential default under our debt indentures that could result in acceleration of repayment of our debt. If the Company fails to secure such a rating, is placed into receivership or fails to obtain excess-of-loss reinsurance, such conditions, if not timely cured, could result in acceleration of repayment of our debt. The Company does not have adequate liquidity to repay this debt without replacement borrowings, which may not be available.

The fair values of the Convertible Senior Unsecured Notes due 2026 were $22.5 million and $22.1 million as of March 31, 2022 and December 31, 2021, respectively. The fair values of the Senior Unsecured Fixed Rate Notes due 2029 were $102.8 million and $106.5 million as of March 31, 2022 and December 31, 2021, respectively. Refer to Note 3 for additional information.

Refer to Note 10 of our 2021 Form 10-K for additional information regarding our long-term debt.

9. INCOME TAXES

Our effective income tax rate is the ratio of income tax expense (benefit) over our income (loss) before income taxes. The effective income tax rate was 2.3% and 20.2% for the three months ended March 31, 2022 and 2021, respectively. Differences in the effective tax and the statutory Federal income tax rate of 21% 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 net operating loss ("NOL") provision and change in the valuation allowance in the current year.

The application of GAAP requires us to evaluate the recoverability of our net deferred income tax assets, including those associated with 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, and determined that it was more likely than not that the net deferred income tax asset would not be realized. Therefore, as of March 31, 2022 and December 31, 2021, we have established a full valuation allowance and no deferred income tax were reflected in net income (loss) for the three months ended March 31, 2022. For additional information, refer to Note 11 of our 2021 Form 10-K.

The Company had an uncertain tax position of $0.2 million and $0.2 million as of March 31, 2022 and December 31, 2021, respectively. The Company has a valuation allowance of $26.0 million and $30.5 million on its deferred income tax asset as of March 31, 2022 and December 31, 2021, 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). For the three months ended March 31, 2022 and 2021, the Company recognized no benefit related to an uncertain tax position and our associated accrued interest and penalties was less than $0.1 million.

10. 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 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. In April 2022, the Company received a written demand for arbitration from one of the reinsurers ("the reinsurer") included in the Company's excess-of-loss reinsurance program. The reinsurer asserts that the Company has misapplied certain provisions of the treaty for purposes of determining catastrophe weather losses in excess of the Company's single-event retention. The Company strongly believes its ceded losses have been determined in accordance with the provisions of the treaties; however, the ultimate resolution of this matter could result in the Company retaining up to $14.5 million of additional net catastrophe losses related to the reinsurer in question. Because the Company does not deem any loss as probable or estimable, no amount has been accrued related to the matter as of the date of this filing.

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.

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:

	As of	
	March 31, 2022	December 31, 2021
	(In thousands)	
Right-of-use asset	$ 6,497	$ 6,693
Accrued rent	(488)	(482)
Right-of-use asset, net	$ 6,009	$ 6,211
Lease liability	$ 6,497	$ 6,693
Weighted average discount rate	4.70 %	4.70 %
Weighted average remaining years of lease term	6.5	6.7

	Three Months Ended March 31,	
	2022	2021
	(In thousands)	
Lease expense	$ 280	$ 280
Sublease income	(72)	(109)
Lease expense, net	$ 208	$ 171
Net cash provided by (used in) operating activities	$ (201)	$ (156)

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.

11. SHAREHOLDERS' EQUITY

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 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 overallotment option and received net proceeds of $0.4 million.

Share-Based Compensation Expense

Share-based compensation arrangements include the following:

	Three Months Ended March 31,	
	2022	2021
	(In thousands)	
Restricted stock	$ 196	$ 322
Performance stock	—	85
Total share-based compensation expense	$ 196	$ 407
Recognized tax benefit	$ —	$ 85
Intrinsic value of options exercised	—	—
Fair value of restricted stock vested	837	1,442

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.

Stock Option Awards

As of March 31, 2022, the Company had outstanding stock options exercisable for 19,832 shares of common stock at a weighted average exercise price of $4.40 per share. During the three months ended March 31, 2022 and 2021, no stock options were granted, exercised or canceled.

Restricted Stock Awards

The Company recognizes share-based compensation expense for all restricted stock awards (“RSAs”) held by the Company’s directors, executives and other key employees. For all RSA awards 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.

During the three months ended March 31, 2022 and 2021, the Board of Directors granted 0 and 171,576 RSAs, respectively, vesting over three or five years, to the Company’s directors, executives and other key employees. These 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.

RSA activity includes the following:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2022	343,683	$ 9.98
Granted	—	—
Vested	(72,307)	11.57
Cancelled	(54,647)	10.13
Outstanding at March 31, 2022	216,729	$ 9.41

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:

	Three Months Ended March 31,					
	2022			2021		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
	(In thousands)					
Accumulated other comprehensive income (loss), beginning-of-period	$ 2,671	$ (3,705)	$ (1,034)	$ 15,086	$ (3,700)	$ 11,386
Other comprehensive income (loss) before reclassification	(16,050)	—	(16,050)	(9,397)	2,306	(7,091)
Reclassification adjustment for realized losses (gains) included in net income	14,496	25	14,521	(144)	35	(109)
	(1,554)	25	(1,529)	(9,541)	2,341	(7,200)
Accumulated other comprehensive income (loss), end-of-period	$ 1,117	$ (3,680)	$ (2,563)	$ 5,545	$ (1,359)	$ 4,186

12. 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 presents the calculation of basic and diluted EPS:

	Three Months Ended March 31,	
	2022	2021
	(In thousands, except per share data)	
Net income (loss) attributable to FedNat Holding Company shareholders	$ (43,914)	$ (19,381)
Weighted average number of common shares outstanding - basic	17,462	14,395
Net income (loss) per common share - basic	$ (2.51)	$ (1.35)
Weighted average number of common shares outstanding - basic	17,462	14,395
Dilutive effect of convertible debt	—	—
Dilutive effect of stock compensation plans	—	—
Weighted average number of common shares outstanding - diluted	17,462	14,395
Net income (loss) per common share - diluted	$ (2.51)	$ (1.35)
Dividends per share	$ —	$ —

For the three months ended March 31, 2022, we excluded (in thousands) dilutive shares of 3,500 from our weighted average number of common shares outstanding - diluted above because their inclusion, as well as retaining the associated interest expense of $0.3 million currently reflected in net income (loss) available to common shareholders for the EPS numerator, would have been antidilutive.

13. SUBSEQUENT EVENTS

Refer to Note 2 above for information related to a portion of the Company's action plan having been approved by the OIR, which consists of a substantial reduction to the size of the Company's Florida books of business via the execution of mid-term cancellations effective June 29, 2022, of approximately 68,200 Florida policies currently in force on FNIC, MNIC and MIC, as requested by the Company.

General information about FedNat Holding Company can be found at www.FedNat.com; however, the information that can be accessed through our website is not part of our report. We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to the Securities Exchange Act of 1934 available free of charge on our website, as soon as reasonably practicable after they are electronically filed with the SEC.

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

Overview

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and notes thereto included under Part I, Item 1 of this Quarterly Report on Form 10-Q (the "Form 10-Q"). In addition, please refer to our audited consolidated financial statements and notes thereto and related "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our most recent Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K").

Unless the context requires otherwise, as used in the remainder of this Form 10-Q, the terms "FNHC," "Company," "we," "us" and "our" refer to FedNat Holding Company and its consolidated subsidiaries.

Below, in addition to providing consolidated revenues and net income (loss), 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 and we have included a detailed reconciliation thereof in "Results of Operations" below.

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.

Forward-Looking Statements

This Form 10-Q or the documents that are incorporated by reference into this Form 10-Q 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 Form 10-Q 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 our 2021 Form 10-K, and discussed from time to time in our other reports filed with the Securities and Exchange Commission ("SEC"), including this Form 10-Q.

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 Form 10-Q 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.

GENERAL

The Company 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, 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-Florid*a 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.

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 FNIC 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-Florid*a below for information regarding the Company's plan to execute an orderly runoff of insurance policies in our non-Florida market.

Going Concern

Refer to in "Part 1, Item 1, Business" and "Part I, Item 1A., Risk Factors" of our 2021 Form 10-K and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources" of this Form 10-Q for information with respect to the Company's going concern status.

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 March 31, 2022, the total homeowners policies in-force was 248,000, of which 152,000 were in Florida and 96,000 were outside of Florida. 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. Refer to *Overview of Insurance Lines of Business - Non-Florid*a 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 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 Florida Office of Insurance Regulations ("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, FNIC received approval from the OIR for a statewide-average rate increase of 5.7% for Florida homeowners multiple-peril insurance policies, which became effective for new policies on October 15, 2021 and for renewal policies on November 22, 2021.
- In 2021, FNIC received OIR approval for a statewide-average rate increase of 6.7% for Florida dwelling fire insurance policies, which became effective for new policies on October 15, 2021 and for renewal policies on November 22, 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.
- In 2022, FNIC received approval from the OIR for a statewide-average rate increase of 6.0% for Florida homeowners multiple-peril insurance policies, which became effective for new policies on January 15, 2022 and for renewal policies on March 3, 2022.
- In 2022, FNIC received OIR approval for a statewide-average rate increase of 8.9% for Florida dwelling fire insurance policies, which became effective for new policies on January 15, 2022 and for renewal policies on March 3, 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 $3.6 million. 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.

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 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. The treaty was fully collateralized through Anchor Re.

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. Non-renewals of FNIC's policies produced by SageSure began April 30, 2022 for Texas and Louisiana and subject to regulatory approvals of our withdrawal plans will begin 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.

See the discussion in Item 1: "Business" in our 2021 Form 10-K, for additional information with respect to our business.

Regulation

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 OIR or Louisiana Department of Insurance ("LDI"), our primary regulators. Refer to "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources" for discussion of OIR consent orders and the Company's action plans with respect thereto.

RESULTS OF OPERATIONS

Operating Results Overview - Three Months Ended March 31, 2022 Compared with Three Months Ended March 31, 2021

The following overview does not address all of the matters covered in the other sections of Management's Discussion and Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to our shareholders or the investing public. This overview should be read in conjunction with the other sections of Management's Discussion and Analysis of Financial Condition and Results of Operations herein and in our 2021 Form 10-K.

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

	Three Months Ended March 31,		
	2022	**% Change**	**2021**
	(Dollars in thousands)		
Revenues:			
Gross premiums written	$ 137,892	(20.8)%	$ 174,207
Gross premiums earned	164,328	(8.2)%	179,002
Ceded premiums	(118,343)	(15.0)%	(139,257)
Net premiums earned	45,985	15.7 %	39,745
Net investment income	1,264	(24.5)%	1,674
Net realized and unrealized gains (losses)	(15,053)	NCM	92
Direct written policy fees	2,613	(21.2)%	3,315
Other income	7,426	(6.3)%	7,922
Total revenues	42,235	(19.9)%	52,748
Costs and expenses:			
Losses and loss adjustment expenses	58,783	22.4 %	48,016
Commissions and other underwriting expenses	19,107	(9.1)%	21,031
General and administrative expenses	6,997	15.3 %	6,066
Interest expense	2,300	19.4 %	1,926
Total costs and expenses	87,187	13.2 %	77,039
Income (loss) before income taxes	(44,952)	85.1 %	(24,291)
Income tax expense (benefit)	(1,038)	(78.9)%	(4,910)
Net income (loss)	$ (43,914)	126.6 %	$ (19,381)
Ratios to net premiums earned:			
Net loss ratio	127.8 %		120.8 %
Net expense ratio	56.8 %		68.2 %
Combined ratio	184.6 %		189.0 %

(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:

	Three Months Ended March 31,	
	2022	2021
	(Dollars in thousands)	
Revenue		
Total revenues	$ 42,235	$ 52,748
Less:		
Net realized and unrealized investment gains (losses)	(15,053)	92
Adjusted operating revenues	$ 57,288	$ 52,656
Net Income (Loss)		
Net income (loss)	$ (43,914)	$ (19,381)
Less:		
Net realized and unrealized investment gains (losses)	(15,053)	73
Acquisition and strategic costs	—	(9)
Amortization of identifiable intangibles	—	(30)
Adjusted operating income (loss)	$ (28,861)	$ (19,415)
Income tax rate assumed for reconciling items above	— %	21.00 %

Our first quarter of 2022 reported results on May 9, 2022, did not include an impairment loss of $12.6 million, which is included above. This impairment loss was precipitated by the OIR approval of the mid-term cancellation pursuant to the Company's action plan, which occurred on May 13, 2022. Total shareholders' equity was not impacted by such charge; however, the Company's net loss for three months ended March 31, 2022 worsened and other comprehensive income improved by $12.6 million in offsetting amounts. Refer to Note 2 of the notes to our Consolidated Financial Statements for additional information.

Revenue

Total revenue decreased $10.5 million or 19.9%, to $42.2 million for the three months ended March 31, 2022, compared with $52.7 million for the three months ended March 31, 2021. The decrease was driven primarily by lower net realized gains, gross premiums, direct written policy fees, net investment income and other income, partially offset by a decrease in ceded premiums, 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:

	Three Months Ended March 31,	
	2022	2021
	(In thousands)	
Gross premiums written:		
Homeowners Florida	$ 116,159	$ 111,969
Homeowners non-Florida	17,317	57,909
Federal flood	4,481	4,389
Non-core (1)	(65)	(60)
Total gross premiums written	$ 137,892	$ 174,207

(1) Reflects exited lines of business.

Gross premiums written decreased $36.3 million, or 20.8%, to $137.9 million in the quarter compared with $174.2 million for the same three-month period last year, driven by a reduction in our policies-in-force and exposure in non-Florida states, as a result of the orderly runoff of MIC and the transfer-upon-renewal of FNIC's non-Florida business to alternative insurance carrier partners of SageSure.

Gross Premiums Earned

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

	Three Months Ended March 31,	
	2022	2021
	(In thousands)	
Gross premiums earned:		
Homeowners Florida	$ 105,138	$ 109,426
Homeowners non-Florida	53,939	64,923
Federal flood	5,316	4,713
Non-core (1)	(65)	(60)
Total gross premiums earned	$ 164,328	$ 179,002

(1) Reflects exited lines of business.

Gross premiums earned decreased $14.7 million, or 8.2%, to $164.3 million for the three months ended March 31, 2022, as compared to $179.0 million for the three months ended March 31, 2021, driven primarily by the same reasons as the decrease in gross premiums written, discussed above.

Ceded Premiums Earned

Ceded premiums earned decreased $21.0 million, or 15.0%, to $118.3 million in the quarter, compared to $139.3 million in the same three-month period last year. The decrease was driven by approximately $15 million lower catastrophe reinsurance spend due to additional purchases of supplemental coverage in the 2020-2021 catastrophe excess of loss reinsurance program to backfill layers and gaps in coverage stemming from the non-cascading portion of our reinsurance tower, following the six retention catastrophe events that occurred during that treaty year. Additionally, there was approximately $6 million of lower quota-share ceded premium associated with lower gross premiums earned discussed above which was largely offset by corresponding increases in net loss and LAE, and commission and other underwriting expenses when comparing the periods. Refer to Note 5 of the notes to our Consolidated Financial Statements for additional information regarding these quota-share treaties.

Net Investment Income

Net investment income decreased $0.4 million, or 24.5%, to $1.3 million during the three months ended March 31, 2022, as compared to $1.7 million during the three months ended March 31, 2021. This decrease was driven by a smaller fixed income portfolio as we have been impacted by several catastrophes, hail and wind-related severe weather events and private reinsurers have raised the cost of their coverages.

Net Realized and Unrealized Gains (Losses)

Net realized and unrealized gains (losses) decreased $15.2 million, to $(15.1) million for the three months ended March 31, 2022, compared to $0.1 million the prior year period. Refer to Note 2 of the notes to our Consolidated Financial Statements for information about the Company recognition of an impairment loss of $(12.6) million. We also recognized $(0.6) million and less than $(0.1) million in unrealized investment gains (losses) for equity securities during these respective periods. Our current and prior year net realized investment gains on sales 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.

Direct Written Policy Fees

Direct written policy fees decreased $0.7 million, or 21.2%, to $2.6 million for the three months ended March 31, 2022, compared with $3.3 million for the three months ended March 31, 2021. The decrease is primarily driven by a reduction in our policies in-force in the state of Florida, as a result of our rigorous exposure management in response to the challenging litigation environment and the orderly exit of the non-Florida business.

Other Income

Other income included the following for the periods presented:

	Three Months Ended March 31,		
	2022	% Change	2021
	(Dollars in thousands)		
Other income:			
Commission income	$ 1,280	35.7 %	$ 943
Brokerage	5,796	(11.8)%	6,575
Financing and other revenue	350	(13.4)%	404
Total other income	$ 7,426	(6.3)%	$ 7,922

The decrease in other income was primarily driven by lower brokerage revenue. The brokerage revenue decrease is the result of lower excess of loss reinsurance spend from the reinsurance programs in place, including reinstatement premiums and/or additional purchases, during first quarter of 2022 as compared to the first quarter of 2021.

Expenses

Losses and LAE

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

	Three Months Ended March 31,			
	2022		2021	
	Amount	Net Loss Ratio	Amount	Net Loss Ratio
	(In thousands)			
Current accident year, excluding catastrophes:				
Homeowners	$ 26,063	56.7 %	$ 34,395	86.4 %
Non-core (1)	—	— %	—	— %
Total current accident year, excluding catastrophes	26,063	56.7 %	34,395	86.4 %
Current year catastrophes (2):				
Florida	19,219	41.8 %	166	0.4 %
Texas	6,458	14.0 %	10,396	26.2 %
Louisiana	2,670	5.8 %	2,531	6.4 %
Other states	901	2.0 %	—	— %
Total current year catastrophes	29,248	63.6 %	13,093	33.0 %
Prior year loss development (redundancy):				
Homeowners	3,543	7.7 %	624	1.6 %
Non-core (1)	(71)	(0.2)%	—	— %
Ceded losses subject to offsetting experience account adjustments (3)	—	— %	(96)	(0.2)%
Total prior year loss development (redundancy)	3,472	7.5 %	528	1.4 %
Total net losses and LAE	$ 58,783	127.8 %	$ 48,016	120.8 %

(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 increased $10.8 million, or 22.4%, to $58.8 million for the three months ended March 31, 2022, compared to $48.0 million for 2021. The net loss ratio increased 7.0 percentage points, to 127.8% in the current quarter, as compared to 120.8% in the first quarter of 2021. The higher loss expense and corresponding ratio were primarily driven by larger net catastrophe losses and prior year development as well as lower ceded losses under quota-share reinsurance treaties attributable to lower gross premiums earned, partially offset by lower gross attritional losses in the current quarter. Refer to Gross Premiums Earned above for additional information.

The current quarter included approximately $29.2 million of catastrophe losses, net of reinsurance and claims handling fee income, driven primarily by eleven notable events (including one wildfire) that impacted Florida, Texas, Louisiana and South Carolina. Approximately $10 million of these net catastrophe losses are related to books of business that the Company is in the process of running off, including FNIC's non-Florida book as well as MIC's book of business. In addition, the Company recorded approximately $2 million of net adverse reserve development in the quarter related to Hurricane Laura, which hit Louisiana in August 2020. By comparison, the first quarter of 2021 catastrophe net losses were $13.1 million, net of reinsurance, primarily by Winter Storm Uri, which caused heavy residential damage in Texas, primarily associated with freezing temperatures causing widespread instances of burst water pipes.

Commissions and Other Underwriting Expenses

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

	Three Months Ended March 31,	
	2022	2021
	(In thousands)	
Commissions and other underwriting expenses:		
Homeowners Florida	$ 10,682	$ 12,399
All others	13,233	11,691
Ceding commissions	(18,051)	(19,460)
Total commissions	5,864	4,630
Fees	993	1,335
Salaries and wages	2,511	3,572
Other underwriting expenses	9,739	11,494
Total commissions and other underwriting expenses	$ 19,107	$ 21,031

Commissions and other underwriting expenses decreased $1.9 million, or 9.1%, to $19.1 million for the three months ended March 31, 2022, compared with $21.0 million for the three months ended March 31, 2021. This decrease was due to lower acquisition and underwriting expenses due to lower policies-in-force, offset by lower ceding commission as a result of higher catastrophe costs, which has the affect of reducing the ceded commissions in the quarter.

The net expense ratio decreased 11.4 percentage points to 56.8% in the first quarter of 2022, as compared to 68.2% in the first quarter of 2021 due primarily to higher ceded reinsurance premiums in 2021 Our gross expense ratio was 26.9% during the three months ended March 31, 2022, as compared to 26.0% during the three months ended March 31, 2021, due primarily to inflation, partially offset by the Company's continued focus on expense control.

General and Administrative Expenses

General and administrative expenses increased $0.9 million, or 15.3%, to $7.0 million for the three months ended March 31, 2022 compared to $6.1 million in the first quarter of 2021, due primarily to investments in employees, which are critical to accomplishing our corporate goals, including providing service to our insureds.

Interest Expense

Interest expense increased $0.4 million, or 19.4%, to $2.3 million for the three months ended March 31, 2022 compared to $1.9 million for the three months ended March 31, 2021. The increase was primarily attributable to debt issued on April 20, 2021. 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 our 2021 Form 10-K, for additional information.

Income Taxes

Income tax expense (benefit) decreased $3.9 million, to $(1.0) million for the three months ended March 31, 2022, compared to $(4.9) million for the three months ended March 31, 2021. Refer to Note 9 of the notes to our Consolidated Financial Statements for information related to our valuation allowance and our effective income tax rate.

Consolidated Company Outlook – Potential Changes in Financial Trends

See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources," for discussion of the action plan the Company has submitted to the OIR. If approved and implemented the plan would materially impact forward-looking expectations with respect to financial trends. Such impacts with respect to the Company's 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 twenty one months, it is expected that the reduction of our Florida book of business and the orderly exit of the non-Florida business will have proven beneficial to the Company's earnings over the runoff period.

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 March 31, 2022, on a consolidated basis, the Company held $87.4 million in cash and cash equivalents and $275.6 million in investments. 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. Total shareholders' equity decreased $45.3 million, to $14.1 million as of March 31, 2022, compared with $59.4 million as of December 31, 2021 due primarily to a net loss and unrealized losses on our bond portfolio. The Company believes it has adequate holding company liquidity to accommodate its potential second 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 our 2021 Form 10-K, the Company believes there is substantial doubt regarding its ability to continue as a going concern. Demotech currently rates FNIC "S" and MNIC "A". The Company believes 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 submitted a proposed action plan to the OIR. A portion of the action plan has been approved by the OIR, and consists of the mid-term cancellation, effective June 29, 2022, of approximately 68,200 Florida policies currently in force on FNIC, MNIC and Maison, as requested by the Company. Such cancellations will require the refund of approximately $126 million of unearned premium to the impacted policyholders and result in the Company becoming much smaller, with significantly fewer policies in force. The refund of these unearned premiums will require the liquidation of a substantial portion of our insurance carriers' portfolios of fixed income securities. Because of this near-term liquidity need, unrealized losses on our investment portfolio have been recognized as realized losses for the three months ended March 31, 2022.

Additional portions of the Company's action plan continue to be subject to approval by the OIR and regulatory authorities in other states, including mid-term cancellations in non-Florida states, as well as reinsurance and capital raising options. More specifically, the Company is seeking to fully exit all non-Florida states as of an approved date. Concurrently, the Company is seeking additional capital investments into the holding company or directly into an insurance carrier, specifically MNIC. The Company's requests would bring its overall book of business to a more manageable size, consistent with its capital position and increase the likelihood of success with multiple stakeholders, including its regulators, rating agency, shareholders and its remaining policyholders. The proposed action plan would be expected to enable the Company to obtain excess-of-loss reinsurance on a smaller, Florida-only book of business. There can be no assurance such approvals will be obtained or that these plans can be effectively implemented.

The Company has outstanding $100 million of 2029 Notes ("2029 Notes"), which bear interest at the annual rate of 7.75%. The 2029 Notes mature on March 15, 2029 and the indenture covenants allow for a maximum debt-to-capital ratio applicable to the incurrence of debt to 60% and a maximum debt-to-capital ratio applicable to restricted payments, including cash dividends on our common stock, to 20%.

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.

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 the 2021 Form 10-K, for additional information regarding the 2029 Notes and 2026 Notes.

In May 2022, due primarily to the delay in the filing of the Company's Form 10-K for the year ended December 31, 2021, Egan Jones' rating on the Company's outstanding senior notes expired such that our notes are not currently rated. The lack of a rating, if not remediated within 30 days from receipt of notice as provided in the note indentures, has the potential to result in an Event of Default under the note indentures. The Company intends to use its best efforts to secure such a rating as soon as reasonably practicable. If the Company fails to secure such a rating, is placed into receivership or fails to obtain excess-of-loss reinsurance, such conditions, if not timely cured, could result in acceleration of repayment of our debt. The Company does not have adequate liquidity to repay this debt without replacement borrowings, which may not be available. 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 March 31, 2022 was approximately 89.4%.

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 support the Company's action plan, 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 our 2021 Form 10-K, 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 Commissions ("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. As of March 31, 2022 and December 31, 2021, FNIC's statutory surplus, which includes MNIC, was $73.2 million and $99.4 million, respectively. In addition, FNIC's surplus includes a surplus note receivable due from MIC, carried at $17.3 million as of March 31, 2022, which matures in December 2022. As of March 31, 2022 and December 31, 2021, MIC's statutory surplus was $30.2 million and $30.8 million, respectively. 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 $86.1 million.

As of March 31, 2022, the Company has approximately $47 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.

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 statutory financial statements for FNIC, MIC and MNIC, statutory surplus exceeded the regulatory action levels established by the NAIC's RBC requirements. FNIC, MIC and MNIC had ratios of statutory surplus to its ACL of 313%, 305% and 1,152%, respectively, as of December 31, 2021.

As described above, the Company intends to maintain no less than the minimum required regulatory capital within FNIC and 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" of our 2021 Form 10-K 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 MNIC (which is critical to maintaining a Demotech rating and to the Company's proposed action plan) and minimum required regulatory capital in FNIC and MIC or FNHC's ability to contribute necessary capital. In addition, because of the valuation allowance on the Company's 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 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 was $(37.0) million in the three months ended March 31, 2022 compared to $(110.1) million in the same period in 2021. This change primarily reflects lower reinsurance spend and lower expenses from losses and LAE, primarily from reinsurance recoveries, partially offset by lower gross premiums.

Investing Activities

Net cash provided by (used in) investing activities was $40.9 million in the three months ended March 31, 2022, as compared to $62.1 million in the three months ended March 31, 2021. The change primarily reflects lower purchases of debt and equity investment securities of $27.4 million for the three months ended March 31, 2022, as compared to $56.1 million for the three months ended March 31, 2021, partially offset by lower sales, maturities and redemptions of our debt and equity investment securities of $68.3 million in 2022 as compared to $118.4 million in 2021.

Financing Activities

Net cash provided by (used in) financing activities for the three months ended March 31, 2022 of $0.0 million as compared to $15.4 million for the three months ended March 31, 2021. The change primarily reflects no proceeds from the issuance of shares of our common stock in 2022 as compared to $15.4 million in 2021.

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.

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; (vi) reserve for loss and losses adjustment expenses; and (vii) 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.

There have been no significant changes to our critical accounting estimates during the three months ended March 31, 2022. Refer to Part II, Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" included in our 2021 Form 10-K for a more complete description of our critical accounting estimates.

Item 3. 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 March 31, 2022, approximately 99% of investments were in debt securities and cash and cash equivalents, which are considered to be available-for-sale, based upon our estimates of required liquidity. Approximately 100% of the debt securities are considered 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.

Refer to "Part I, Item 1A., Risk Factors" of our 2021 Form 10-K for a discussion of the Company's exposures to market risks.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports 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 March 31, 2022.

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2022 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.

Part II: OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 10 to our Consolidated Financial Statements set forth in Part I, "Financial Statements" for information about legal proceedings.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in "Part I, Item 1A-Risk Factors," included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. Refer to that section for disclosures regarding what we believe are the most significant risks and uncertainties related to our business.

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

(a) None.

(c) None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act*
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURES

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

FEDNAT HOLDING COMPANY

By: */s/ Michael H. Braun*

Michael H. Braun, Chief Executive Officer
(Principal Executive Officer)

/s/ Ronald Jordan

Ronald Jordan, Chief Financial Officer
(Principal Financial Officer)

Date: May 18, 2022